



31 July 2019

(19-5041)

Page: 1/19

**Committee on Agriculture
Special Session**

Original: English

TARIFF IMPLEMENTATION ISSUES – COMPLEX TARIFFS

COMMUNICATION FROM THE UNITED STATES

The following communication, dated 29 July 2019, is being circulated at the request of the delegation of the United States.

1.1. In July 2018, the United States submitted a formal communication to the World Trade Organization (JOB/AG/141) noting the need for more trade to improve global welfare, help producers, and address the challenges of sustainably feeding a growing world population. The communication also noted that tariffs remain much higher in the agricultural sector than in other sectors, tariff reductions have contributed to the welfare gains from trade in agriculture, and locking in tariff reductions for agriculture can contribute further to global welfare.

1.2. The US communication summarized analysis in six areas of the market access pillar where further analysis of Members' current implementation of tariffs should be considered by Members in order to better understand Members' current tariff regimes. The areas included: (i) bound versus applied tariffs, (ii) complex tariffs, (iii) tariff peaks, (iv) issues with TRQs, (v) special agricultural safeguards (SSGs), and (vi) regional/preferential trade agreements.

1.3. In this communication, the United States analyses Members' submitted tariff schedules, WTO tariff profiles, and World Integrated Trade Solutions (WITS) data.¹ This analysis considers the prevalence of complex tariffs² by Member, product group³, and development status⁴ with particular focus on the top 20 largest agricultural exporters and top 20 largest agricultural importers in 2017 (henceforth referred to as LATMs).⁵

1.4. While Members' have generally provided greater transparency on agricultural tariffs than on other agriculture-related issues, a number of problems related to transparency of agricultural tariffs remain, including:

- Bound tariff schedules that are provided in outdated HS nomenclature;
- Bound tariff schedules that do not correspond to the Member's most recent schedule of applied rates;

¹ WITS is a collaboration between the World Bank and the United Nations Conference on Trade and Development in consultation with the WTO, International Trade Centre, and United Nations Statistical Division.

² Of particular note for analysis of complex tariffs is the lack of ability to compare relative rates of protection across different types of complex tariffs due to the difficulties and complexities associated with calculating AVEs. As a result, this submission is focused on the prevalence and types of complex tariffs that exist.

³ This communication uses product categories first defined in the Tokyo Round and adapted for the Harmonized System in the Uruguay Round. The product group breakdown in this publication is provided in the 2018 WTO World Tariff Profiles (page 32).

⁴ Development status is based on self-designation. Use of a Member's self-designated development status should not be taken as agreement with the self-designation.

⁵ Top 20 importers and top 20 exporters of agricultural goods (by value): Argentina; Australia; Brazil; Canada; Chile; China; Egypt; the European Union; Hong Kong, China; India; Indonesia; Japan; Korea, Republic of; Malaysia; Mexico; New Zealand; Philippines; the Russian Federation; Singapore; South Africa; Switzerland; Chinese Taipei; Thailand; Turkey; Ukraine; the United States and Viet Nam.

- Applied tariff schedules submitted to the WTO that are out of date;
- Applied tariff rates submitted that are in a different tariff format than the bound rate (e.g. *ad valorem* vs. specific);
- Absence of tariff concordance information for Members' tariff schedules;
- Lack of *ad valorem* equivalent (AVE) data for non-*ad valorem* tariffs, including complex tariffs;
- Tariffs applied at different (HS) line levels for each Member;
- Use of arbitrary letters or symbols to denote a tariff;
- Published tariff schedules containing rates different than corresponding schedules available on Members' official publication website(s).

1.5. The United States continues to urge Members to ensure that all WTO notifications relevant to market access are up to date and accurate. This includes notifications made through the Integrated Data Base (IDB), as well as notifications of regional trade agreements. Resolution of the transparency issues noted above will facilitate even greater Member understanding of agricultural tariffs.

Background: Forms of Tariffs

1.6. Regardless of whether a tariff is bound or applied, on preferential or MFN basis, the tariff can take several forms. The most common is an *ad valorem* tariff, calculated based on a certain proportion of the value of the product (in percentage terms). By its nature, an *ad valorem* tariff increases the absolute level of duty collected the higher the price of the import. *Ad valorem* duties have some positive attributes. Since it is a simple percentage, an *ad valorem* duty can be easy to understand. As the same percentage is applied regardless of value, *ad valorem* duties are neutral across low and high-priced products. Finally, another reason Members choose to designate a tariff in *ad valorem* terms is that *ad valorem* duties tend to maintain a constant degree of protection for domestic producers during periods of changing prices since revenues are proportionate to values, at all price levels. Tariffs expressed in *ad valorem* terms (e.g. 5%) may be the easiest for exporters to understand, but in some cases, may pose enforcement challenges for customs officials.

1.7. Many Members' tariff schedules also include a variety of non-*ad valorem* (NAV) tariffs. NAV tariffs are commonly categorized into two categories: simple and complex. Simple NAV tariffs typically take the form of specific tariffs, which are calculated on the quantity of the good being imported. As a fixed monetary duty per unit of the imported product (e.g. 100 Euro/kg), a specific tariff is relatively easy to apply and administer, particularly to standardized commodities and staple products where the value of the dutiable goods cannot be easily observed.

1.8. The degree of protection a specific tariff affords domestic producers varies inversely with changes in import prices. Members may choose this method in order to provide domestic producers more protection during a business recession, when cheaper products are purchased or at other times when prices of commodities decrease. Conversely, when prices rise the protective effect of a specific tariff declines.

1.9. In certain cases, Members may decide to use complex tariffs, which include mixed tariffs, compound tariffs, and other tariffs (e.g. formulaic measures with minimum import prices, price bands, such as variable import levies, gate price mechanisms). While there may be certain benefits to the importing country of applying such tariffs (e.g. more certain tariff revenues and targeted protection of particular sectors), complex tariffs can also lead to additional administrative burden, less transparency, and uncertainty for exporters in knowing the cost of importing their products.

1.10. Mixed tariffs are expressed as a conditional choice between an *ad valorem* and a specific tariff, depending on which generates the most or least revenue (i.e. 30% or USD1 per kg, whichever is higher). For example, Chinese Taipei uses mixed tariffs for certain tree nuts; the Russian Federation uses such methodology for citrus fruit; and Thailand uses mixed tariffs on processed vegetables and fruit. Mixed tariffs allow Members more certainty on the level of tariff revenue that is expected in the face of changing prices and value of imports.

1.11. Similarly, compound tariffs include both *ad valorem* and a specific component. In this type of tariff, a specific duty is added to or subtracted from an *ad valorem* duty (e.g. 5% + USD2/kg). These types of tariffs, like mixed tariffs, provide Members more certainty on the level of tariff revenue that

is expected in the face of changing prices, value and volume of imports. Some examples of compound tariffs include tariffs on prepared foods, breads, and processed grain products imported into Turkey, various dairy products imported into Japan, and tobacco imported into Malaysia.

1.12. In certain cases, Members may choose to apply other tariffs that may be based on other factors such as the physical quantities that may be expressed in ways that are difficult to determine without laboratory equipment. For example, the European Union charges duties on many processed food products based on the product's content of milk protein, milk fat, starch, and sugar. As a result, products that other Members might consider equivalent for tariff classification purposes would each receive a different rate of duty in the EU depending on the mix of ingredients. Some Members, including Canada, charge duties on certain alcoholic beverages based on the quantity of ethyl alcohol present. As another example, Japan uses a gate price system that imposes a minimum import price on pork imports where importers must pay the difference between the shipment's value and the established minimum price.

1.13. Besides revenue, complex tariffs may be aimed at controlling competition from imports and limiting competition for domestic producers. Often, this is accomplished by ensuring imports do not enter the domestic market at prices below domestic market prices. By blocking consumers' access to price competition – i.e., restricting imports and allowing high-priced domestic products to remain competitive – these measures can distort trade flows. While simple specific tariffs have the virtue of predictability, they may disproportionately tax low priced imports.

Analysis

1.14. As a result of the Uruguay Round in 1995, multiple Member accessions since the formation of the WTO, and national tariff reforms over the last 20 years, many countries' average applied tariffs were reduced, and in some cases simplified. Research has indicated that more than 90% of the welfare gains from trade over 1990-2010 are a consequence of the reduction in MFN tariffs; with additional gains from total liberalization particularly benefiting Emerging/Developing countries.⁶ Following the growth of regional trade agreements, Members have grown to believe that tariffs are no longer a major problem for international trade, nor for the trade of developing countries. The reality does not support such belief. In 2017, the average applied rate for all WTO Members' agricultural tariff lines was 14.9%, representing a 10% decrease in applied agricultural tariffs over a 10-year period.⁷ However, bound tariffs, as the United States showed in its recent submission, remain much higher on average for all WTO Members.⁸

1.15. More than a decade after the full implementation of all Uruguay Round concessions, a substantial number of complex tariffs remain which, as mentioned above, provide for high levels of protection and negatively affect international trade in agriculture, including exports from developing countries. These effects of complex tariffs will only be aggravated as trade between Members continues to increase.

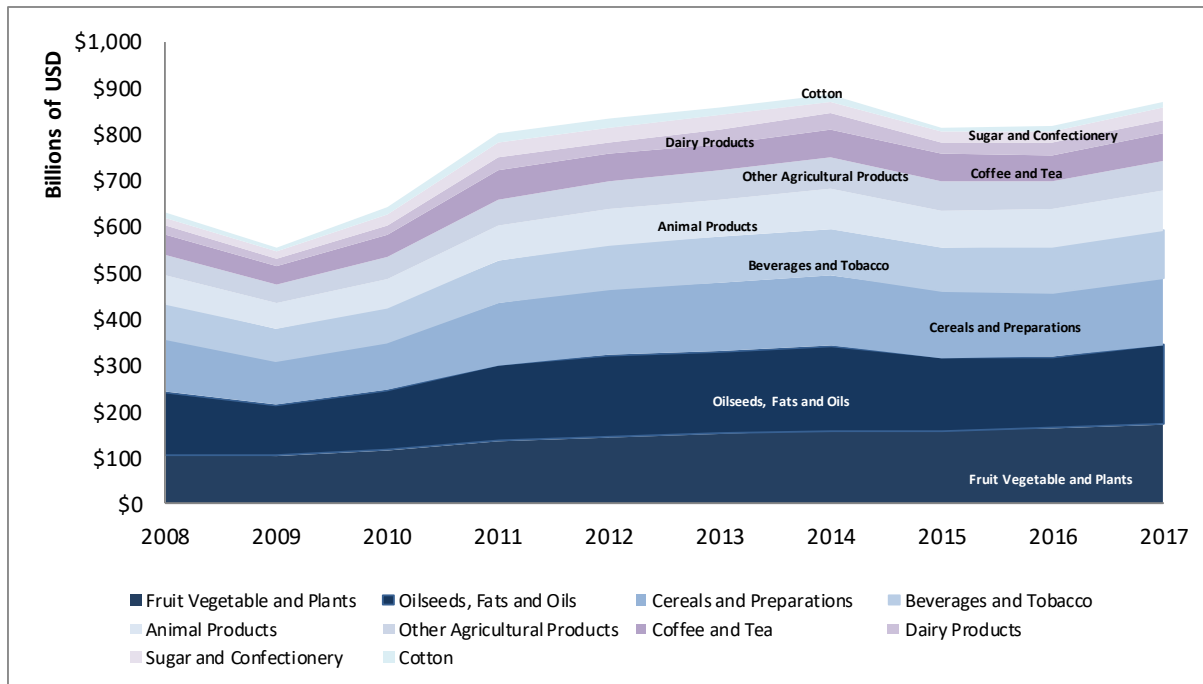
1.16. In 2017, the most recent year for which data is available, the global value of imports of agricultural products totalled more than USD869.5 billion.⁹ This figure represents a 7% growth (by value) from the previous year and 75% growth over a 10-year period. The largest imported product group was "fruits, vegetables, and plants", followed by "oilseeds, fats, and oils", and "cereals and preparations" (Figure 1). Together these three product groups accounted for approximately 56% (or USD489.3 billion) of global imports by value in 2017. "Sugar and confectionary", "dairy products", and "cotton" were the least traded product groups in 2017, totalling approximately 7% (or USD67.1 billion) of global imports.

⁶ Statistic cited by **Joe Glauber**, Senior Research Fellow, International Food Policy Research Institute from academic literature. The WTO Symposium on the Agriculture Policy Landscape, 13 June 2018. https://www.wto.org/english/tratop_e/agric_e/symposium_ag_policy_landscape_e/s2_glauber.pdf.

⁷ Data is available for 150 WTO Members only, including 28 members of the European Union. WTO, World Tariff Profiles 2018, pages 14-19, https://www.wto.org/english/res_e/booksp_e/tariff_profiles18_e.pdf and WTO, World Tariff Profiles 2008, pages 8-13, https://www.wto.org/english/res_e/booksp_e/tariff_profiles08_e.pdf.

⁸ JOB/AG/147.

⁹ Data is based on 2017 IHS GTA import figures (accessed 27 August 2018). As data for several Members was unavailable, world export data was used to determine the approximate value of imports.

Figure 1: Growth of Global Agricultural Imports, 2008-2017

1.17. Seventy (70) Members have bound some portion of their tariffs in NAV terms and a total of 96 Members chose to apply some tariffs in NAV terms that are either simple (specific tariffs) or complex (compound, mixed, or other tariffs) in 2017.¹⁰ Based on WTO Member-submitted data, it appears that 33 developing and developed Members (including China, Colombia, Indonesia, South Africa and Turkey) have been utilizing NAV tariffs for product lines that were bound in simple terms.¹¹ For the 96 Members that apply NAV tariffs, NAV duties make up an average of 9% of their applied agricultural tariff schedules. Some Members' NAV share of tariff lines is as high as 70% (e.g. Switzerland). For another eight Members, applied tariffs in NAV terms consist of at least 20% of their agricultural goods tariff schedule.¹² Of 101 developing Members, 53 use NAV duties. On average, these duties comprise of 5.6% of these Members' agricultural tariff schedule. Forty-three (43) developed Members apply NAV duties. On average, these duties comprise a larger share (20.4%) of these Members' agricultural tariff schedule (Figure 2).

1.18. NAV tariffs comprised on average 9.9% of all LATMs' schedules. A number of these Members, including Switzerland, the United States, the European Union, Thailand, the Russian Federation, South Africa, Japan and Canada use NAVs well in excess of the average for all WTO Members (Figure 3). However, this picture overrepresents the number of complex tariffs applied given that WTO data on NAVs include simple tariffs, such as specific rates.¹³ Analysis of LATMs most recent applied tariff schedules shows that 64% of all NAV duties were specific tariffs (Figure 4). Mixed tariffs comprised, on average, 24% of NAVs and compound tariffs made up another 10%. Other tariffs accounted for the remaining 2%.¹⁴

¹⁰ WTO, World Tariff Profiles 2018, https://www.wto.org/english/res_e/booksp_e/tariff_profiles18_e.pdf.

¹¹ The United States notes that this discrepancy may be due to methodology for applied and bound schedules that are in different Harmonized System nomenclature. The United States encourages the WTO Secretariat and Members to examine the issue further. All 33 Members that appear to fall into this situation are Armenia, Kingdom of Bahrain, Bangladesh, Belize, Botswana, Burundi, Central African Republic, China, Colombia, Ecuador, Eswatini, Ghana, Grenada, Indonesia, Kenya, the State of Kuwait, Lesotho, Maldives, Montenegro, Namibia, Nepal, Oman, Peru, Qatar, Rwanda, Saint Kitts and Nevis, Seychelles, South Africa, Tanzania, Turkey, Uganda, United Arab Emirates and Zambia.

¹² WTO, World Tariff Profiles 2018, https://www.wto.org/english/res_e/booksp_e/tariff_profiles18_e.pdf.

¹³ The United States is focusing on LATMs, as the collection and analysis of the agricultural tariff lines for all 164 Members is not feasible given the amount of lines involved and the agriculture-related and transparency issues that were described earlier in the submission.

¹⁴ Data is based on 2016-2018 Members' agricultural tariff schedules. Accessed on IDB database in November 2018.

Figure 2: Non-Ad Valorem Tariffs – (% of Agricultural Tariff Schedule), 2017

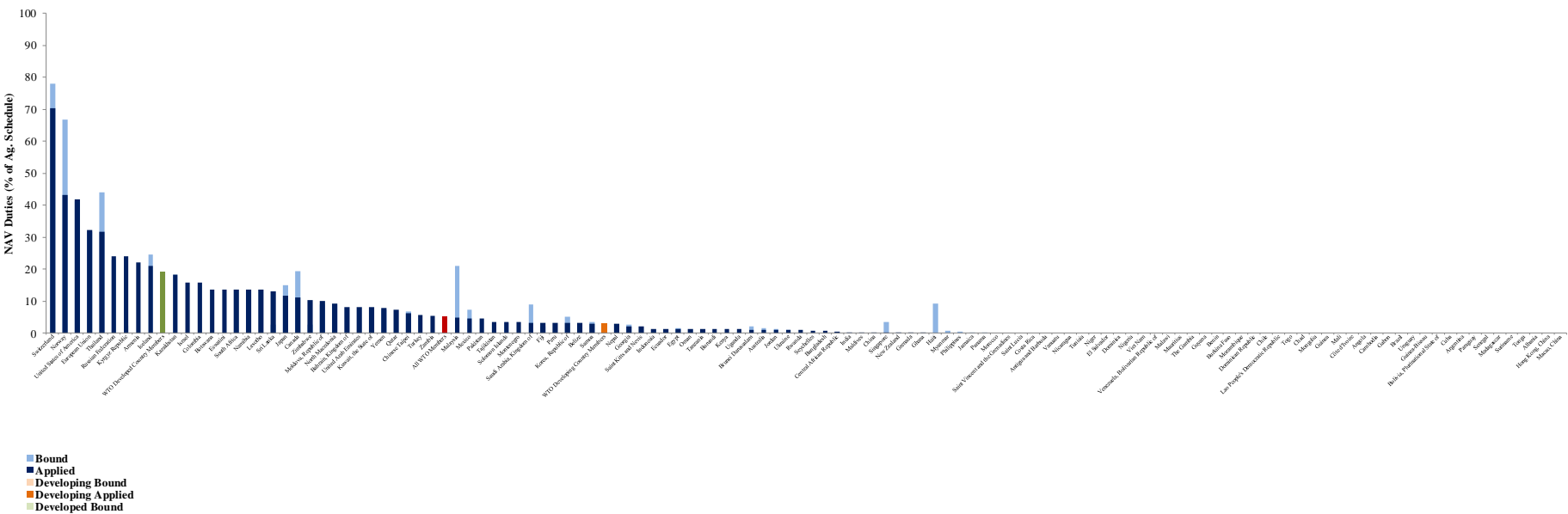
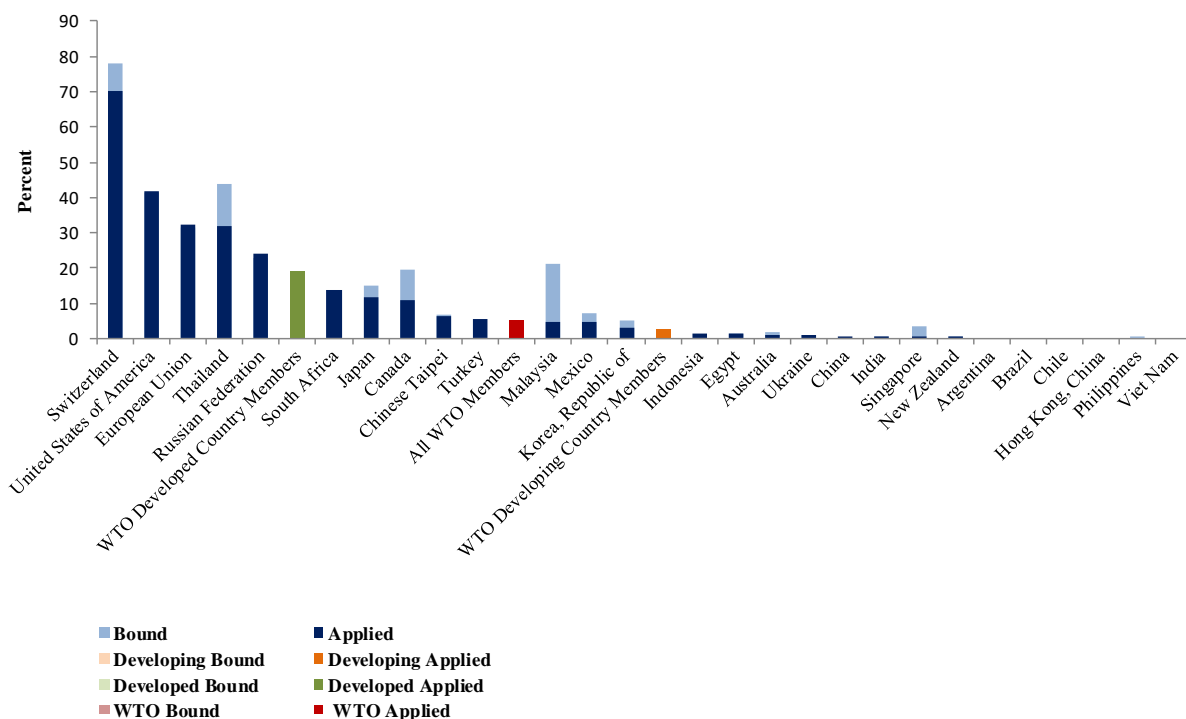
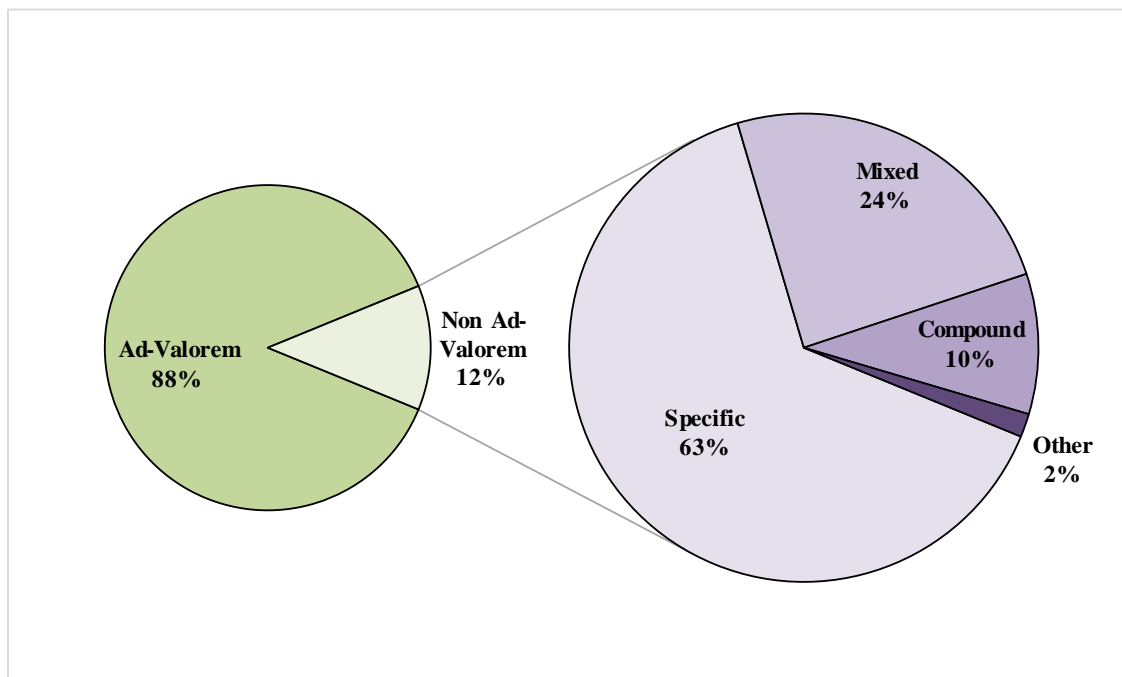


Figure 3: Non-Ad Valorem Tariffs (% of Bound and Applied Agricultural Tariff Schedule) for 20 Largest Importers and Exporters, 2017

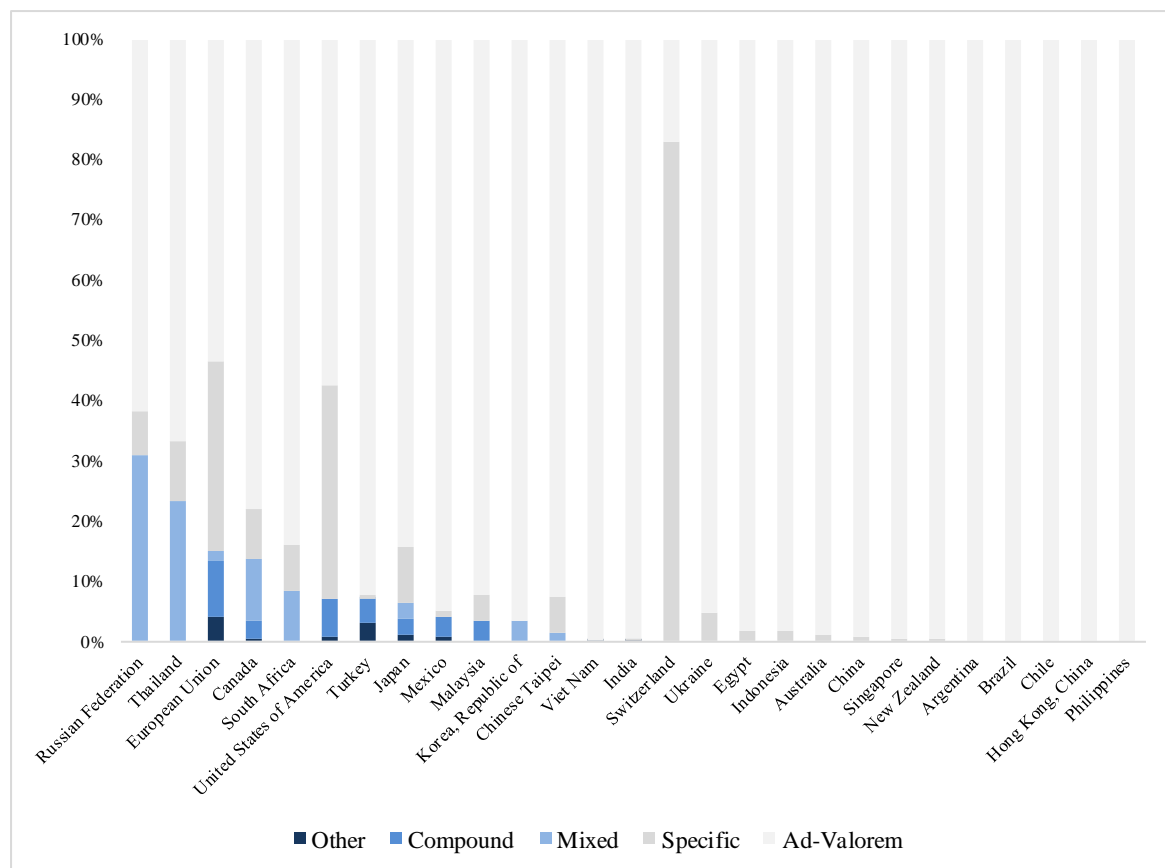


1.19. Nevertheless, complex tariffs remain an important component of some Members' tariff schedules. Complex tariffs made up 31% of the Russian Federation's applied agricultural schedule, 23% of Thailand's applied schedule, 15% of the European Union's applied schedule and 14% of Canada's applied schedule (Figure 5).¹⁵

Figure 4: Applied Tariffs – (% of LATMs MFN Applied Ag. Schedule)

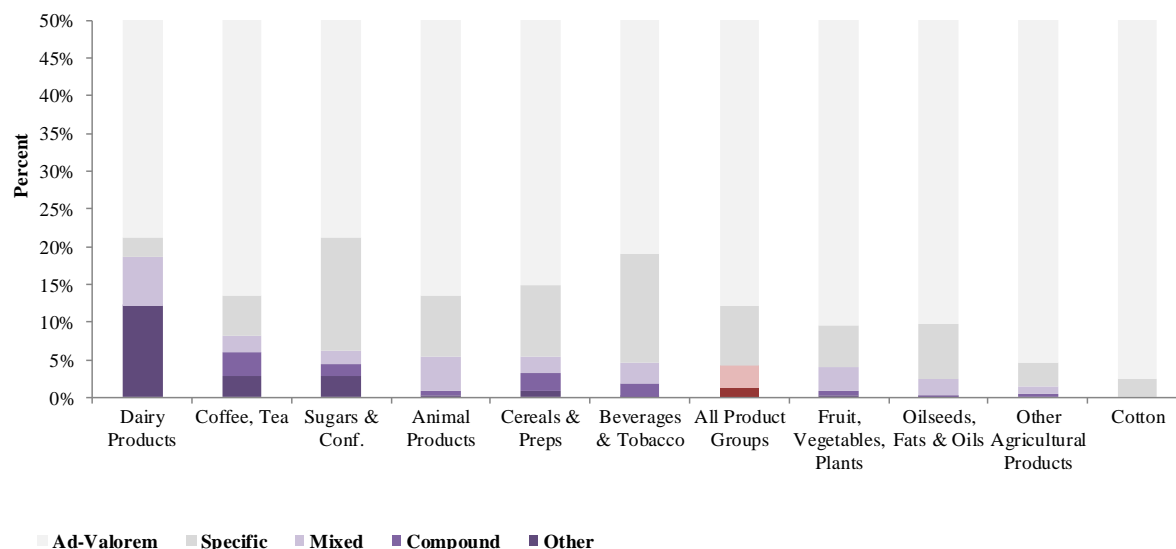


¹⁵ Numbers may vary slightly from 2018 WTO Tariff Profiles due to the difference of methodology (i.e. HS-6 vs. HS-8 level nomenclature) and possible updates in Members schedules.

Figure 5: Types of Tariffs in LATMs Applied Agricultural Schedules

1.20. The agricultural product group with the highest proportion of complex tariffs in LATMs tariff schedules is the dairy product group (Figure 6). On average 19% of the dairy product lines in LATMs applied schedules had complex tariffs. Complex tariffs make up a large portion of South Africa's (69%), Russian Federation's (56%), and Canada's (49%) dairy product lines in their respective applied tariff schedules. Coffee and tea products had the second highest proportion of complex duties, but significantly less than dairy products. An average of 8% of LATMs tariffs for coffee and tea were complex. Complex tariffs, including other tariffs, are widely used by the European Union (51% of the product lines), Turkey (48% of the product lines), and the United States (30% of the product lines). On the other hand, 98% of the tariffs for cotton were expressed in *ad valorem* terms and no Member made use of complex tariffs.

Figure 6: Tariff Types by Product Group – (as % of total product group lines in applied tariff schedules), LATMs, 2016-2018

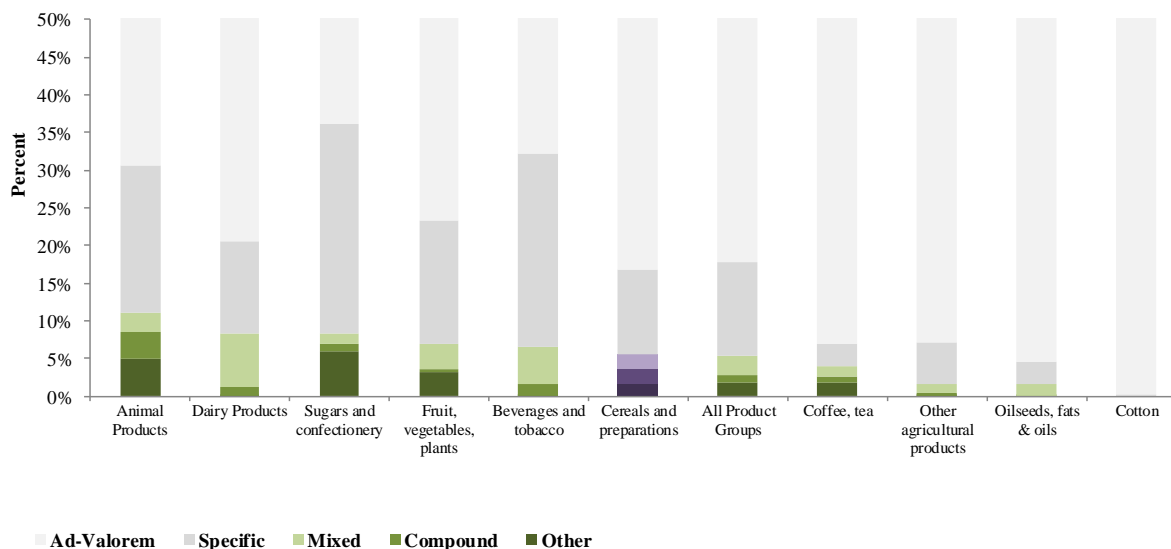


1.21. On average, complex tariffs on agricultural goods made up 4% of LATMs applied agricultural tariff schedule. This accounted for approximately 6% of the trade.¹⁶ The low rates may mean that exporters find complex tariffs burdensome and avoid exporting products to Members that charge these types of duties. However, while these shares of trade may seem insignificant, in 2017, the import value of 6% of agricultural products coming into top agricultural trading economies was approximately USD42.1 billion.¹⁷ Lines with complex tariffs for animal products accounted for 11% of the animal product imports. Sugar and confectionary and dairy products imported under lines with complex tariffs accounted for 8% of the product group imports. More than two-thirds of dairy products imported into the Russian Federation and South Africa seemed to come in at lines that have complex tariff duties (Figure 7). It appears that developing Members who export agricultural goods to LATMs face a slightly larger share of complex tariffs (5.4% versus 4.5% for developed Members). However, it is important to point out that the import value may include goods entering at a simpler or duty-free rate under a preferential or free trade agreement, General System of Preferences (GSP), or other tariff programs.

¹⁶ Trade data for Viet Nam was not available at the time the analysis was conducted. Preferential rates where duty free access or a simple tariff is operational is not taken into account in this analysis due to the complexities of collecting and availability of relevant information.

¹⁷ GTIS. Trade data for Viet Nam was not available at the time the analysis was conducted.

Figure 7: Tariff Types Incurred by Importers of LATMs – (% of Product Group Import Value), 2017



Conclusion

1.22. This paper constitutes the United States' attempt to provide a deeper understanding of the tariff treatment faced by Members. In its analysis, the United States has found that complex tariffs are prevalent in all major agricultural product groups (with an exception of cotton). In addition, complex tariffs can be found in both developed and developing Members, large and small trading economies. However, complex tariffs are more prevalent in developed Members and large trading economies than most developing Members and smaller trading economies.

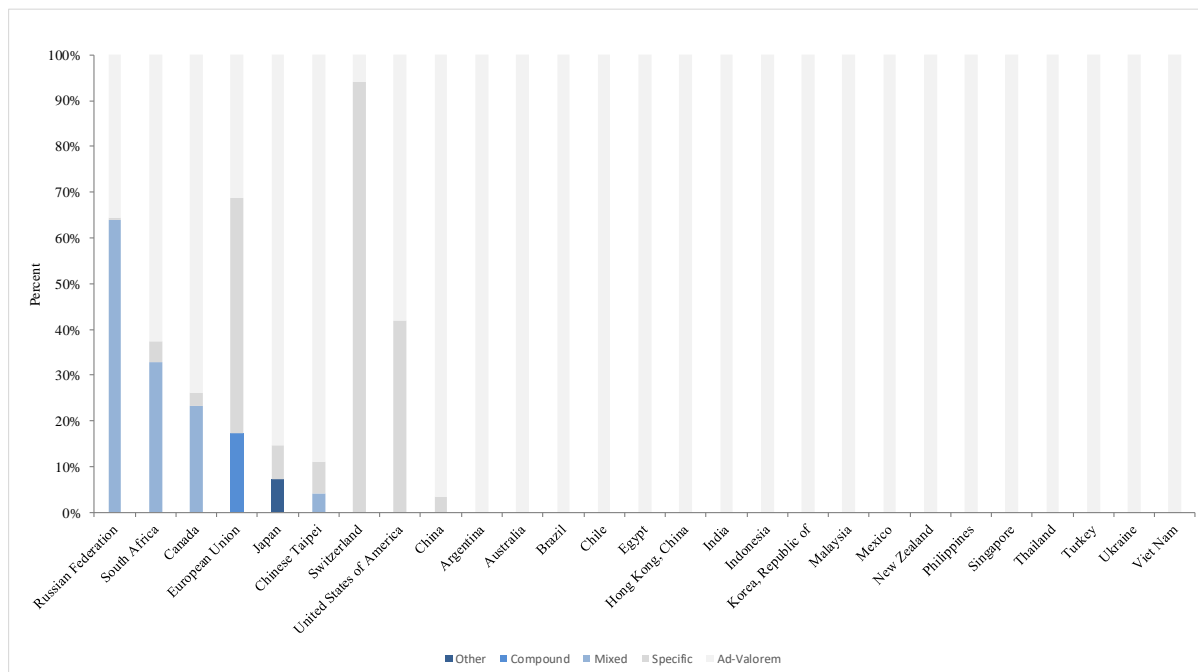
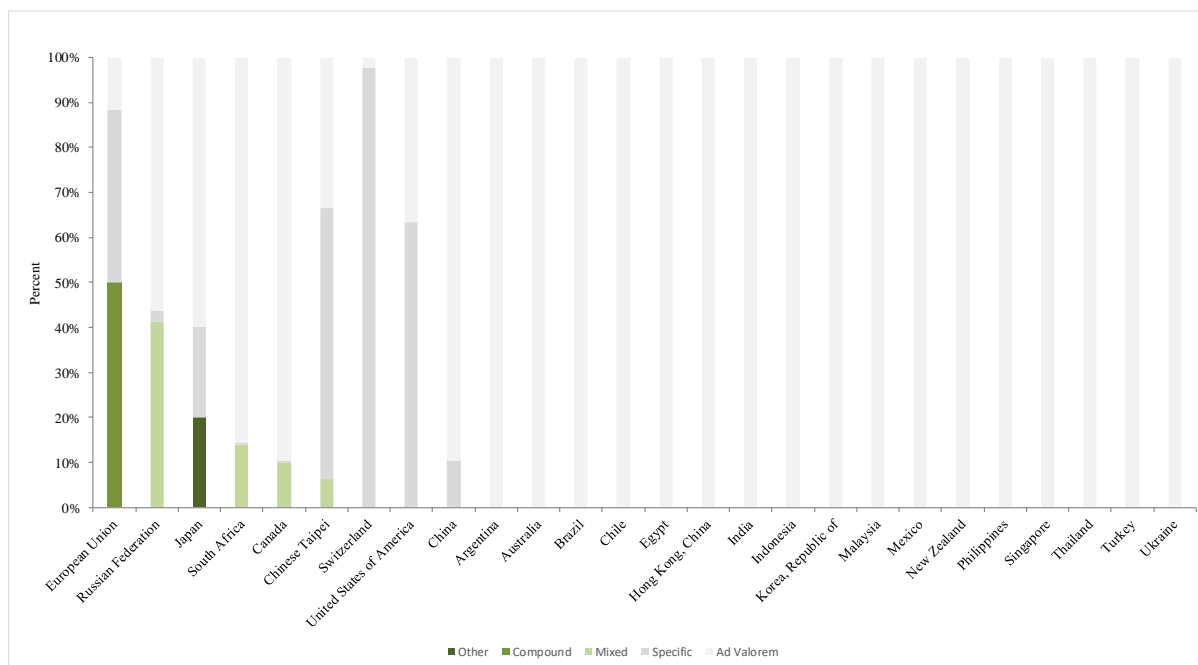
1.23. Improving access to customers contributes to the likelihood that farmers get better prices for their products and in turn the more production they can undertake. Similarly, expanding access to more producers benefits consumers who have more choice and competition when seeking supplies. More open and transparent markets contribute to greater productive efficiencies, particularly for value chains, and foster competition that spurs investment and technological innovation.

1.24. The United States again notes the issues of transparency. It requests that the Secretariat continue to compile information and that Members ensure that all WTO notifications relevant to market access are up to date and consider what other data could improve Members' knowledge.

1.25. The United States will continue its own analysis of the areas specified in the July 2018 submission (JOB/AG/141) and looks forward to constructive engagement from other Members.

APPENDIX

Animal Products

Figure 8: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Animal Products (% of Applied Tariff Lines)**Figure 9: Tariffs Incurred by Importers in LATMs, Animal Products (% of Product Group Imports), 2017**

Dairy Products

Figure 10: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Dairy Products (% of Applied Tariff Lines)

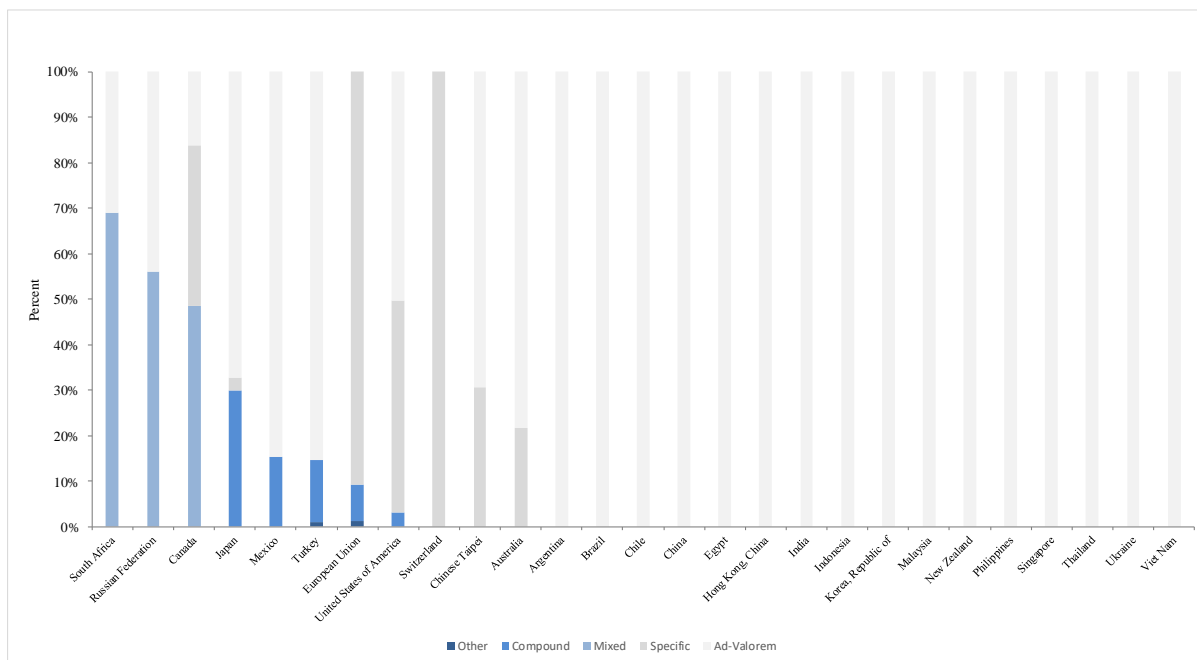
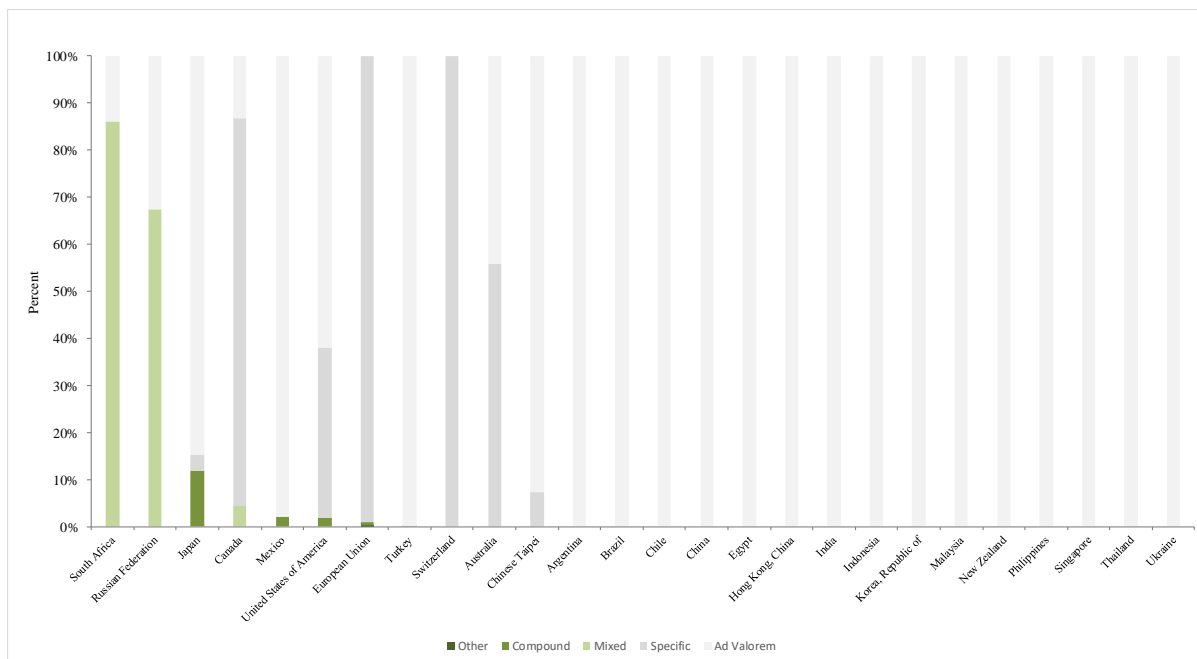


Figure 11: Types of Tariffs Incurred by Importers in LATMs, Dairy Products (% of Product Group Import Value), 2017



Fruit, Vegetables, Plants

Figure 12: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Fruits, Vegetables, and Plant Products (% of Applied Tariff Lines)

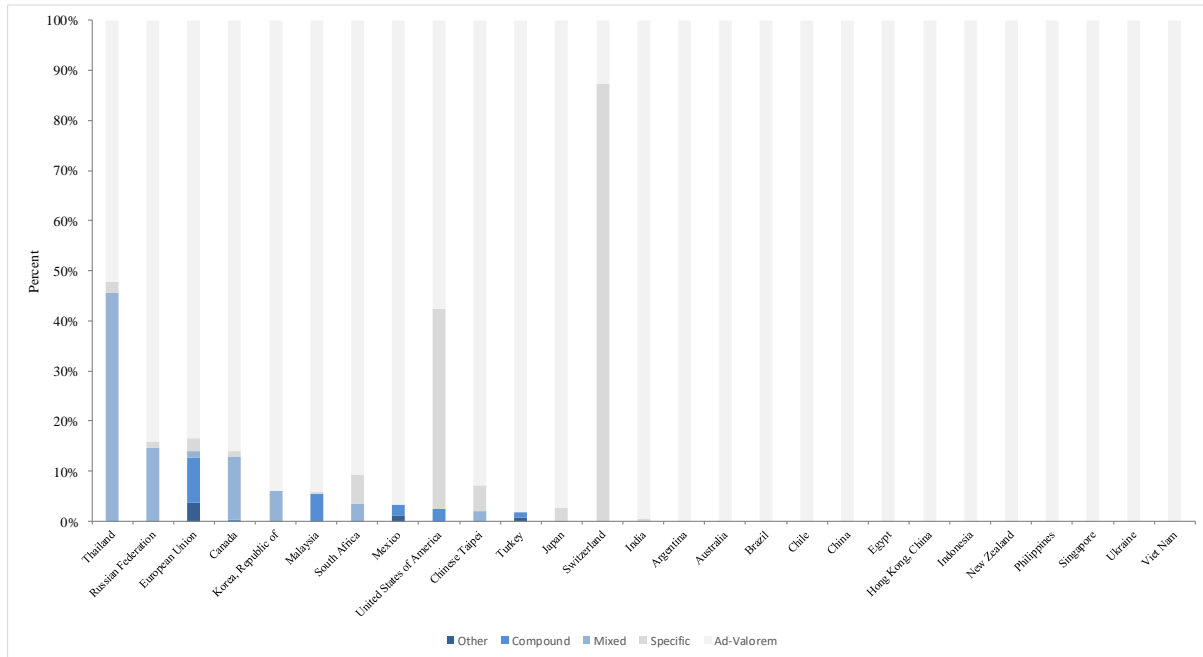
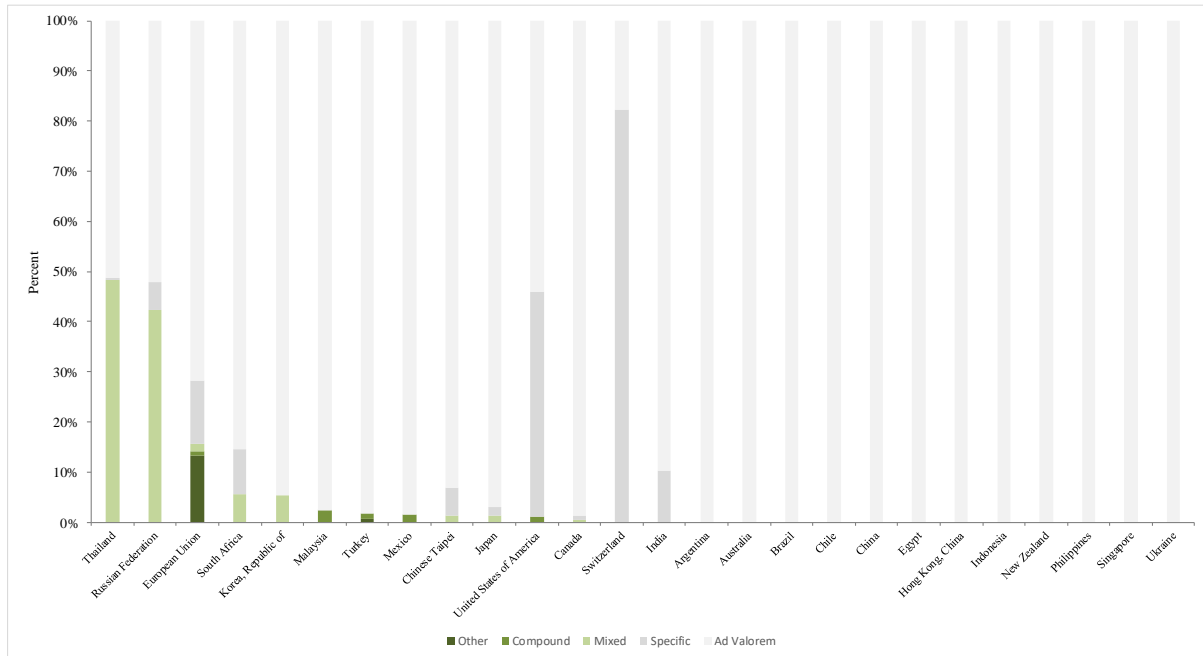


Figure 13: Types of Tariffs Incurred by Importers in LATMs, Fruit, Vegetable, and Plant Products (% of Product Group Import Value), 2017



Coffee and Tea

Figure 14: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Coffee and Tea Products (% of Applied Tariff Lines)

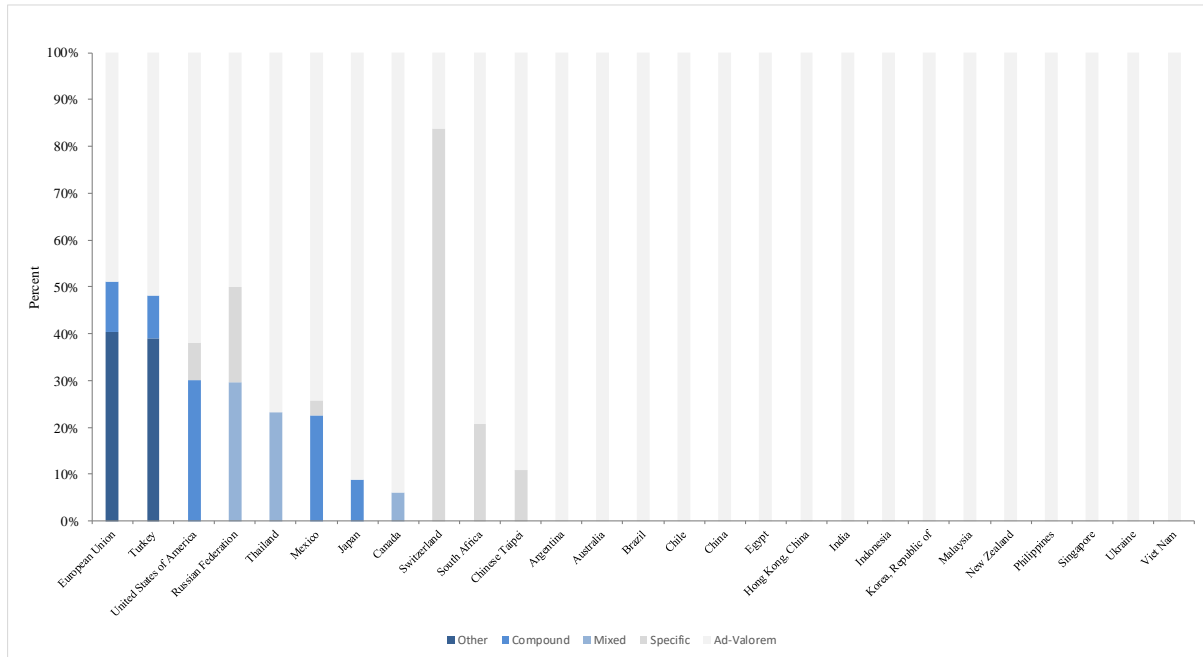
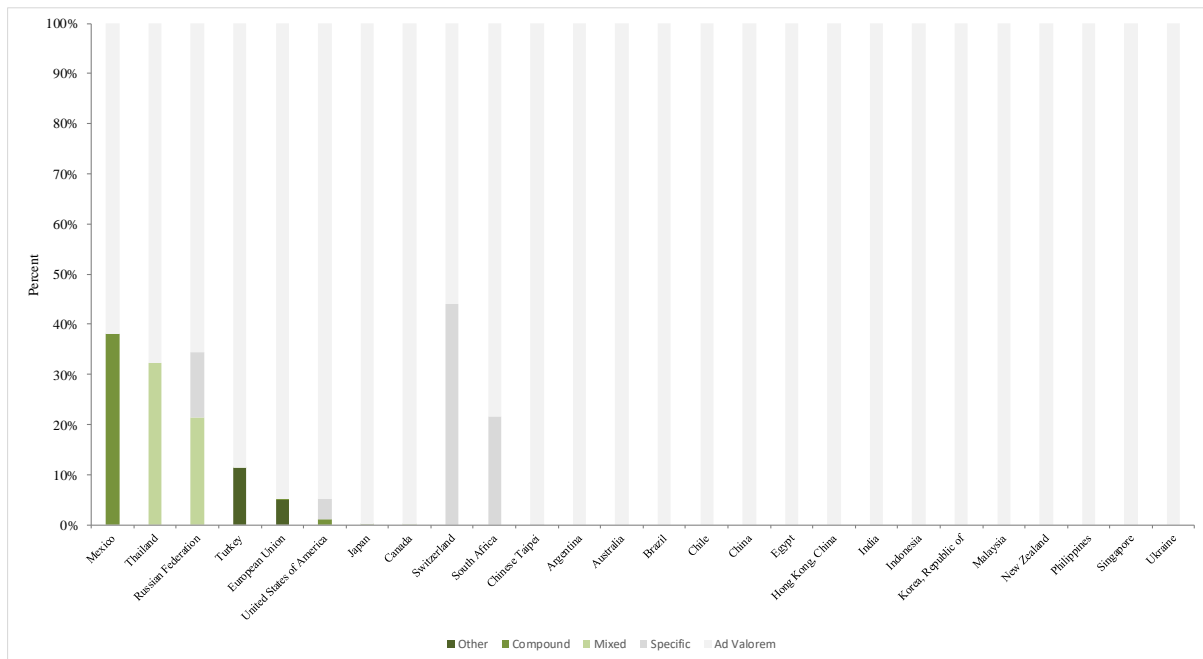


Figure 15: Types of Tariffs Incurred by Importers in LATMs, Coffee and Tea Products (% of Product Group Import Value), 2017



Cereals and Preparations

Figure 16: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Cereals and Preparations (% of Applied Tariff Lines)

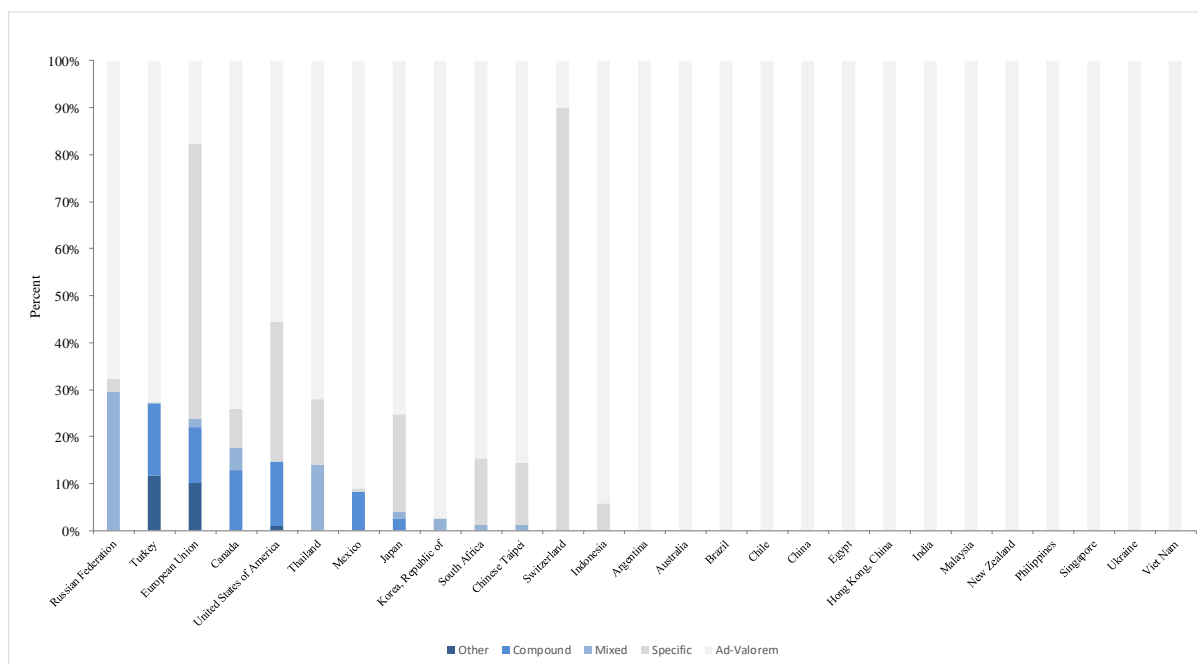
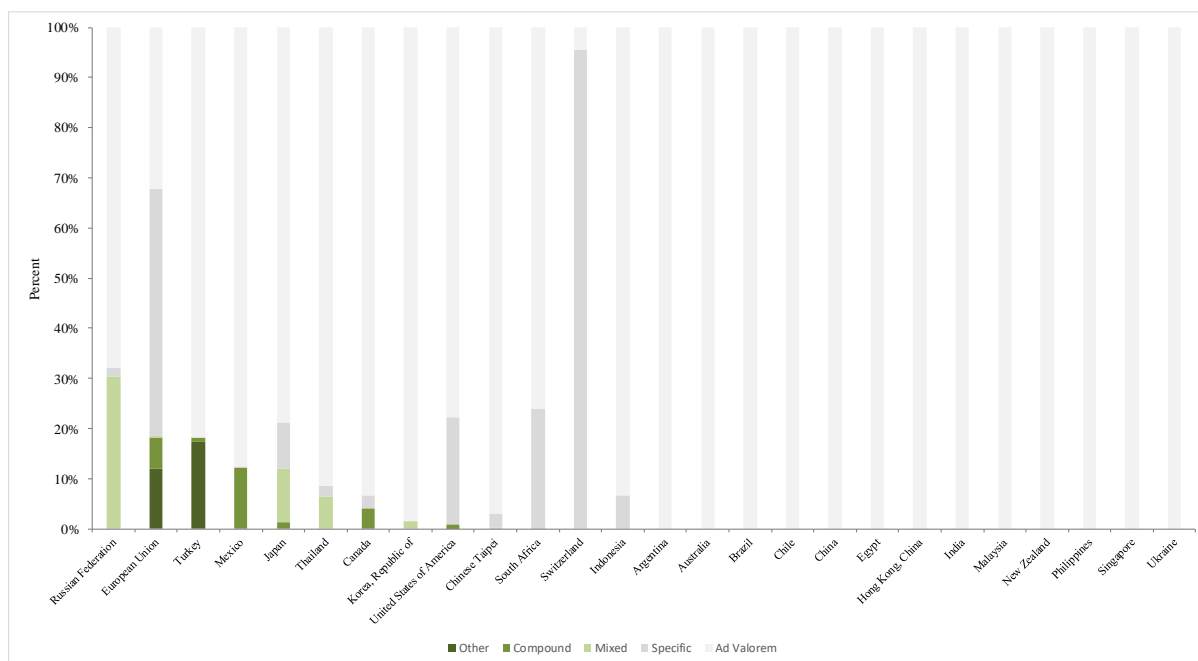


Figure 17: Types of Tariffs Incurred by Importers in LATMs, Cereals and Preparations (% of Product Group Import Value), 2017



Oilseeds, Fats & Oils

Figure 18: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Oilseeds, Fats, and Oils (% of Applied Tariff Lines)

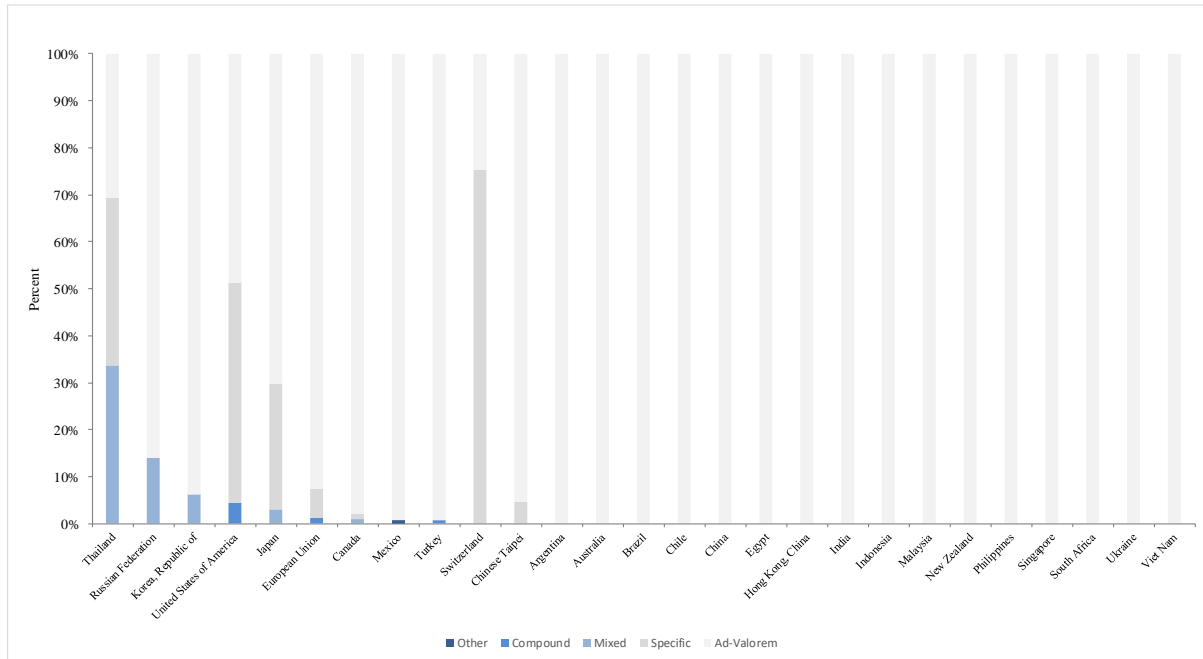
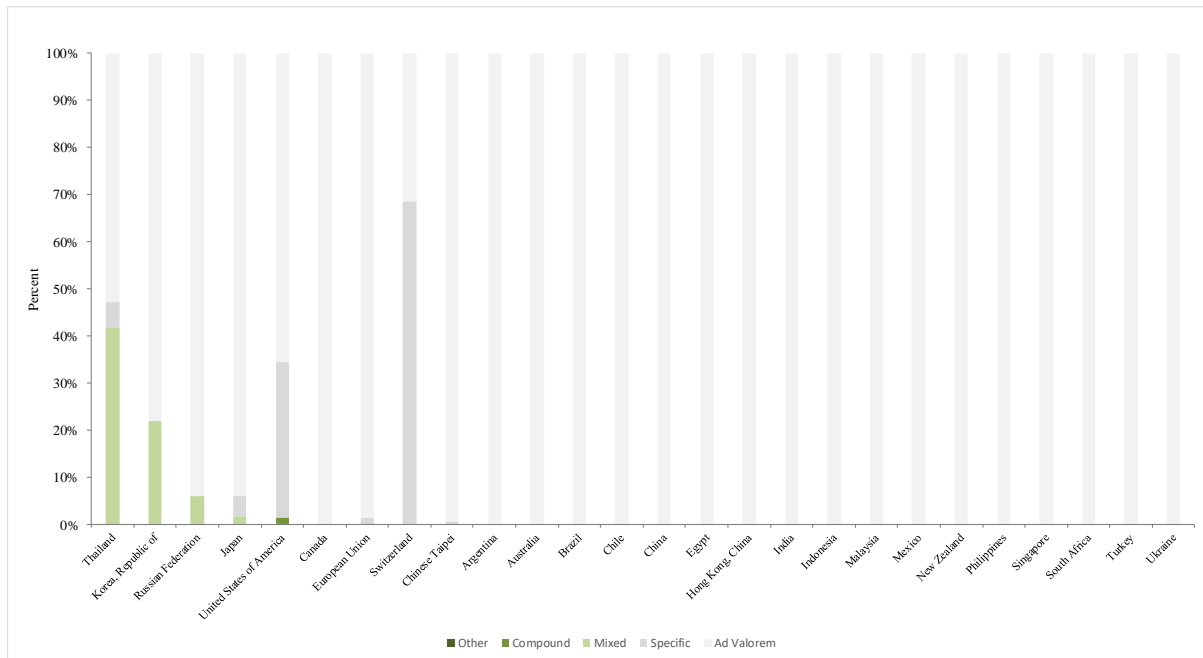


Figure 19: Types of Tariffs Incurred by Importers in LATMs, Oilseeds, Fats, and Oils (% of Product Group Import Value), 2017



Sugars and Confectionary

Figure 20: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Sugars and Confectionary (% of Applied Tariff Lines)

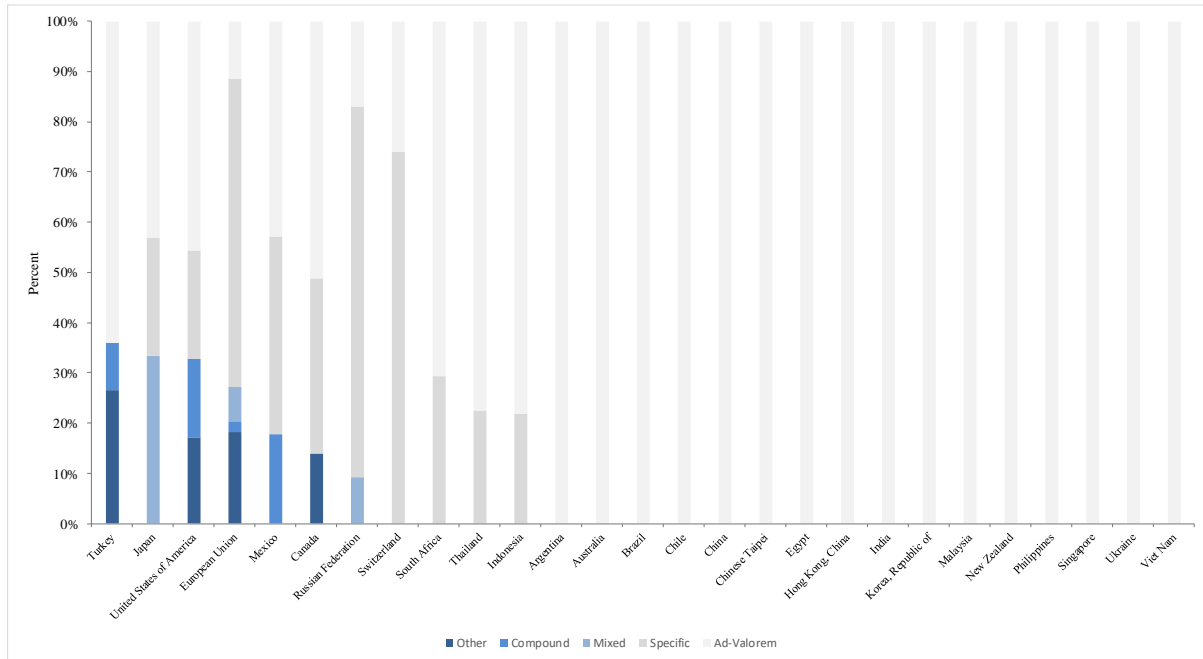
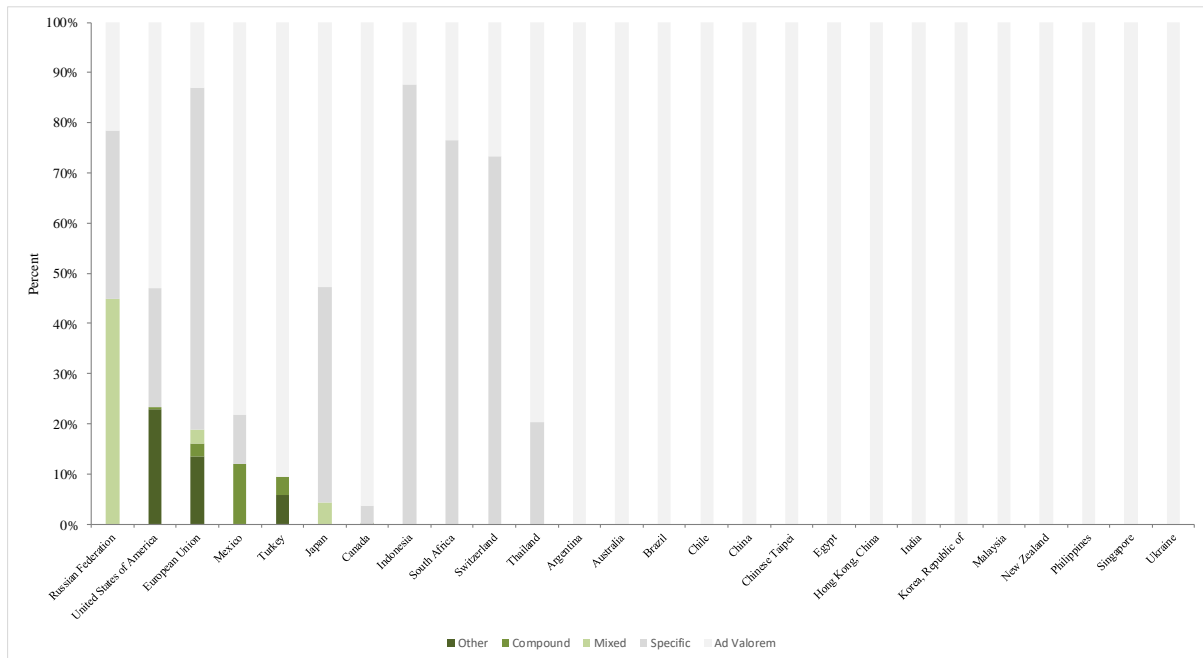


Figure 21: Types of Tariffs Incurred by Importers in LATMs, Sugar and Confectionary (% of Product Group Import Value), 2017



Beverages and Tobacco

Figure 22: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Beverages and Tobacco (% of Applied Tariff Lines)

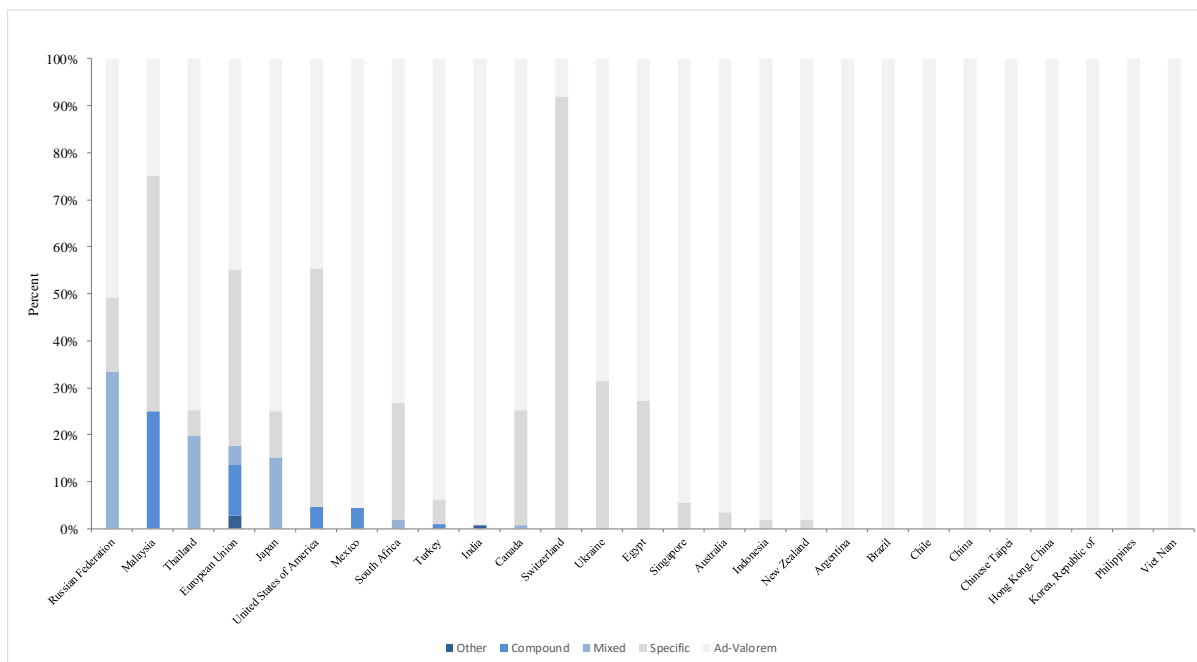


Figure 23: Types of Tariffs Incurred by Importers in LATMs, Beverages and Tobacco (% of Product Group Import Value), 2017

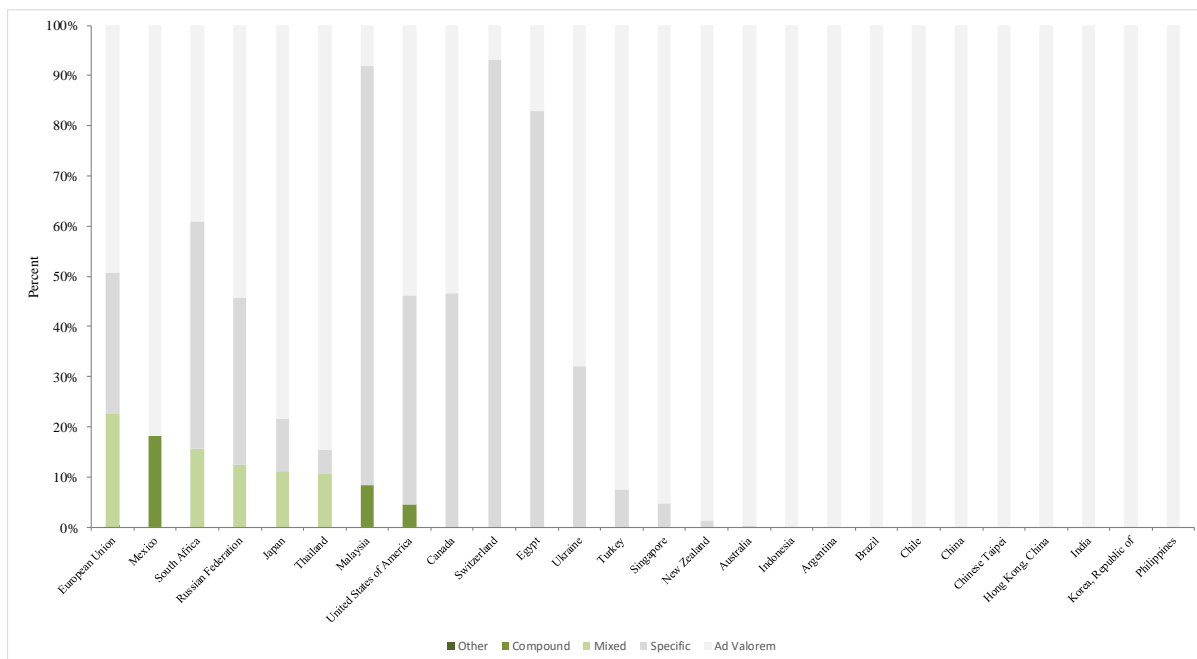


Figure 24: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Cotton (% of Applied Tariff Lines)

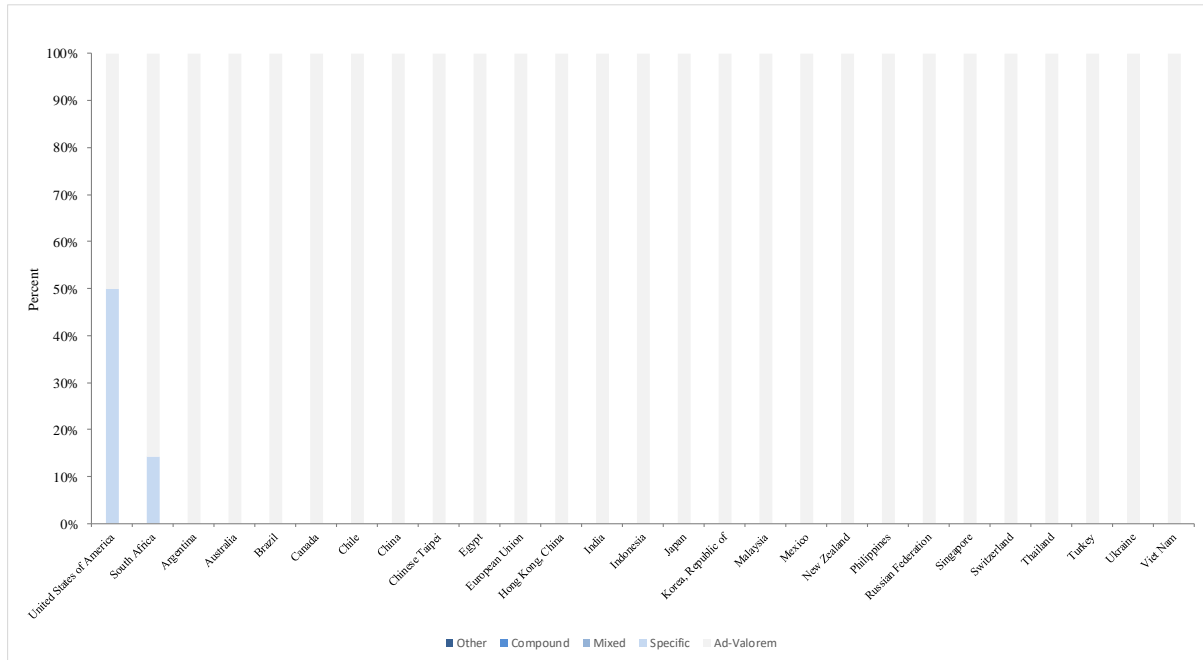
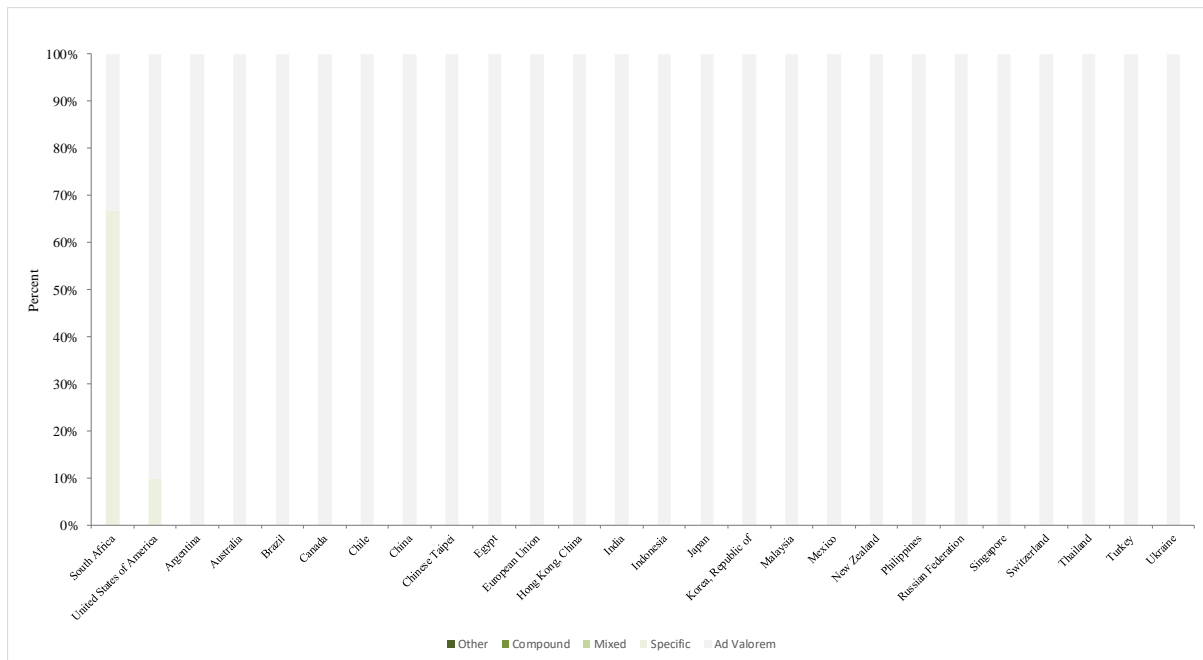


Figure 25: Types of Tariffs Incurred by Importers in LATMs, Cotton (% of Product Group Import Value), 2017



Other Agricultural Products

Figure 26: Types of Tariffs in LATMs Most Recent Applied Agricultural Schedules, Other Ag. Products (% of Applied Tariff Lines)

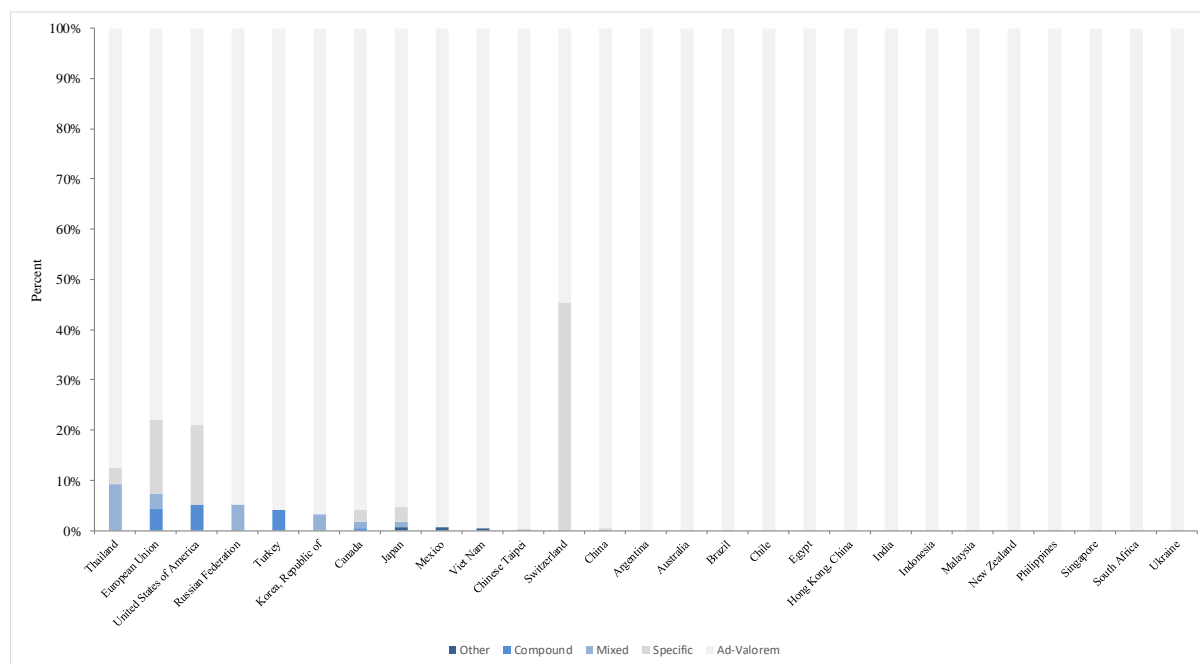


Figure 27: Types of Tariffs Incurred by Importers in LATMs, Other Ag. Products (% of Product Group Import Value), 2017

