

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Tariff Concessions

## SUMMARY OF DISCUSSIONS BY THE GROUP OF TECHNICAL EXPERTS ON THE TARIFF STUDY

### Note by the Secretariat

In considering future work on the Tariff Study, members of the Committee felt it useful, before taking a decision on the matter, to examine the conclusions drawn in the early seventies by the Group of Technical Experts. The present note contains a summary of the conclusions arrived at by the Group. It also includes a synopsis of the points subsequently discussed by the Working Party on the Tariff Study which might be relevant in this connexion.

The Group of Technical Experts was established by the Committee on Trade in Industrial Products (CTIP) in October 1968 to "give advice on the organization of the data" the secretariat was collecting for the purpose of the Tariff Study. It held a series of meetings between November 1968 and May 1970. On the basis of its recommendations, the secretariat published the basic documentation for the Tariff Study (three volumes covering CCCN Chapters 25-99). Simultaneously, detailed computer listings were made available to the Committee on Agricultural Products, describing the tariff situation at tariff item level for products classified in CCCN Chapters 1-24.

The Working Party on the Tariff Study was subsequently set up by the CTIP (February 1971) to carry out an objective analysis of the tariff situation as it will exist when all Kennedy Round concessions have been fully implemented. This analysis, incorporating trade flows, was to provide an objective basis for the contracting parties, at the appropriate time, to explore various possible approaches to future action in the tariff field and would include, inter alia, an examination of the variation in tariff rates between countries at the detailed tariff line level and by individual product categories, and an examination of the differentials in duties according to the degree of processing. The general analysis was completed in the autumn of that year (Spec(71)105) and the studies by individual industrial product categories in the course of 1971 and the beginning of 1972.

The Expert Group considered in the first instance the content of the computerized tariff and trade data files required for the tariff analysis and, in the second instance, the definition and the best suitable methods of aggregation of the detailed data.

With regard to customs tariffs, the m.f.n. rates in force during the reference period (in this case corresponding to the full implementation of the Kennedy Round concessions) were agreed to constitute the basic information. Since the purpose of the study was to measure only the tariff protection, fiscal duties were to be excluded. While the initial aim was to reflect the tariffs actually applied, the Group recognized that the recording of rates applied on a purely temporary basis would not be practicable. Instead, a rather loose definition of "rates in force" was adopted which referred to duties in the m.f.n. column of the customs tariffs, disregarding the footnotes or special rulings. Cases where the m.f.n. rates in force differed from the GATT bindings were, of course, to be identified in the files. During the MTN further consideration was given to the definition of the negotiable duty and a computerized tariff rate information file was established for major participants and correlated to the Tariff Study tapes. The coverage of the tariff and trade data files was enlarged to include the bound rates, the m.f.n. rates in force and the preferential rates. To facilitate aggregation, all specific, mixed, or compound m.f.n. duty rates were to be converted to ad valorem equivalents on the basis of the corresponding m.f.n. imports. The various types of rates were identified by a special code so as to enable, in the later phases of the study an analysis by types of duties as well as of the coverage of the GATT bindings.

The classification basis adopted for the study was the Nomenclature of the Customs Cooperation Council (CCCN) and the countries using different customs classifications provided concordances between their national tariff schedules and the CCCN. The establishment of a one-to-one concordance between the Canadian and US customs tariff to the CCCN was indispensable for the purpose of international comparison. However, it necessitated a subdivision of a large number of tariff items on the Canadian and US files which in turn distorted the structure of the tariff schedules of these two countries in the Tariff Study documentation. As a general rule, the most detailed available national classifications were used. Thus, for the Nordic countries and Japan the applied tariff/statistical classification was adopted and in the case of Australia and Finland, the by-law or the end-use tariff lines were included.

The Group recognized furthermore that the tariff data were not strictly comparable because of differences in national definitions of the customs value and of the point of valuation, and considered possible methods of adjustment. The main deviations occurred with regard to the domestic selling vs. transaction price and the point of valuation (f.o.b. vs. c.i.f. import values). While no systematic adjustment appeared to be feasible, countries using f.o.b. import values supplied f.o.b./c.i.f. conversion factors by broad product classes which provided indications of the importance of possible distortions of the data recorded in the files.

In addition to the tariff data, the Expert Group also considered recording of coded indications concerning the non-tariff barriers applicable to individual tariff items. After having examined this question in detail members of the Group recognized that, for a number of non-tariff measures in force, their applicability to individual tariff items could not be determined from the information available. Moreover, the inventory of non-tariff measures compiled by the secretariat on the basis of the partner countries' notifications appeared to be incomplete and would therefore not provide, in the view of certain participants, a balanced view of the measures applied by different countries. Since no agreement could be reached in the Group, the recording of non-tariff measures was not attempted.

With regard to the trade data, the Group agreed to use import statistics in the detail of national customs tariffs. This information usually lags one or two years behind the tariff data used in the files. To preserve comparability, adjustments were necessary for the changes in customs classifications not incorporated in the trade statistics. These adjustments were in many cases unsatisfactory and alternative solutions were sought in later work. In the present files, new tariff lines are recorded alone (i.e., without the corresponding imports) and regrouped under the heading for which trade data exist. While the Tariff Study focused on m.f.n. trade, imports subject to other customs régimes were to be fully recorded as well. As a result, m.f.n. imports may be distinguished from those entitled to GSP, other preferential treatment, general tariff and from intra-area trade. Since, however, customs clearance statistics are in general not available, the actual customs régime applied to the imports recorded in the files could not be established in full precision, especially with regard to GSP trade.

On the question of aggregation, the Group devoted several meetings to the definition of product categories best suitable for tariff analysis. The identification of potential sectors in future negotiations was one of the criteria kept in mind by the Group. The categorization of products by degree of processing was envisaged, where possible, together with an analysis by sectors. As a result, twenty-three broad categories were agreed, corresponding in most cases to branches of manufacturing industries. Nine of them were further subdivided by degree of processing and seven according to end-use or further detail by industrial origin. Seven categories were not broken down. The sub-categories defined by degree of processing were established (as were all the rest of the tariff study documentation) in terms of CCCN headings, although it was recognized that some of the headings contain products in more than one stage of processing. The use of national classifications for defining more precisely the processing stages was considered, but it was felt that inter-country comparability would be seriously affected unless concordances were worked out at tariff line level for all countries participating in the exercise. On this matter it would have been unrealistic to expect that such detailed concordances could ever be worked out and comparable trade figures obtained. In the subsequent work on the Tariff Study only a few minor changes were adopted in the definitions of sub-categories (in the metal sector).

Over the past decade, the pattern of world trade underwent considerable changes; consequently, the validity of some of the underlying criteria may at present be questioned. For instance, since the study was initiated, petroleum gained an overwhelming weight in imports which in turn affects the results for several major categories distinguished in the study. As most of the measures affecting trade in this product are outside the tariff field, the classification of petroleum in industrial products might be reconsidered. Also, it may now be desirable to distinguish products covered by the Agreement on Civil Aircraft, or other groups of products in respect of which specific measures were agreed or are envisaged.

With regard to the measurement of tariff levels the Group faced a serious methodological problem since there is no satisfactory method of averaging the rates of a customs tariff. For the most frequent purpose of such averaging - namely, the need to express in one figure, or a simple set of figures, the

protective effect of a tariff - it is even difficult to indicate what the ideal method should be. It would have to be based on hypothetical imports that would be taking place in a free-trade world (whose exchange rates might well differ from those coexisting with the tariffs studied), or under a unilaterally adopted policy of free import trade (where again the exchange rate of the country in question might well differ from the existing one). Perhaps, since the importance of a duty is in the amount of trade it holds back, each rate should ideally be weighted by the difference between the actual and the hypothetical imports. These data being unobtainable, all the averaging methods actually practised, and admittedly biased, are considered to be approximations, estimates of the "true" average. For the purpose of international comparisons, only two basic methods are available: simple averaging and averaging weighted by a pattern of actual imports.

After having considered the matter the Group recognized that it would not be technically possible to establish a single tariff average which would reflect the level of protection with sufficient precision and retained four methods of calculation, one simple arithmetical average and three arithmetical averages weighted by trade. One of these averages was to be weighted by the country's own imports and the others by world trade. The world trade weighting pattern was selected in order to correct or at least mitigate the downward bias of the country's own import weighted averages.<sup>1</sup> It was assumed that in the world as a whole the pattern of countries' protection was sufficiently different so that the impact of the various national tariffs on the composition of imports would be mutually offset, and the bias of the trade weighted averages eliminated or at least significantly diminished. Moreover, in some countries the tariff was considered to be already so low that for all practical purposes their import pattern was approaching the "free trade situation". This was also the reason for inclusion in the weighting pattern of the intra-EEC trade which normally was not to be covered by the study. The calculation of the genuine world trade weighting pattern could, however, not be undertaken because of lack of detailed import figures comparable for all countries in the world. The Group therefore agreed to use total imports of the countries participating in the study. But even in this case the weighting pattern could not be calculated at the tariff line level because of differences in national classifications beyond the four- or five-digit detail of internationally-agreed nomenclatures. Hence comparable trade statistics could only be provided at an aggregated level (e.g. four-digit CCCN) and an averaging problem arose with regard to the detailed tariff rates. It was thus decided to carry out the tariff averaging in two stages: (i) the detailed tariff lines into the 4-digit CCCN heading and (ii) 4-digit CCCN into the category. For the first stage (i.e. for tariff items classified in one CCCN heading) two different types of averages were adopted; one simple average of duty rates and one average weighted by the country's own imports. The aggregation of CCCN heading averages was then carried out in the same way on the basis of the "world" trade pattern. Thus the first "world" trade weighted average is calculated from the simple (unweighted) tariff averages by CCCN headings while

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<sup>1</sup> This results from the fact that the higher rates are usually more restrictive and consequently the relative amount of imports entering under them understates the importance of such duties in the calculation.