

GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Trade and Development
Fifty-Fifth Session
22-23 April 1985

TARIFF ESCALATION

Note by the secretariat

1. This document provides an overview of the post-Tokyo Round work of GATT on tariff escalation, which has been undertaken by the Committee on Trade and Development, the Committee on Tariff Concessions and the Working Party on Trade in Certain Natural Resource Products.

Post-Tokyo Round work on tariff escalation

2. Under the GATT Work Programme adopted after the conclusion of the Tokyo Round negotiations in 1979, the Committee on Trade and Development was given the task to "work on trade policy and development policies including trade liberalization in areas of special interest to developing countries". At the meeting of the Committee held in March 1980 "tariff escalation" was identified as one of the areas which should be dealt with on a priority basis.

3. Basing itself on the suggestions made at the meeting and in consultation with interested delegations, the secretariat prepared document COM.TD/W/315 - tariff escalation. Covering eight industrial markets this document contained pre- and post- Tokyo Round tariff escalation data (simple and weighted averages of m.f.n. duties on raw materials, semi-manufactures and manufactures) with respect to a number of industrial sectors and sub-sectors of export interest to developing countries. With a view to providing an indication of the extent to which the m.f.n. duties are relevant to imports from developing countries, the statistical data provided in the document included imports from GSP beneficiaries according to tariff treatment, e.g. m.f.n. duty-free, m.f.n. dutiable and GSP eligible.

4. Having this document before it, the Committee discussed "tariff escalation" at its meeting held in July 1980. A number of representatives expressed the view that work in this area might proceed in co-ordination with any related work in the Committee on Tariff Concessions, bearing in mind the role of that Committee in dealing with technical questions arising in the post-Tokyo Round tariff situation. In this respect, certain delegations of developed countries stated that tariff escalation raised

¹The post-Tokyo Round tariff escalation data in the document were based on the final concession rates resulting from the Tokyo Round. Thus, the broad post-Tokyo Round tariff situation indicated in the document could be still useful for discussing tariff escalation in the industrial sector although 1977 import data were generally used for the study.

questions of a global nature and referred to the interest they also had in work in this area. Some of these representatives noted that the "harmonization" tariff-cutting formulae used in the Tokyo Round had reduced high tariff rates more significantly than low-rates, and that this, as well as the GSP contributions that had been made, had contributed to the diminution of the incidence of tariff escalation in many sectors of interest to developing countries (COM.TD/105, page 10). The final assessment of the results of the tariff negotiation, published in a supplement to the Director-General's Report on the Tokyo Round, confirmed that the incidence of tariff escalation in the industrial tariffs of nine industrialized markets would decrease as a result of the implementation of Tokyo Round concessions, in large part due to the effect of the harmonization tariff-cutting formulae employed. Preliminary analysis on a sectoral basis showed that tariff escalation in some sectors, such as wood, metals and minerals, would diminish considerably, while in others, such as textiles and clothing, the decline would be less substantial. In the broad sector including leather, footwear and travel goods, the situation would vary according to the specific product considered (cf. COM.TD/W/305, page 3).

5. At the meeting of the Committee on Tariff Concessions held in November 1980, the Chairman suggested that the secretariat would prepare a document on the question of methodology for the measurement of tariff escalation in answer to a question raised by the representative of Norway (TAR/M/3, page 17). In March 1981 the secretariat circulated document TAR/W/18 - measurement of tariff escalation, drawing attention to some of the issues involved and suggesting in paragraph 11 an approach for carrying out an examination of problems relating to tariff escalation.

6. Further discussion on various aspects of work in this area took place in both the Committee on Trade and Development and in the Committee on Tariff Concessions as well as on an informal basis among interested delegations. At its meeting held in October 1981, the Committee on Tariff Concessions decided to request the secretariat to proceed with work on tariff escalation by way of case studies in regard to selected chains of production or product areas. These studies would be in the nature of pilot studies, which it was felt could, among other things, help to clarify some of the technical points that had been raised. (TAR/M/5, pages 10-11)

7. Following informal consultations with interested delegations, the secretariat prepared for the two Committees the following two documents: COM.TD/W/361 - TAR/W/26, a pilot study on tariff escalation, dealing with copper producing and copper consuming industries and COM.TD/W/369 - TAR/W/29, which elaborated on the methodological and practical difficulties encountered in attempting to measure tariff escalation in the copper industry. Detailed discussions took place on these documents at the meeting of the Tariff Committee held in July 1982 (cf. TAR/M/8, pages 6-12).

8. "Tariff escalation" continued to be discussed in the two Committees and the Preparatory Committee in the following months of 1982. It may be noted that a communication from Brazil and India submitted to the Preparatory Committee referred among other things, to a series of studies carried out by the secretariat on tropical products, which according to

these delegations "have determined the widespread incidence of escalation in the tariff levels applied to such products in their various degrees of processing whether under GSP or m.f.n. treatment" (PREP.COM/W/6). A communication from Peru suggested an examination of the trade problems of the non-ferrous metals sector along the lines of the studies made on tropical products (PREP.COM/W/3).

9. At their session held at Ministerial level in November 1982 the CONTRACTING PARTIES decided that "prompt attention should be given to the problem of escalation of tariffs on products with increased processing with a view to effective action towards the elimination or reduction of such escalation where it inhibits international trade, taking into account the concerns relating to exports of developing countries". Other related Decisions taken at the session included those on "tropical products" and "problems of trade in certain natural resource products".

10. At its meeting in February 1983 the Committee on Tariff Concessions discussed the Ministerial Decision on tariff escalation. It was stated that this Decision would be taken into account by the secretariat in any studies which might be undertaken under the Ministerial Decision on natural resource products. Divergent views were expressed as to whether agriculture should be included in the scope of further work on tariff escalation in the Tariff Committee (TAR/M/10, pages 10-11).

11. Under the Decisions of 20 April 1983 (BISD 30th supplement, pages 15-17) the secretariat has provided a number of background studies on problems of trade in non-ferrous metals and minerals, forestry products and fish and fisheries products. These studies, which have been made available to the Working Party on Trade in Certain Natural Resource Products established in March 1984, include tariff data (m.f.n, GSP, etc) presented according to the stages of processing identified for each product group. At several meetings of the Working Party held since mid-1984, "tariff escalation" was discussed as one of the problems in the tariff area. In this connection, the delegation of Canada has provided some additional material relating to the problem of tariff escalation on natural resource products (MDF/W/1 and 3). In response to a request made by some members of the Working Party, the secretariat prepared document MDF/W/5 - import demand elasticities in international trade: a review of selected bibliography.

12. The delegation of Chile proposed at the meetings of the Committee on Trade and development and the Council held in November 1984 that the subject of tariff escalation should appear on the agenda of future meetings of the Committee. At their 40th Session held in November 1984 the CONTRACTING PARTIES agreed to ask the Committee on Trade and Development to examine questions relating to tariff escalation and the trade of developing countries (L/5755/Rev.1).