

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT ON EXPERT GROUP MEETING HELD ON 9 AND 10 DECEMBER 1969

I. Classification of products

The Expert Group had to discuss a few remaining details of the system of product categories it had established in its preceding meeting. The expert of the United States announced that he could agree to the proposal to distinguish textiles by the main fibres used; and the expert of the European Economic Communities gave his approval to having a number of sub-categories distinguishing the main non-ferrous metals and their semi-manufactures. The Expert Group thus agreed to a classification of twenty-three product categories and 119 sub-categories on which the main tabulation, Summary Tabulation II, should be based. It was agreed that this classification and its definitions were purely illustrative, solely for the purpose of economic analysis, and could be modified and further broken down if this were considered necessary for any further studies that might be undertaken. In this connexion Canada expressed its concern with regard to the sector of transport equipment where agricultural tractors and motor vehicles were aggregated together with road motor vehicles. Since many countries were not able to make a statistical distinction in this regard, Canada was prepared to agree with the actual classification of the sector concerned but reiterated its viewpoint as to the importance and validity of a more detailed breakdown which Canada might want to pursue at a later stage. The Group agreed that Canada could ask the secretariat to prepare an additional paper summarizing the information from those countries in whose statistics the distinction was made, when this subject would be dealt with by the Committee on Trade in Industrial Products. This information could then be discussed along with the main tabulations. Several experts expressed the view, emphasized at an earlier meeting, that this might also be necessary in other BTN headings, since some of these groupings cover an extensive number of products of which a more refined analysis may appear useful.

II. Detailed listings by countries

The EEC recalled its recommendation to add an indication of the percentage of the volume of trade for those items of the United States tariff which are covered by several headings of the BTN. This could be done either in the detailed listings or preferably in a separate table which would, at the same time, cover the concordance between the Brussels Nomenclature and the tariff of the United States in both directions. It was agreed that trade allocations should be included in the up-dated detailed listings of the US for United States tariff numbers which correspond to more than one four-digit BTN heading. The United States would also supply the secretariat with a condensed version of the concordance showing allocations at a four-digit BTN level for circulation as a working document. This was already received by the secretariat and will be appended to the final version of the US basic listing.

III. Methods of calculating tariff averages

Introducing the discussion on alternative methods of calculating tariff averages, the secretariat pointed out that all tariff averages which it is possible to calculate have some inadequacies from some points of view. The results of the experimental calculations undertaken by the secretariat based on the tariffs of the United States and the European Economic Community and presented to the Group in four tables, indicated that three of the formulas used had an upward, and three a downward bias; and, furthermore, that weighting at the tariff line level had, in general, more pronounced effects than weighting at the level of BTN headings. The problem before the Group was to agree on a minimum number of averages to be included in Summary Tabulation II, it being assumed that all members of the Group would be unable to agree that any single average could be considered a "true" average.

One expert regretted that the sample tabulations should have included calculations for only two tariffs. The secretariat explained, however, that the two tariffs selected should provide a useful indication of the results of the methods selected for calculation of tariff averages because of the differences in their structure both as regards the detail of the breakdown in various categories and the variation of the tariff rates.

One expert, while agreeing that there was no single satisfactory way of measuring the average level of individual tariffs, considered that two averages, Nos. 4 and 5, should fulfil the needs of the Tariff Study; the first calculated from national tariff lines weighted by the country's own most-favoured-nation imports, and the second, weighted by the country's own most-favoured-nation imports up to the BTN heading level and then further reweighted by "world" imports (including preferential and area imports weighted at most-favoured-nation rates) at the category level. He was recommending the first average he had mentioned because it was the most widely used method of summarizing an individual country's tariff schedule, and the traditional method used in trade negotiations. He further stressed that most-favoured-nation imports only should be used for weighting since policy makers and negotiators are interested in relating averages to the actual trade flows which are subject to these tariff levels. In addition, he said that academic studies show that the degree of downward bias inherent in this method of calculation had already been considerably reduced and is relatively modest as a result of the Kennedy Round concessions since the range of rates in each country's tariff schedule was greatly narrowed and the degree of harmonization increased. Average No. 5 was recommended to provide an average which gives more proper weight to individual duties and corrects any downward bias which remains. By including preferential and intra-area trade in "world imports" at most-favoured-nation rates, the downward bias of weighting by a country's own most-favoured-nation imports at the tariff line level should be largely removed. This average should therefore be used because it seems to have the least inherent bias and provides, for purposes of economic analysis, the most useful measure of comparing tariff levels among countries.

In discussing the advantages and disadvantages of the various methods, several experts stated that averages calculated directly from unweighted national tariff lines were more suitable for the purpose of the Tariff Study. The weighting of customs duties by the country's own imports introduced a downward bias because of the fact that where duties were high or prohibitive, imports were generally nil or negligible, whereas the latter were substantial where duties were low or nil; as a result of such a weighting therefore, the importance of the high rates diminished considerably and the low rates had an undue influence. Some experts added that the bias introduced by weighting by a country's own imports, at the level of tariff lines, was not corrected by re-weighting BTN averages according to the pattern of "world" trade at the category level as one expert had argued because, as the secretariat had indicated, the effects of weighting at the level of individual tariff lines were in general more pronounced than those of weighting at the more aggregate level of BTN headings. One of the experts said furthermore that as a result of the Kennedy Round the range of rates in individual tariffs had been reduced to a limited extent only, and that it had been possible to achieve tariff harmonization only in certain sectors, and not in the majority of cases.

In the view of several experts, a simple arithmetic average of national tariff lines in each BTN heading, then weighted by "world" imports at the category level, i.e. the average No. 2, reflected best the true situation. The disadvantage of the downward bias, inherent in any weighting by the country's own imports, was eliminated if one selected a simple arithmetic average, at the level of individual tariff lines, and a weighting by "world" imports (including preferential and area imports weighted at most-favoured-nation tariff rates) at the level of BTN headings. In the absence of any detailed statistical data on "world" imports at the level of individual tariff lines, such average would be the best reflection of tariff protection in individual countries. One member pointed out, on the other hand, that the strong upward bias inherent in a simple arithmetic average at the tariff line level is not fully removed by weighting by "world" imports at the level of BTN headings. Average No. 2 retains an upward bias as can be seen from the sample calculations produced by the secretariat.

It was felt by certain members of the Group that the simple arithmetic average, which would indicate the upper limit of the range in which the correct average would lie, should be shown along with its standard deviation which it had previously been decided to calculate. One member suggested, however, that the meaning and usefulness of simple arithmetic averages of individual tariffs was extremely limited as the results depended solely on the degree of detail in each tariff schedule and bore no relation to actual trade flows. In this expert's view inordinate weight was given to tariffs charged on obscure products which were insignificant in international trade, and since tariff schedules were usually more detailed in highly protected, import sensitive industries, the results of this method had a strong upward bias. Furthermore, wide variations in the degree of this detail among countries make international comparisons based on unweighted averages highly suspect.

Most of the experts who expressed an opinion felt that only two formulas for calculating averages should be chosen so as to indicate the range in which the true average might possibly lie. They also felt that the inclusion in the tabulations of more than two averages would be confusing to users not possessing specialized statistical training; especially so, since separate averages would be calculated for (a) all items and (b) dutiable items only, so that the use of two formulas would result in four average figures, three formulas in six, etc. For this purpose they would choose one average with unweighted tariffs at BTN level and another average with weighted tariffs at this level should be included, and they were willing to agree that averages Nos. 2 and 4 would be appropriate.

One expert said he could accept the inclusion of average No. 2 only if both averages Nos. 4 and 5 were also calculated. Other experts were unable to accept both Nos. 4 and 5 unless the simple arithmetic average as well as No. 2 were accepted. The experts then regretfully decided that, in these circumstances, it would be necessary to calculate these four averages, and it was suggested that the tabulations be accompanied by detailed notes showing the methods of calculation and the advantages and disadvantages of each average. One expert expressed the hope that the decision would be reconsidered in the capitals in the light of the arguments adduced, and that it would be possible for the expert who had opposed it to concur in the selection of two averages. Another expert said he believed his Government would be unable to accept averages Nos. 2 and 4 alone in the light of the points discussed in the Expert Group. He therefore believed the Group should regard the selection of the four averages indicated as a definitive decision.

IV. Discussion of Summary Tabulation III comprising imports from developing countries

A secretariat proposal for a separate tabulation of imports from developing countries was distributed during the meeting and the experts were not able to study it prior to the meeting. One expert recalled an earlier proposal according to which separate tabulations should be produced for each developing country listing imports from that country into each of the countries included in the study. This would show all tariff lines in BTN order, the most-favoured-nation rates, the value of total imports and of imports from the developing country in question. Such tabulations could be provided for each developing country, listing its exports to each of the other countries in the tariff study. Another expert reminded the Group that this information was available from published statistics or on magnetic tape in the importing countries and could be obtained directly from them. The experts from developing countries agreed that information on actual rates of tariffs applicable to particular products of interest to developing countries was readily available in the published literature. The purpose of the summary tabulation which the secretariat was being requested to prepare was not merely to collect information on actual rates of tariffs but to provide a basis for further analyses by the Committee on Industrial Products of the tariff problems

faced by developing countries, as a result of peak rates and tariff differentials which applied to their products. In its proposal the secretariat had suggested that imports from developing countries should be listed by tariff lines, arranged into the product categories and sub-categories earlier agreed upon by the Group. The listing could either be exhaustive or selective according to some quantitative criterion, such as a minimum percentage share of imports from developing countries in total imports entering under each tariff line. Responding to an expert's question, the secretariat tentatively estimated that the choice of 1 per cent of such imports as a cut-off point would lead to the inclusion of about 40 per cent of all tariff lines, on the average, in the tabulation.

One expert noted that such a mechanical listing of imports from developing countries would be likely to show that, even in individual product categories or sub-categories, the large countries included in the study were importing different products; a tariff summary based on such a sample would not be comparable between the importing countries studied. Moreover, as regards each industrial country's tariff, such a calculation would not reflect properly the tariff structure which developing countries are faced by.

The experts agreed that full inter-country comparability could only be ensured in the tabulation under discussion by proceeding on the basis of an agreed list of products imported from developing countries. In this case, individual importing countries' tariff rates on identical products would be determined, averaged and compared. It was realized, however, that this procedure was not feasible, first, for the difficulties inherent in establishing such a list and, second, because it would then be necessary to establish the definition of each listed product in the tariff of each country - since the same product may be covered by a different number of tariff lines in each national tariff - and the amount of work this would involve exceeded the capacity of the secretariat.

Another difficulty mentioned related to ad valorem equivalents of specific duties to which imports from developing countries might be subjected. The experts from developing countries stated that in most product categories, the developing countries supplied items of lower quality and value, and that therefore the incidence of any specific duty was higher on imports from developing than from developed countries. Consequently, they considered it important that, where specific duties were levied, separate ad valorem equivalents should be calculated from unit values of imports from developing countries only and that such ad valorem equivalents should be used in the tariff averages of this tabulation. Experts from two developed countries said it would be possible for them to supply such special ad valorem equivalents, but several other experts reserved their position as they had to consult their statistical services first. It was thus necessary to postpone further discussion of this problem until a later meeting.

In view of the shortcomings of both possible approaches to such a tabulation - i.e. establishing a common list of products imported from developing countries and a listing or selection of imports from developing countries by the computer - one

of the experts proposed a compromise solution, consisting in the selection and tabulation of BTN headings in which imports from developing countries were particularly strongly represented. Inter-country comparability being fully ensured at the level of BTN heading, the experts were willing to consider this proposal. It was agreed that the secretariat should consult the experts from developing countries on the basis of suggestions made during the meeting as well as the original secretariat proposal and formulate a precise proposal which could be considered at the next meeting of the Expert Group, expected to be held towards the end of March or early April 1970. It was emphasized that the new proposal should be distributed sufficiently in advance of the next meeting.

V. Other business

The Expert Group also discussed its future programme of work. The secretariat noted that tabulations as complex as those agreed upon by the Group would have to be accompanied, when transmitted to the Industrial Committee, by concise explanatory notes. As it was important that the notes should be both exact and easily understandable, the secretariat would prepare a draft but would like the experts themselves to correct and endorse the text. This could be part of the business of the next meeting of the Group in March or April.

One expert pointed out that requests might be expected from other governments as well as international and private organizations, even universities, for the information which the secretariat had assembled in the course of the Tariff Study. Since this would have both political and cost implications, it would be useful to have this problem considered in advance. It was agreed that such a discussion should take place.