

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Trade and Development

## TARIFF ESCALATION

### Note by the Secretariat

In amplification of the secretariat comments on the questions related to the measurement of tariff escalation at the last meeting of the Committee on Tariff Concessions (see document TAR/W/27, paragraph 5.6), the secretariat has prepared the following note.

A number of serious difficulties were encountered in the attempt to measure tariff escalation in the copper industry. In certain cases shortcuts had to be adopted which may not be appropriate for this type of measurement. Since similar problems would be encountered in any industry branch, it was felt useful to highlight again the imperfections of that study and to summarize the points on which the secretariat would seek guidance from the Committee before any further steps are undertaken in the field of the measurement of tariff escalation.

The first problem is that of the processing chains. In the primary processing of copper, two chains can be distinguished: one proceeding through blister, the other through copper cement. In the paper, the copper cement chain was not considered because of inadequate information. However, in four of the countries reported the duty applicable on blister and cement is different, hence the effective protection of the copper refining stage will differ in these cases according to the chain selected. Similarly, downstream, the average duty escalation for the copper semi-fabricating industry as a whole was assessed, while at least four processing chains can be distinguished: rod mills; wire mills, rolling mills and tube mills, each containing several processing steps. The duty rates applicable to the different intermediate products (corresponding to the subsequent steps) as well as those applicable to the end products of the four chains are in most cases different. Consequently, the results of the assessment would be different if particular processing chains were measured separately.

Beyond the stage of semi-manufactures, copper is used by a wide range of industries. As was shown in Table 1, page 11 of the paper, those include wide branches such as: plumbing fittings and brass goods, electric equipment and supplies, current carrying wire devices, etc. For those industries the assessment of tariff escalation cannot in general be restricted to copper products alone, as other products enter at various stages of the particular processing chains. The available statistics are, however, not sufficiently detailed. Therefore, no attempt was made to go beyond the semi-manufacturing activities.

The tariffs considered in the measurement of tariff escalation referred to the most-favoured-nation rates and to preferential rates under the Generalized System of Preferences. In order to take correctly account of both the mfn and the GSP rates, the relative importance of the respective trade flows would have to be known. However, import statistics do not in general allow a precise identification of imports which actually entered under each of the respective tariff rates.

With regard to specific rates of duty the ad valorem equivalents are affected by the choice of the period used in the calculation since import prices underwent large fluctuations in recent years. The question therefore arises whether one single reference year or an average of years should be selected to calculate ad valorem equivalents of specific rates in such cases. More generally, the question of representative prices arises when production patterns, costs and value added are considered. Ideally, a uniform reference period should be used throughout. This was not attempted here since the data made available to the secretariat referred to different years.

For the calculation of the average tariff levels at the various stages of processing, the question of the appropriate weighting pattern should be raised. In the paper, the production structure was used, i.e. the duty rates were weighted by the relative value of the products consumed by the industry on the one hand and the relative value of the products made (or shipped) on the other hand. Where tariffs were more detailed than the product groups reported in industrial statistics the tariff level applying to such product groups has been calculated using the simple arithmetic average of all corresponding duty rates. The products not specified by kind in the sources used were disregarded in the calculations. Such simplifications inevitably introduce distortions.

With regard to the industry structure and the production pattern (used in the calculation of weighted averages and effective protection) the census of manufacturing statistics were principally used. However, the data available in national censuses are generally fairly outdated. They, therefore, neither reflect the latest technology applied by the export oriented establishments nor the recent relative prices of inputs or outputs. Moreover, where the processing chain involves several manufacturing steps, the establishments covered in the census statistics do not all operate departments corresponding to all of the steps and interplant shipments of intermediate products are frequent. As a result, the production statistics include a certain amount of duplication resulting from shipments by some establishments to other establishments classified within the same industry. Although an attempt was made to eliminate the more obvious duplications the distortions cannot be eliminated completely. It is doubtful whether more precise data could be supplied by national authorities.

The weighting pattern for the tariff averages and the effective protection rates shown in the paper was based on the United States Census of Manufactures alone, since it was the only census where copper products were reported separately from other non-ferrous metals in sufficient detail. Since the price pattern, the technology and the structure of the United States copper industry is not necessarily representative for the copper industry in other countries, the question should be asked whether the results of the calculations can be considered as meaningful for the world as a whole.

The estimation of effective protection calls for a comparison between the protected value added and a theoretical free market value added. The latter cannot be determined since it is not possible to establish what the production structure would have been under conditions of free trade. In this study, the value added was adjusted for direct effects of tariffs but no correction was attempted for the substitution of production factors etc. Estimates of effective protection of a particular processing stage are highly sensitive to changes or imprecisions in all the classes of data discussed here. The Secretariat feels that, unless a satisfactory resolution of these problems can be found, the results of mechanical calculations from data known to be highly imperfect could not add a reliable insight going beyond the general proposition that, where tariffs show escalation at successive processing stages, effective protection is higher, often considerably so, than nominal tariff rates seem to indicate.

The problems encountered in the copper study would occur with regard to any other industry and it is unlikely that more accurate results could be obtained for other manufacturing chains even if more extensive assistance were provided from contracting parties. The studies on tariff escalation necessitate considerable resources and, in general, the efforts required would not appear to be commensurate with the results obtained. It is therefore for consideration whether the problems of tariff escalation, as they relate to various product sectors, cannot be dealt with without undertaking detailed studies on these lines.