

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/3A/4
19 June 1974

Special Distribution

Multilateral Trade Negotiations

GROUP 3(a) - AD VALOREM INCIDENCES OF SPECIFIC DUTIES

Note by the Secretariat

1. At the meeting of 14-16 May the Group requested the secretariat to prepare a technical note on methods in use for the calculation of ad valorem equivalents of specific rates and of specific components of compound rates (MTN/3A/3, paragraph 17).
2. Ad valorem equivalents of specific duties are calculated in order to measure the relative incidence of such rates on the cost of the imported goods, so as to compare the incidence of specific duties with that of duties expressed in ad valorem terms. The specific duty is levied on quantities, its ad valorem equivalent therefore varies with price of the imported merchandise. Consequently, the real incidence of such duties can only be measured in relation to individual shipments. Ad valorem equivalent calculated on all imports subject to the specific rate is an average reflecting the impact of the duty on imports of goods of different types, qualities and provenances, whose prices could show very wide variations. The calculations are usually undertaken on the basis of foreign trade statistics which report imports by tariff items and countries of provenance. Separate calculations distinguishing different brands or qualities of imported products cannot be made on the basis of these data.
3. In general, the ad valorem incidence is calculated according to two methods. The first method is based on the specific duty rate (or the specific component of compound rate) and the import unit value¹; the second on the customs duty collection and the import value². If the customs collections are not recorded by tariff items, theoretical collections are sometimes calculated from import quantities. Combinations of the two methods are applied in specific cases. The two methods yield the same results provided the statistics cover only the imports actually subject to the customs duty, and the customs collections do not include other duties or taxes.

¹
$$\frac{\text{Specific duty}}{\text{import value}} \times 100$$

²
$$\frac{\text{duty collected}}{\text{import value}} \times 100$$

4. Separate calculations are usually carried out for imports under most-favoured-nation, preferential or general rates. In each case, the import data should refer, as closely as possible, to the relevant trade, i.e., in the case of most-favoured-nation rates to the most-favoured-nation trade values, in the case of preferential rates to the trade which is actually enjoying the preferential treatment.

5. Since trade statistics are not always compiled according to the actual customs treatment, it is sometimes impossible to separate imports which are subject to most-favoured-nation rates from those which are admitted under special conditions, either duty free or at reduced rates. This applies in particular to processing trade, returned goods, goods imported for specific end-uses, or such types of imports for which certain customs regulations provide different treatment from that generally applicable under the most-favoured-nation clause. Similar problems may arise with respect to preferential rates if no distinction is made in the trade returns between imports from preferential countries actually admitted at preferential rates and those excluded from the benefits of such treatment (e.g., not fulfilling the conditions stipulated in the rules of origin, or imported in volumes exceeding the preferential ceiling).

6. If the first method is used in the calculation of the most-favoured-nation incidence, the size of the distortion due to the inclusion of non-most-favoured-nation trade depends on the difference in import prices of the most-favoured-nation and non-most-favoured-nation imports. The most-favoured-nation incidence calculated in total imports is understated if the import unit value is higher in preferential trade flows than on most-favoured-nation trade, and is overstated if the inverse price-relationship occurs. On the other hand, the second method leads to a systematic downward bias if non-most-favoured-nation trade is included since the denominator is inflated by the inclusion of imports on which no, or reduced, duties were collected. Adjustments of such distortions require information which usually is not regularly published and the first method is usually preferred in such cases.

7. Finally, it should be noted that the comparability of customs data in general is affected by differences in the definitions of the kind of volume measurement (e.g. net weight as against gross weight) applicable to specific rates, the valuation procedures applicable to ad valorem rates or the method of recording trade values in foreign trade statistics from which the incidences are calculated. The adjustment of the import data to transaction value basis, the correction for c.i.f./f.o.b. valuation in import statistics, or adjustment of volumes to gross or net weight basis, can usually not be made on the basis of published information. A systematic collection of customs tariff data and calculation of ad valorem equivalents on a strictly comparable basis could therefore only be carried out with the assistance of the competent national authorities.