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BACKGROUND INFORMATION

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BACKGROUND INFORMATION

GATT DOCUMENTATION FOR TARIFF STUDY SHOWS COMMON MARKET INDUSTRIAL TARIFFS STILL LOWER THAN U.S. TARIFFS IN 1972

WASHINGTON, D.C., February 15, 1972 -- The Common Market's average tariff on industrial products remained lower than the comparable U.S. tariff when concessions granted during the Kennedy Round of tariff negotiations came into effect on January 1, 1972.

This is the conclusion drawn by the European Community Commission from the documentation for a tariff study* prepared by the Secretariat of the General Agreement on Tariffs and Trade (GATT). Community statistics indicate that the Community's common external tariff (CET) on industrial goods has been lower than the average U.S. tariff since the CET went into effect in 1968. Post-Kennedy Round tariffs do not alter that trend, according to the GATT documentation.

The GATT study, completed under the guidance of a Group of Technical Experts, averaged tariffs by four different methods of calculation. Although the different formulae produced varying results, the Community's average tariff was lower than the U.S. average tariff in each case.

* Basic Documentation for Tariff Study (GATT), Geneva, July, 1970. This documentation can be obtained from the Secretariat of GATT, Villa Le Bocage, Geneva, at the price of \$50.

AVERAGE TARIFFS FOR INDUSTRIAL PRODUCTS - JAN. 1, 1972

	Average #1	Average #2	Average #3	Average #4
Community	6.9	6.0	3.9	6.0
United States	10.9	7.1	6.1	6.2

Within the GATT Group of Experts, only the United States requested that Averages #3 and #4 be included in the study. The majority of the experts preferred Average #2 which, they believed, best represented the actual situation. In February, 1970, the Community said that it did not consider Averages #3 and #4 objective.

In addition to the United States and the Common Market, the study covers the tariffs of Canada, Japan, the United Kingdom, Austria, Denmark, Finland, Norway, Sweden and Switzerland. (See TABLE I for complete charts.)

Study Guidelines

The customs tariffs evaluated in the GATT study summarized by the Commission are arranged according to the Brussels Tariff Nomenclature (BTN), an international convention establishing a system of classification for customs purposes for all goods traded in the world. Designed to simplify documentation in international trade, the BTN, established in December, 1950, is applied by most major trading nations of the world except the United States and Canada. The BTN provides a common system of classification up to a four digit number level. Below this level, countries generally use further subdivisions. These nationally defined subheadings are called "tariff lines."

For the purpose of the GATT study, the United States and Canada have established a provisional concordance whereby their separate national tariff schedule could be arranged in the framework of the BTN headings.

The duties considered in the study were post-Kennedy Round most-favored-nation (mfn) rates, excluding purely temporary suspensions and most fiscal duties. Specific, mixed or combined duty rates were converted into ad valorem

equivalents on the basis of import unit values in mfn trade of 1967, 1968, or 1969.

It should be noted that the tariff averages were calculated from rates which came into force when all Kennedy Round concessions were fully realized on January 1, 1972, while the trade figures refer to the years 1967 (most countries), 1968 (Switzerland and Denmark), or 1970 (Canada).

Methods of Calculation

Because nations use their own sub-headings to classify products, it was impossible to make systematic international comparisons with respect to individual products. Comparisons are possible only for product categories starting with the four-digit level of the BTN, since all countries covered by the study have either adopted this classification or established concordance between their national tariff schedule and the BTN.

For these reasons, it was technically impossible to establish a single tariff average which would accurately reflect precise levels of protection. The study, therefore, includes four methods of calculation. Both unweighted arithmetic averages and averages weighted by either the country's own imports or imports of all the industrial countries studied were used in these four formulae.

The methods of calculation used are as follows:

- Average #1 is a simple (unweighted) arithmetic average of all mfn duty rates applying to national tariff lines.
- Average #2 was calculated in two steps. First, a simple (unweighted) arithmetic average of tariff lines for each BTN heading was calculated. Then, by weighting these averages according to "world" (most-favored-nation, preferential and intra-area) imports of the industrial countries studied (except Canada), a total weighted average was calculated.
- Average #3 was calculated by weighting duty rates by mfn imports at

the national tariff line level.

- Average #4 was calculated in two steps. First, a weighted average based on a country's own mfn imports up to the BTN heading level was calculated. The results in individual BTN headings were then weighted by the total (most-favored-nation, preferential and intra-area) combined imports of the industrial countries covered by the study in calculating an average for each category.

Averages #2 and #4 had to be calculated in two steps because the values of the industrial countries' combined imports can only be obtained at the level of the four-digit BTN heading. The inclusion of preferential and intra-regional imports in total imports is justified because it gives a clearer indication of the importance of a particular tariff position in terms of world trade.

Each of these averages was calculated both for dutiable items and also for dutiable and duty-free items combined. Only mfn tariff rates have been used in these calculations.

Characteristics of the Different Averages

The use of four averaging formulae led in some cases to significantly different results. The specific characteristics of each of these four formulae should, therefore, be pointed out.

They conform to two basic types: a simple average in which individual tariff lines are averaged without any weights, and a weighted average in which individual tariff lines are assigned a relative importance corresponding to the amount of imports entering under them.

The simple Average #1 is unweighted, thereby attributing equal importance to all tariff lines. It does not take into consideration a product's importance in trade. In other words, crude oil which represents millions of dollars in imports is assigned the same importance as fountain pens, a

less significant item in world trade. In most cases, this method results in higher average figures than the others.

Some upward bias also results in certain cases from the use of Average #2, which at the level of tariff lines is also unweighted. The weighting by world trade in the second stage of calculation, however, corrects to some extent this distortion.

Average #3, weighted at the national tariff line level by the country's own imports, tends to overestimate the importance of tariff lines subject to low duties, and underestimate those subject to high duties. The higher rates are usually more restrictive, sometimes even prohibitive, and consequently, the relative amount of imports entering under them underestimates their actual importance in trade. For example, if a country has a prohibitively high tariff for a certain product, imports of that product will be nil or negligible. As a result, Average #3 will give to that tariff a very small weight, or no weight at all, when, indeed, the scarcity or the absence of imports is due to the high tariffs. This method of calculation has a systematic tendency to depress average figures.

The weighting of BTN headings by combined imports of all industrial countries, used by #4, tends to reduce the downward bias of #3, but does not correct it entirely.

Interpretations

An average tariff level is far from a complete picture of the degree of protection enjoyed by a particular nation. Diverse statistical manipulations can misrepresent the effect of high tariffs, as in Averages #3 and #4.

The average tariff level for all industrial products is influenced by the relative tariffs for raw materials, semi-manufactured goods and manufactured goods, as well as the value of imports. A breakdown of tariffs into categories is therefore useful.

Raw Materials represent 29.5 per cent of the total mfn imports of the countries studied. Raw materials represent the following percentages of mfn imports for the countries studied: Canada, 9.1 per cent; the Nordic countries, Switzerland and Austria, between 10 and 17 per cent; the United States, 21.8 per cent; United Kingdom, 30.6 per cent; the Community, 42.1 per cent; Japan, 59.9 per cent.

The four methods of averaging did not yield significantly different results. Average tariffs are very low in the Nordic countries, low in the Community and Switzerland, medium in Canada and the United Kingdom, relatively high in the United States, and especially high in Austria and Japan where they exceed 5 per cent in Averages #2 and #4.

Semi-Manufactured Products represent 24 per cent of the total mfn imports of the countries studied. They represent only 13.8 per cent of Canadian mfn imports, and 18.4 per cent of Japan's mfn imports. More than 30 per cent of Norwegian and US imports are semi-manufactured goods, while the semi-manufactured imports of all the other countries including the Community fall between 22 and 29 per cent.

The four methods of averaging gave divergent results. While Averages #1 and #2 gave similar rankings, Averages #3 and #4 indicated lower rankings for Japan and the United States and higher rankings for Canada, Austria, and Finland. The Commission points out that imports under very high tariffs are few in Japan and the United States but still substantial in Canada, Austria, and Finland. This example amply demonstrates the lowering effects of Averages #3 and #4, according to the Commission.

Average tariff rates applicable to semi-manufactured products are low in the four Nordic countries and Switzerland. According to Average #2, the Community's average tariff is 6.2 per cent, while the averages are above 8 per cent for the United States, Austria, the United Kingdom, and Japan.

Finished Products represent 46.7 per cent of the total mfn imports of the countries studied. For Japan, finished products are 22 per cent of mfn imports, and for the Community 33 per cent. Approximately half of the mfn imports to the United States and the United Kingdom are finished products. The other countries import more than 60 per cent of total imports in finished products with Canadian finished product imports reaching 77 per cent.

Here again, the different methods yielded different results. Average #3 depressed the average tariffs of Canada, the United Kingdom and Norway. Average #4 is particularly favorable to the United States. For countries with relatively concentrated tariffs, such as the Community, Switzerland and Denmark, the results of all four formulae are similar.

Switzerland has the lowest average tariff. It does not exceed 5 per cent in any formula. The tariffs of Denmark and Sweden are almost as low. If Average #2 is used, the Community, the United States, Norway, and Finland have average tariffs of between 7.5 and 8.7 per cent. Canada and the United Kingdom average 10 per cent, with the highest tariffs in Japan and Austria.

Frequency Distribution

Tariff averages, whichever method of calculation is used, cannot give a full picture of the tariff protection. Tariffs with roughly the same average can present a very different pattern of distribution of tariff lines and imports according to the levels of duty. It is therefore necessary to give some attention to the frequency distribution of various tariffs (TABLES II & III).

The Common External Tariff (CET) of the Community appears to be the most homogeneous of the tariffs included in the GATT study. This is due to the fact that it was constituted by averaging the four tariffs of the Federal Republic of Germany, France, Italy and Benelux. This process has eroded the "peaks" (very high tariffs) which existed in some member states' tariffs, resulting in a very regular pattern of frequency distribution for the CET.

Most other tariffs, on the contrary, show concentrations of tariff lines and imports at some rates of duties, some of them quite high.

Only 8 per cent of the tariff lines of the CET are duty-free, the same proportion as in the United States and Japan, while in the Nordic countries and Canada, duty-free lines account for 25 per cent to 45 per cent of the total. More than 50 per cent of Community imports, however, are admitted duty-free, a proportion surpassed only by Canada, Denmark and Norway. Only 28 per cent of US imports are admitted duty-free.

For dutiable items, almost all tariffs present a concentration of tariff lines and imports on the range of duties between 4.1 and 8 per cent. This feature is particularly marked for the Community, where 51 per cent of tariff lines and 26 per cent of imports, are in this range.

One of the most striking comparisons to be made concerns duties above 12 per cent. These are considered high in relation to the level of the duties analysed.* The CET has the lowest proportion of tariff lines (6.8 per cent) above this level. With the exception of Switzerland, it also has the lowest proportion of imports (5.8 per cent) subject to duties above 12 per cent. Sweden and Denmark also have relatively few high duties (less than 15 per cent of tariff lines and 8 per cent of imports). Other countries have more than 25 per cent of tariff lines (more than 33 per cent in the United States, Austria, and Canada) and more than 25 per cent of imports (25 per cent in Japan, 27 per cent in Canada, 44 per cent in Austria) with duties above 12 per cent.

Above 20 per cent, the proportion of tariff lines and imports is negligible (less than 1 per cent) in the Community, Switzerland, and Denmark, but still substantial (more than 10 per cent of tariff lines and 5 per cent of imports) in the United States, Finland, and Austria.

* In the limits of this background paper, one does not pretend to measure exactly the protective effect of tariffs according to the level of duties. This measurement is a very complicated exercise, which must take account of various factors, such as the value added at each stage of processing, the structure of the production of the industry concerned, etc. The figure of 12 per cent has been chosen because only 25 per cent of tariff lines and 15 per cent of imports of the 11 countries concerned are above this level.

TABLE I
 AVERAGE TARIFFS FOR INDUSTRIAL PRODUCTS*
 AS OF JANUARY 1, 1972

Countries	AVERAGE #1				AVERAGE #2			
	RM	SP	MP	RM+SP+MP	RM	SP	MP	RM+SP+MP
Community	1.6	6.7	7.8	6.9	0.6	6.2	8.7	6.0
United States	4.5	9.5	12.8	10.9	3.8	8.3	8.1	7.1
Canada	3.4	7.5	10.6	9.2	1.2	6.2	9.2	6.4
Japan	2.5	9.5	11.4	10.1	5.5	9.3	12.0	9.7
United Kingdom	3.3	8.1	11.3	9.3	1.2	8.3	10.4	7.6
Switzerland	1.8	4.9	4.8	4.7	0.6	5.0	4.1	3.5
Sweden	0.2	4.8	6.9	5.8	0.1	3.8	6.3	4.1
Denmark	0.1	3.2	5.7	4.5	0.0	2.5	5.5	3.3
Austria	2.9	9.2	12.8	11.0	5.4	8.1	13.8	10.3
Norway	1.0	6.2	10.1	8.4	0.3	4.8	7.5	5.0
Finland	0.2	5.7	11.2	8.8	0.0	4.2	8.3	5.2

* See pages 3 and 4 for explanations of averaging methods.

RM = raw materials
 SP = semi-manufactured products
 MP = manufactured products

TABLE I (cont'd.)

AVERAGE TARIFFS FOR INDUSTRIAL PRODUCTS

AS OF JANUARY 1, 1972

Countries	AVERAGE #3				AVERAGE #4			
	RM	SP	MP	RM+SP+MP	RM	SP	MP	RM+SP+MP
Community	0.3	4.7	8.0	3.9	0.4	6.3	8.6	6.0
United States	2.7	5.1	8.4	6.1	3.3	6.9	8.4	6.2
Canada	0.4	9.4	6.6	6.4	0.3	7.4	9.9	6.9
Japan	3.2	6.2	12.0	5.7	5.2	8.2	12.5	9.6
United Kingdom	0.2	6.6	8.2	5.5	0.4	8.0	10.0	7.1
Switzerland	0.4	3.1	3.7	3.2	0.5	4.5	3.8	3.2
Sweden	0.0	4.7	5.7	4.8	0.1	3.7	6.1	4.0
Denmark	0.0	3.3	5.3	4.0	0.0	2.3	6.1	3.6
Austria	1.4	7.1	16.3	11.8	5.1	7.6	16.4	11.3
Norway	0.0	3.0	4.7	3.7	0.1	4.6	7.2	4.7
Finland	0.0	4.4	7.4	5.8	0.0	4.3	8.6	5.4

TABLE II
 FREQUENCY DISTRIBUTION OF TARIFF LINES
 ALL INDUSTRIAL PRODUCTS

	Free	0.1-4%	4.1-8%	8.1-12%	12.1-15%	15.1-20%	20.1-30%	30.1% or more
Community	8.1	12.0	50.8	22.1	4.5	2.0	0.3	---
United States	8.7	9.4	31.3	17.2	9.5	11.2	8.5	4.0
Canada	39.1	0.5	6.6	8.8	15.4	24.6	4.5	0.3
Japan	9.4	2.1	31.0	26.2	20.8	6.9	3.4	0.2
United Kingdom	12.9	1.7	34.6	20.7	13.8	13.3	2.8	0.2
Switzerland	2.6	56.0	22.3	11.5	3.9	2.8	0.8	0.3
Sweden	25.1	13.3	34.5	12.7	11.2	2.8	0.4	0.1
Denmark	44.9	15.1	17.1	11.6	6.6	3.3	1.3	---
Austria	19.1	4.6	16.8	25.2	11.2	9.6	11.5	1.9
Norway	26.8	11.4	20.0	14.5	9.4	9.1	7.4	1.2
Finland	35.8	5.6	27.1	6.4	9.2	4.1	4.9	7.0

TABLE III
 FREQUENCY DISTRIBUTION OF IMPORTS
 ALL INDUSTRIAL PRODUCTS

	Free	0.1-4%	4.1-8%	8.1-12%	12.1-15%	15.1-20%	20.1-30%	30.1% or more
Community	51.1	5.2	26.2	11.6	2.7	3.0	0.1	---
United States	27.9	20.2	30.1	9.1	2.7	4.1	3.3	2.5
Canada	54.4	1.0	5.1	12.5	10.8	12.2	3.3	0.7
Japan	46.8	1.7	16.2	10.8	19.8	3.2	1.5	0.1
United Kingdom	47.2	1.1	21.9	14.0	8.3	6.5	1.1	---
Switzerland	12.2	57.2	19.2	6.8	3.0	1.2	0.4	---
Sweden	37.5	5.6	33.8	15.2	6.8	0.8	---	0.3
Denmark	52.9	10.4	15.9	13.0	4.2	1.8	1.9	---
Austria	30.2	2.1	8.9	14.4	9.6	17.1	14.4	3.3
Norway	65.3	5.0	10.5	8.2	4.1	4.1	2.7	0.3
Finland	46.2	5.4	27.9	4.8	6.8	3.1	3.9	1.8