Chapter 4

TARIFFS

OVERVIEW OF RULES

Tariffs are the most common kind of barrier to trade; indeed, one purpose of the WTO is to enable Member countries to negotiate mutual tariff reductions. Before we consider the legal framework that provides the discipline regarding tariffs, we must understand the definition of tariffs, their functions, and their component elements (rates, classification, and valuation).

Definition of "Tariff"

A tariff is a tax imposed on the import or export of goods.[1] In general parlance, however, a tariff refers to "import duties" charged at the time goods are imported.[2]

[1] With regard to the scope of general most-favoured-nation (MFN) treatment, GATT Article I prescribes that MFN treatment includes "customs duties and charges of any kind imposed on or in connection with importation or exportation . . . ." It thus deals with not only tariffs on importation but also those on exportation.
[2] Article 3 of Japan's Customs Tariff Law defines a tariff as "a tax based on the standard of assessment of prices or volume of imported goods," and explicitly limits tariffs to import cargo.

Functions of Tariffs

Tariffs have three primary functions: to serve as a source of revenue, to protect domestic industries, and to remedy trade distortions (punitive function).

The revenue function comes from the fact that the income from tariffs provides governments with a source of funding. In the past, the revenue function was indeed a major reason for applying tariffs, but economic development and the creation of systematic domestic tax codes have reduced its importance in the developed countries. For example, Japan generates about 85 billion yen in tariff revenue, but this is only 1.8 percent of its total tax revenues (fiscal 1999). In some developing countries, however, revenue may still be an important tariff function.

Tariffs are also a policy tool used to protect domestic industries by changing the conditions under which goods compete, in such a way that competitive imports are placed at a disadvantage. In point of fact, a cursory examination of the tariff rates employed by different countries does seem to indicate that they reflect, to a considerable extent, the competitiveness of domestic industries. In some cases, "tariff quotas" are used to strike a balance between market access and the protection of domestic industry. Tariff quotas work by assigning low or no duties to imports up to a certain volume (primary duties) and then higher rates (secondary duties) to any imports that exceed that level.

The WTO bans in principle the use of quantitative restrictions as a means of protecting domestic industries, but does allow tariffs to be used for this purpose.[3] This is because tariffs are still considered to be more desirable than quantitative restrictions. (See "(c) Tariff Rates" below.)

Punitive tariffs may be used to remedy trade distortions resulting from measures adopted by other countries. For example, the Antidumping Agreement allows countries to use "antidumping-duties" to remedy proven cases of injurious dumping; similarly, the Subsidies Agreement allows countries to impose countervailing duties when an exporting country provides its manufacturers with subsidies that, while not specifically banned, nonetheless damage the domestic industry of an importing country. (See Chapters 5 and 6 for further discussion.)

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[3] GATT Article XI prescribes that "No prohibitions or restrictions other than duties, taxes or other charges . . . shall be instituted or maintained by any Member". It therefore clearly bans quantitative restrictions while leaving the door open for tariffs.

Tariff Rates

Obviously, one of the most important components in tariff measures is the rate at which the tariff is imposed. As noted in the discussion of the three functions of tariffs, any imposition of a tariff has the potential to reduce the welfare of the world economy as a whole. Since 1947, the GATT has been the standard bearer in an on-going process of reducing tariff levels. During tariff negotiations (known as “rounds“, the most recent of which was the “Uruguay Round“), countries set ceilings on their tariff rates. This is known as the “bound rate“ and refers to the highest allowable rate, in contrast to the rate that is actually applied, which is referred to as the “effective rate“. The GATT has been successful in encouraging mutual reduction of these rates. Since the conclusion of the Uruguay Round, there have been further efforts to reduce tariffs in specific sectors.

The Uruguay Round resulted in a final average bound rate for industrial goods (weighted average by trade volume) of 1.5 percent in Japan, 3.6 percent in the United States, 3.6 percent in the EU, and 4.8 percent in Canada. Japanese tariff rates are thus comparatively low.

Figure 4-1
Average Tariff Rates

	Japan	US	EC	Canada
All products:				
Simple average bound rate (2000)	5.2%	4.8%	4.8%	4.5%
Industrial products:				
Import-weighted average applied rate (1999)	1.5%	3.6%	3.6%	4.8%

Notes:

1. The industrial sector covers all goods except for the products covered under the Agreement on Agriculture. The industrial sector covers forestry and fishery products.

2. Japanese figures on industrial products (excluding petroleum and forestry and fishery products) are based on the calculations of the Ministry of Economics, Trade and Industry. Japan’s figure for the industrial sector including forestry and fishery products is 1.7.

Tariff Classification

Like tariff rates, tariff classification represents a basic component of the tariff system. National tariff schedules are organized in the form of tables that consist of "tariff classification numbers" assigned to goods, and a corresponding tariff rate. The way in which an item is classified for tariff purposes will have an important and palpable effect on the duties charged. When imported goods are classified in an arbitrary fashion, they can in effect nullify rate reductions.

The GATT contains no rules regarding classification. In the past, countries had their own individual systems. As trade expanded, however, countries recognized the need for more uniform classification, which resulted in the drafting in 1988 of the "Harmonized Commodity Description and Coding System" or "HS" system at the Customs Co-operation Council (CCC; also known as the "World Customs Organization" or "WCO").

Members of the HS Convention are obligated to bring the lists of items included in their tariff and statistical tables into conformance with the list of items found in the annex to the Convention (the HS item list). The tariff schedules attached to Japan's Customs Tariff Law and Temporary Tariff Measures Law conform to the Harmonized System, as do its export/import statistical tables.

Some 102 countries and regions around the world, including Japan, the United States, and the EU, are Contracting Parties to the Convention, and many others do in fact employ it even if they are not officially Contracting Parties. In all, about 170 countries and regions employ HS tables in their tariffs, and 6-digit HS codes provide uniform tariff classification for the majority of countries around the world.

Although the HS nomenclature is created to reflect the current state of international trade, technological advances continue to bring out new products and change the nature of international trade. The Harmonized System has been revised twice already (in 1992 and 1996), and in May 1999, and the HS Committee has published a proposed third revision. This revision was adopted at the Council meeting of the WCO in June of that year and will begin to be applied as the new HS item tables on January 1, 2002.

The revisions make approximately 380 changes in the 1996 HS nomenclature (5,113 items in 6-digit codes), revise approximately 180 HS 4-digit items,

and add one new item.

In November 2000, the HS Committee began meetings aimed at another revision to the HS nomenclature in 2007. Japan is following this initiative closely, with particular interest in the classification of IT-related equipment.

Customs Valuation

The final component in tariffs is the valuation of goods for tariff purposes. When countries assign arbitrary values for tariff purposes, they render tariff rates meaningless. GATT Article VII and the "Agreement on Implementation of Article VII" (Customs Valuation Agreement) define international rules for valuation.[4]

Under Article 20 of the Custom Valuation Agreement, developing country Members may delay application of the agreement for the particular period if the other Members give their approval. As of January 2001, some 25 Members have delayed implementation.

LEGAL FRAMEWORK

The WTO bans, in principle, all quantitative restrictions, but allows for the imposition of tariffs. It then attempts to reduce the barrier posed by tariffs in "tariff negotiations" among Member countries, whereby they agree to "bind" themselves to maximum rates inscribed in their tariff schedules ("bound rates") for individual items (in principle following the tariff classification nomenclature) and to negotiate for their progressive reduction.

GATT Disciplines

GATT Article II obligates Member countries to apply tariff rates that are no higher than their bound rates. GATT Article XXVIII specifies that when Mem-

[4] The Customs Valuation Agreement states that "the primary basis for customs value under this Agreement is "transaction value"" as defined in Article 1…together with Article 8…adjustments". This is an explicit affirmation that the price actually paid is to be used as the basis for customs valuation. Article 2 of the Agreement provides for the transaction prices of similar goods to be used in exceptional cases. In addition, Article 7 of the Agreement bans certain determinations of customs value (e.g., the selling prices in the country of importation of goods produced in such country, minimum customs values).

bers wish to raise their bound rates or to withdraw tariff concessions, they must negotiate and reach agreements with other Members with whom they had initially negotiated and enter into consultations with major supplying countries that have a substantial interest in any change in the bound rate.

Disciplines on Tariff Classification

Article 3.1 of the International Convention on the Harmonized Commodity Description and Coding System ("HS Convention") stipulates that the signatories "shall not modify the scope of the sections, chapters, headings, or subheadings of the Harmonized System". This is done to maintain uniform administration of the HS. The HS classifications are reviewed on a regular basis so as to keep pace with technological development. If, as a result of these reviews, the classification of a good changes in such a way as to raise its bound rate, countries must enter into negotiations under the terms of GATT Article XXVIII.

The Importance of "Binding"

It should be obvious from the discussion so far that there are no problems in terms of WTO rules in setting high bound rates or in not agreeing to be bound at all. The WTO rules therefore allow countries to raise their effective tariff rates within the scope of their bound rates, and to raise tariff rates at will for non-bound items. Regardless of whether it is permitted by the rules, however, a sudden hike in tariff rates will obviously have a detrimental impact on trade.

Nevertheless, not binding tariff rates also runs against the sprit of the WTO, which is based on the idea of using "binding" to reduce tariffs. From this perspective, the importance of binding must be emphasized. As a result of the Uruguay Round, the percentage of industrial products subject to bound rates in Japan, the United States, the EU, and Canada (total value of imports subject to bound tariffs divided by total value of imports) is now about 100 percent. The percentage of other countries and regions is somewhat lower, or in some cases substantially lower: Republic of Korea (89 percent), Indonesia (92 percent), Thailand (70 percent), Malaysia (79 percent), Singapore (73 percent), and Hong Kong (23 percent).

ECONOMIC IMPLICATIONS

This section analyses some of the basic economic issues associated with tariffs. Specifically, it examines why tariffs are preferable to quantitative restrictions, and why it is desirable that they be reduced. This section then considers the importance of international tariff-reduction negotiations at the WTO.

The Effect of Tariffs

The most basic effect that an import tariff has is to raise domestic prices in the country imposing the tariff. In "small countries" (defined for our purposes as countries that do not have an influence on world prices), the rise in domestic price is equivalent to the amount of the tariff. In "large countries" (those that have an impact on world prices), the price rise is somewhat less than the amount of the tariff because the tariff will reduce demand, which reduces world prices.

The rise in domestic prices expands domestic production of the imported good while at the same time decreases the demand for it. Tariffs benefit producers, but harm consumers. Obviously, the importing country also generates tax revenues from the tariff.

Tariffs have different benefits and costs to different groups within an economy; the relative sizes of these benefits and costs will create changes in the economic welfare of the importing country as a whole. For "small countries" with no influence on world prices, the imposition of a tariff necessarily reduces economic welfare, but for "large countries" a tariff may in some cases improve economic welfare because world prices are reduced (in other words, the terms of trade improved). If tariffs are sufficiently low, the improvement in terms of trade will always be greater than the costs of the tariff, and there is in theory an "optimal tariff" that will maximize economic welfare. However, an improvement in one country's terms of trade is also a worsening in the terms of trade of other countries, and therefore a reduction in the economic welfare of trading partners.

This may trigger retaliatory measures by trading partners.

When goods are produced using imported raw materials, the tariff rate on the finished good by itself does not generally constitute the level of protection that the finished good enjoys. Tariffs on the raw materials must also be taken into account. If the tariff on the raw materials is lower than the tariff on the finished product, the level of protection afforded the finished product is higher than the tariff rate on the finished product would suggest (protection rates that take account of tariffs on raw materials are called "effective protection rates"). It should be underscored, therefore, that even low tariff rates can provide full-fledged protection for domestic industries.

The Effect of Quantitative Restrictions

Quantitative restrictions take many forms, the most common of which is import quotas. Theoretically, the effect of quantitative restrictions is the same as that of import tariffs: a reduction of the amount of goods imported and higher domestic prices for those goods (the "equivalence theorem ").

Quotas differ from tariffs because the importing country's government gains no revenue from quotas while the importers to whom the licenses are allocated obtain excessive profits ("rents") from them. (However, the importing country government would in theory obtain the same revenues as from tariffs if licenses were sold to importers by auction.)

Economists generally concede that the "equivalence theorem " does not stand up when the domestic market is not under perfect competition (e.g. in the case of monopoly), when the market is growing, or when there are changes in the price of merchandise. In these cases, quantitative restrictions will usually have a more restrictive effect on the market than will tariffs.

Why Tariffs are Preferable to Quantitative Restrictions

As we have noted, the WTO Agreement bans in principle all quantitative restrictions, while permitting tariffs to be used to protect domestic industries. There are several reasons for this. Quantitative restrictions tend to lack transparency in their application (for example, decisions on license awards and quantities may be arbitrary) compared to tariffs. It is also easier to negotiate tariff re-

ductions. Similarly, quantitative restrictions impose flat restrictions on imports regardless of changes in world prices and foreign-exchange rates. There is also no guarantee that import quotas will be fair. Finally, exporters can respond to tariffs by improving their efficiency.

Justifications for Tariff Reductions

The WTO Agreement permits tariffs as a means of industrial protection (unlike quantitative restrictions, which it bans outright), but it also seeks to gradually reduce those tariffs through negotiations among Member countries. Below is a summary of the economic rationale for tariff reductions.

Reducing tariffs mitigates the "loss of efficiency" generated by the distortions to the price system that the tariff causes (the "dead weight loss"). Reducing the degree of market protection also expands the market, allowing producers and exporting countries to enjoy economies of scale and bringing benefits to the economy as a whole.

There are also arguments against reducing tariffs. Large countries might argue that tariffs have certain benefits because they improve the terms of trade (the "optimal tariffs" argument). Similarly, when there are domestic market failures, tariffs might be seen as a means of increasing welfare.

However, these arguments are not necessarily convincing. Any increase in welfare brought by an "optimal tariff" is achieved by sacrificing the welfare of trading partners and by reducing worldwide economic welfare in comparison to what free trade would bring. Even the economic welfare of the country imposing the tariff is uncertain, since retaliatory measures imposed by trading partners may ultimately result in economic welfare that is lower than free trade would have brought. Meanwhile, domestic market failures would be better addressed directly than through tariffs.

Income Redistribution and the Importance of International Negotiations

From an economic standpoint, it would seem reasonable to conclude that tariff reductions are basically beneficial in that they increase economic efficiency, and that they are therefore indisputably desirable.

It is rare, however, for countries to eliminate their tariffs completely. In

point of practice, countries often impose tariffs not for the purpose of increasing overall welfare, but for the purpose of redistributing income. This is a reflection of political will, as influenced by the lobbying activities of interest groups and others.

When tariffs are imposed for such domestic reasons, it is difficult to achieve voluntary reductions merely because they will increase the economic welfare of the society as a whole.

This domestic political reality is what makes international negotiations to reduce tariffs—the basic strategy of the WTO—so important. When international negotiations are conditional upon mutual benefits, governments are more likely to consent to tariff reductions and trade liberalization.

TOPICS OF INTERNATIONAL NEGOTIATION

(a) The Information Technology Agreement (ITA)

During the WTO Ministerial Conference held in Singapore in December 1996, 29 countries and customs territories reached a basic agreement to eliminate tariffs on information technology products by 2000. Two conditions had to be met by 1 April 1997 for the agreement to take effect: 1) notification of acceptance by countries that account for about 90 percent of the world's trade in information technology; and 2) an agreement among signatories on a "staging" schedule that will ultimately result in the elimination of tariffs.

A review meeting was held in March 1997, confirming that the conditions had been met and formally deciding that the ITA would take effect. Participating members began to reduce tariffs in June 1997.

The ITA covers semiconductors, semiconductor fabrication equipment, computers, telecommunications equipment, and other information technology products. In principle, all tariffs on these items were eliminated by January 2000. However, some countries were granted exceptions that enabled them to retain tariffs on some items after 2000.

As of November 2000, there were 55 countries and customs territories that had joined the ITA, accounting for a combined 93 percent of the world trade in information technology.

A new initiative, commonly known as ITA II, is now in progress. The WTO is studying the potential to expand the range of items covered and to tackle non-tariff measures (for example, technical barriers to trade), but as yet no agreement has been reached.

(b) Initiative to Improve Market Access for Least Developed Countries (LDCs)

History

During the Lyon Summit of June 1996, Renato Ruggiero, then Director-General of the WTO, advocated a tariff waiver programme for LDCs. Subsequent summits have also advanced declarations calling for studies of potential ways to improve LDCs' access to markets.

It was against this background that the EU proposed an initiative during the third WTO Ministerial Conference in December 1999 to provide special treatment to make duty-free and quota-free essentially all products from LDCs. Japan supported the EU proposal as an impetus for launching the new round of negotiation. Though the EU and Japan encouraged the United States and Canada to join the initiative, an agreement could not be reached.

In February 2000, Director-General Mike Moore again proposed this initiative as a confidence-building measure for developing countries in preparation for the launch of the new round. At a United Nations Conference on Trade and Development (UNCTAD) meeting in February 2000, then Japanese Prime Minister Keizo Obuchi declared his intention to promote the LDCs initiatives while encouraging the participation of other major countries. At the end of March of that year, Japan, the EU, the United States, and Canada reached an agreement that developed country Members would provide least-developed Members with enhanced market access by according and implementing tariff-free and quota-free treatment consistent with domestic requirements and international Agreements, under their respective preferential schemes for essentially all products originating in least-developed countries so far as they remain in that category.

After this agreement, the initiative was formally announced by Director-General Moore at the WTO General Council in May 2000. At that time, Chile,

the Czech Republic, Hungary, Iceland, the Republic of Korea, New Zealand, Norway, Slovenia, and Switzerland expressed their desire to join.

The Chairman's statement from the APEC Ministerial Meeting responsible for trade in June 2000 also urged the participation of more APEC member economies in the initiative. It has since been confirmed that Hong Kong, Australia, and Singapore will join.

TRENDS IN MAJOR COUNTRIES

UNITED STATES

Measures for LDCs in the AGOA/CBTPA

The United States passed its "Trade Development Act of 2000" on 18 May 2000. The Act had two basic components: 1) the African Growth and Opportunity Act (AGOA) and 2) the United States-Caribbean Basin Trade Act (CBTPA).

1) AGOA sets up a preferential system for 34 sub-Saharan African regions (designated on the criteria that assess whether a country has established or is making continued progress toward a market-based economy, rule of law, economic policies to reduce poverty, and so on). AGOA provides for duty-free access to the United States in principle for items other than textiles and apparel originating from these 34 countries that would otherwise be exceptions to the General System of Preference (GSP). Textiles and apparel are exceptions to GSP, but the law provides duty-free, quota-free treatment for products using raw materials originating in and processed by the 34 countries. However, to avail themselves of the benefits from this Law, countries will need to comply with visa procedures designed to prevent circumvention and will need to make enhancements in their domestic laws. On December 19, 2000, the United States announced the designation of approximately 1,835 products for duty-free treatment under the GSP program for countries designated as beneficiaries under the AGOA.

2) CBTPA amends the Caribbean Basin Economic Recovery Act, which provides preferential treatment for 24 countries. It is commonly referred to as the "Caribbean Basin Initiative (CBI)". The CBTPA does retain some exceptions, but provides preferential treatment to Caribbean countries for textile and apparel products processed in these countries from fabrics originating from the United States. These products were previously excluded from the CBI. It also eliminates tariffs for some beverages from Caribbean countries.

AGOA and CBTPA cover many LDCs, but the preferential treatment that they contain is limited to developing countries from specific regions and may contravene the most-favored-nation (MFN) principle because the measures exceed the scope of the 1979 enabling cause (permanent waiver of MFN treatment). In addition, these laws may infringe on the non-discrimination principle (GATT Article XIII) and the Subsidies Agreement because tariffs waivers and duty-free and quota-free treatment are offered in specific quantities if specific conditions are met. The United States plans to obtain a waiver for these laws.

EUROPEAN UNION

Proposal for Duty-free and Quota-free Treatment For All LDC Products (Except Arms)

On 20 September 2000, the European Commission adopted the "Everything But Arms" initiative that provides duty-free and quota-free access for all LDC products. The Initiative gives full duty and quota-free access to all goods produced by LDCs except arms. However, the initiative will be phased in for sensitive items like bananas, sugar, and rice, with full implementation not due until 2009.

The proposal is likely to be adopted by the Council of Ministers and the European Parliament.

CANADA

Expansion in Duty-free Treatment for LDC Products

On 1 September 2000, Canada added 570 items to the list of items for which LDCs enjoy preferential treatment, bringing the total to 6,412 items. The measure means about 90 percent of product categories from LDCs may enter Canada duty-free. On August 23, LDC tariff rules of origin regulation were modified to require that a minimum of 20 percent of factory shipping values be from the LDCs or from Canada and another 20 percent from other LDCs, developing countries, or Canada. In the past, LDC origin was not recognized unless at least 40 percent of factory shipping values were from the LDC or Canada.

Nonetheless, Canada retains tariffs on textiles, apparel, shoes, refined sugar, and some agricultural products from LDCs, and quota management continues.

Canada's LDC measures apply to all LDCs recognized by the United Nations, with the exception of Myanmar.

PROBLEMS OF TRADE POLICIES AND MEASURES IN INDIVIDUAL COUNTRIES

In this section we consider problems in the trade policies and measures of individual countries in light of the discussion above. We look both at measures that clearly violate the WTO and at measures that are within the scope of WTO rules but that nonetheless have a detrimental impact on trade. Chief among the measures considered are high tariff rates and low bound rates. We also touch upon examples of voluntary reductions in effective tariff rates by individual countries when the evidence is clear and discussion is warranted.

We have already noted above that countries must go through the procedures outlined in GATT Article XXVIII and obtain approval for a hike in their bound rates before they are able to raise their tariffs to levels in excess of the current bound rate. Raising tariffs beyond the bound rate without going through these procedures constitutes a clear violation of GATT Article II. The WTO Councils

and Disputes Settlement Mechanism addresses such violations. When changes in tariff classification result in what for all purposes is a tariff hike, the case must be referred to the Customs Co-operation Council for a judgement on the reclassification.

High tariffs, low percentage of bound items, and tariff hikes (within bound rates) are not, strictly speaking, "unfair trade policies and measures in violation of WTO rules", but they nevertheless have a detrimental impact on trade when they are used too easily or too often. In light of the goal of the WTO, which is to promote free trade, these are actions that countries should remedy voluntarily.

It must be added that the customs tariffs described below for individual countries are bound rates. In some cases, applied rates have often become lower than the bound rates on an autonomous basis in accordance with national laws.

1. EUROPEAN UNION

Even after implementation of the Uruguay Round commitments, the EU tariff rate on some trucks remains as high at 22 percent, and the tariff levels on some sectors such as home electric equipment (maximum 14 percent), textiles and textile products (maximum 12 percent) are higher than other those of other developed countries.

This raises the problem of the use of arbitrary tariff classifications. The EU maintains high tariffs—up to 14 percent on consumer electronics products under the condition that the boundary between electronics products and the ITA products is being eliminated.

For example, on the one hand a digital camera is classified as an ITA product because it is able to connect with a personal computer. On the other hand a digital video (movie) camera is classified as an electronics product because it is considered an animation tool; a tariff of 14 percent is levied, even though it too is able to connect with a personal computer.

2. UNITED STATES

High Tariff Goods

After the implementation of the Uruguay Round, high tariffs on items such as woolen fabrics (maximum 25 percent), glassware (maximum 38 percent), some ceramics (maximum 25 percent), and trucks (maximum 25 percent) will be levied in the United States. Trucks, in particular, have very high tariffs as compared to passenger vehicles (2.5 percent).

Method of Calculating Tariffs on Clocks and Wristwatches

The United States calculates tariffs on finished clocks and watches as the aggregate of the tariffs on their components. These calculations are complex, and trade procedures are thus onerous. For example, under the current rules, the tariff on a wristwatch is the total of the tariff on its 1) movement, 2) case, 3) strap, band or bracelet, and 4) battery. In other words, when a company exports a finished wristwatch to the United States, it must, by the nature of the product, classify it according to eight-digit HS headings, and then calculate and total tariff for each component: the movement, case, band, and battery.

This calculation method is not a violation of WTO rules; it was enacted in accordance with concession table amendment procedures. Nonetheless, it places excessive burdens on traders. What is more, this "component price breakdown system" is unusual by international standards, and is based on the assumption that mechanical clocks and watches are the primary form of clocks and watches made. In actuality, they account for less than 2 percent of worldwide production today. Because of the disparities between the tariff system and the actual state of the industry, Japan has requested the United States in bilateral deregulation talks to switch to six-digit HS headings for watch imports, and to assign a flat tariff rate to the finished article instead of calculating tariffs for the individual components.

But in the report for the facilitation of trade pressed by ITC, finished clocks and watches are still classified by not six-digit but eight-digit HS headings, and the system of size classification and price division remains.

3. REPUBLIC OF KOREA

After the implementation of the Uruguay Round, the internationally com-

petitive textiles and textile products sector will have, on average, high tariffs (between 16.3 percent and 35 percent). In addition, there will be high tariffs on some items such as automobiles (maximum 80 percent), glass fibers (maximum 25 percent), copper products (maximum 13 percent), and aluminum products (maximum 13 percent). The bound rate for electrical equipment is 62.4 percent, and the binding rate for industrial goods as a whole is 89 percent.

The Republic of Korea's efforts to push forward liberalization—including phasing down to a certain level and/or eliminating the tariff on ITA products by 2004 and dropping its 80 percent high-end bound rate for automobiles to a flat rate of eight percent in February 1999—are appreciated. However, taking into account its status in the current world trade system and its status as an OECD Member with a more developed economy than most other countries, further steps toward trade liberalization are expected.

4. AUSTRALIA

Tariffs on non-agricultural products remain high even after the implementation of the Uruguay Round. Items such as certain clothing (maximum 55 percent), automobiles (maximum 40 percent), electrical machinery (maximum 23 percent), and glass (maximum 23 percent) still have high tariffs.

Australia began a unilateral program of phased-in tariff reductions in 1998. Effective rates will be either zero or 5 percent by 1 July 1996, excluding passenger cars, textiles, clothing, and footwear. As a result, with the implementation of the Uruguay Round offer, the average applied tariff rate will be 2.9 percent in 2001 according to the government of Australia.

5. INDONESIA

The Uruguay Round improved Indonesia's bound rate to 92 percent of its tariff items, a development that Japan welcomes. However, the bound tariff rates for the vast majority of items remain extraordinarily high, at levels of 30-40 percent. Effective tariff rates are also high, at an average of 27.8 percent for textiles and textile products, 30.6 percent for transportation equipment, and 26.1 percent for electric equipment. Moreover, Indonesia decided its new Motor Cars Policy

in June 1993 that permits the import of finished cars, but the import tariff on cars remains very high (125 percent to 200 percent in 1999).

In its "Individual Action Plan" for APEC, Indonesia made an explicit commitment to begin in 1995 to reduce effective tariffs that were currently less than 20 percent to less than 5 percent by 2000, and those currently in excess of 20 percent to no more than 20 percent by 1998 and to less than 10 percent by 2003.

6. CANADA

Canada's average tariff rate on non-agricultural products will be 4.9 percent after the implementation of Uruguay Round commitments, a somewhat higher rate than those of Japan, the United States, and the EU. Tariffs on glass (maximum 15.5 percent) and line telephony or line telegraphy, including line telephone sets with cordless handsets (17.5 percent) in the area of telecommunications are an example of high tariffs.

In addition to its concession in the Uruguay Round, Canada's APEC "Individual Action Plan" provides that Canada will phase in reductions in effective tariff rates on 714 items by 1999 and another 64 items by 2004.

7. THAILAND

After the implementation of the Uruguay Round commitment, the levels of tariffs in sectors such as transportation equipment (average 47.6 percent) and electronics (average 31.6 percent) are still high. Copper products (maximum 30 percent) and polyethylene (maximum 30 percent) also have high tariffs. Thailand has agreed to bind a relatively low percentage of its tariff goods. For example, only 15.7 percent of transportation equipment items are bound while only about 70 percent of industrial goods as a whole are bound.

But Thailand has made efforts to reduce tariffs. For instance, Thailand reduced the tariffs of 3,908 items from January 1995, and reduced the maximum import tariff from 100 percent to 30 percent and average import tariffs from 30.24 percent to 17.01 percent by January 1997.

8. MALAYSIA

High Tariff Goods, Bound Rates

The Uruguay Round resulted in an average bound rate (trade-weighted average) of 9.1 percent for imports of industrial goods into Malaysia. This is a low tariff rate for a developing country, and one that Japan welcomes. There are, however, some areas that are subject to high tariffs. Textile products (average 21.5 percent) and transportation equipment (average 22.6 percent) are two examples. Other high-tariff items include electrical equipment and glass, which have maximum tariffs of 30 percent. We would also note that Malaysia's bound rate covers only 79 percent of tariff items.

Hiking the Tariff on Steel Plates

In April 1999, Malaysia hiked tariffs on hot-rolled and cold-rolled steel plates from zero to twenty-five percent. Although this tariff hike does not necessarily violate WTO rules because tariffs of these products are unbound, these hikes clearly have a detrimental impact on trade.

Industrial tariffs negotiations in the next WTO round should be commenced with the object of improving coverage of bound products for each member. Such large tariff hikes on unbound items significantly hurt the predictability of smooth trade.

9. THE PHILIPPINES

Even after implementation of its Uruguay Round commitments, the Philippines still has several high tariff items, including textile products (maximum of 50 percent), watches and clocks (maximum of 50 percent), and electrical equipment (maximum of 50 percent). The percentage of bound items is only 66 percent of tariff lines.

We note, however, that the Philippines has been reforming its tariff structure since 1980 and has announced that it will enact a uniform effective tariff rate of 5 percent for all items except selected agricultural products by 2004.

Average tariff rates were reduced from 10 percent in 1999 to 8 percent in 2000. Tariffs on more than half of all goods are 3 percent, while those on the remainder of all goods are 10 percent, 20 percent, or 31 percent.

10. INDIA

High Tariff goods, Bound Rates

Upon implementation of its Uruguay Round commitments, India will have uniform tariff rates for virtually all bound items: high rates will be 40 percent, and low rates will be 25 percent. Almost all textiles are subject to 40 percent tariffs, which are high given India's competitiveness and international standing in this sector. Likewise, the percentage of bound items is only 68 percent of tariff lines, which leaves substantial room for improvement.

The Introduction of Special Additional Customs Duty

In August 1998, India introduced a new special additional customs duty (4 percent). Due to this additional duty, applied rates of some goods have exceeded the bound rates, which may violate GATT Article II. Thus Japan has participated as a third party in the consultations that were requested by the EU based on GATT Article XXII.

India argues that the introduction of the special additional duty is aimed at providing a level playing field for domestic industry, which is compatible with WTO rules, but it is still necessary to evaluate the facts related to this issue to see whether these new special additional duties violate WTO rules. If they violate WTO rules, India must be asked to take remedial measures at an early stage. However, as of December 2000, India has not yet answered in writing the questionnaire presented by the EU during the first consultation in December 1998. India's budget in FY2000 says that India maintains special additional duties and is expanding its goals, although the country that the measure was temporary, not permanent. We request India to cooperate fully to allow a smooth settlement of this case.

Figure 4-2

Changes of Average Bound Tariff Rates (Non-agricultural Products)

		Japan	US	EU	Rep.of Korea	Australia	Indonesia	Thailand	Canada	Malaysia	Philippines	India
Average Bound Tariff Rate (%)	Pre UR	3.8	5.4	5.7	18.0	20.0	20.4	37.3	9.0	10.2	23.9	72.2
	Post UR	1.5	3.5	3.6	8.3	13.2	36.9	28.0	4.8	9.1	24.6	32.4
Scope of Bindings (%)	Pre UR	98	99	100	24	36	30	12	100	2	9	9
	Post UR	100	100	100	89	96	92	70	100	79	66	68

Notes:

1. Japanese figures are based on the Ministry of Economics, Trade and Industry calculations (excluding petroleum and forestry and fishery products). Average bound tariff rates are 1.7 percent in the industrial sectors including forestry and fishery products.

2. GATT Secretariat calculations are used for other countries (excluding petroleum).

3. Average bound tariff rates are trade-weighted average. Average bound tariff rate equals the sum over each tariff line of import value multiplied by the bound rate ÷ total import value of bound tariff lines×100

4. Scope of bindings rates is the trade-weighted average.

   Scope of bindings rates equals total import value of bound tariff line ÷ total import value.

5. “Pre UR” and “Post UR” refer to tariffs before and after implementation of Uruguay Round commitments.