



TRADE POLICY BRIEFS

FAO SUPPORT TO THE WTO NEGOTIATIONS AT THE
11TH MINISTERIAL CONFERENCE IN BUENOS AIRES

No. 25 ■ OCTOBER 2017

Evolution of import tariffs and the issue of tariff escalation

SUMMARY

- Bound tariffs on agricultural products are higher in developing countries and least-developed countries (LDCs) than in developed countries.
- Average applied tariffs in developed, developing and least-developed countries are substantially below the average bound rates. Average applied tariffs in developed and developing countries have been decreasing between 2007 and 2015, and in 2015 were set at a similar level to those in LDCs.
- Applied and bound tariffs can differ substantially between countries belonging to the same country group (developed, developing or least developed).
- Tariffs can be higher on processed products than on raw materials.

What are bound and applied tariffs?

With the entry into force of the Agreement on Agriculture in 1995, members of the World Trade Organization (WTO) committed to not restricting imports of agricultural products by any means other than tariffs, and to keep their rates within set thresholds determined for each country. These are known as *bound tariffs*.

Members are allowed to increase or decrease their tariffs (on a non-discriminatory basis) as long as they keep the rates within the bound levels. Thus, many countries apply lower tariffs than the maximum permitted level. The actual tariffs applied by countries are known as *applied tariffs*.

In 2001, following the conclusion of the Uruguay Round, the WTO Doha Ministerial Conference established a new and comprehensive agenda for agricultural negotiations. In this context, WTO Members committed to comprehensive negotiations aimed at substantial improvements in market access, including tariff reductions.

How have tariffs shifted over the years?¹

In signing the Agreement on Agriculture, developing countries have received special and differential treatment (SDT) which foresees longer periods to implement tariff reductions as well as more lenient obligations. Table 1 shows that the average rate of bound tariffs for agricultural products is much higher for developing countries – in particular for LDCs – than for developed countries. Moreover, it shows that for all groups of countries the average applied tariffs are substantially below the average bound rates. Additionally, the average applied tariffs were somewhat higher for developed countries than for other countries throughout the period covered, although tariffs for both developed and developing countries decreased over time, reaching levels similar to those of LDCs in 2015.

¹ The analysis only refers to tariffs applied under the WTO's most-favoured-nation (MFN) non-discrimination rules.

TABLE 1. APPLIED TARIFFS ON AGRICULTURAL AND FOOD PRODUCTS (2007-2015) VIS-À-VIS BOUND TARIFFS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	BOUND TARIFFS
Developed countries	22.8	22.5	17.9	16.9	21.1	18.3	18.6	17.8	16.7	40.1
Developing countries	16.4	15.8	15.5	15.3	15.1	15.0	14.8	14.3	14.3	52.2
LDCs	15.0	15.0	14.8	15.2	15.2	15.2	15.3	15.7	15.5	75.6

Source: Own calculations based on World Tariff Profiles 2008-2016. Further details on the data source can be found at: https://www.wto.org/english/res_e/reser_e/tariff_profiles_e.htm. Product coverage is based on Annex 1 of the Agreement on Agriculture. Country groups are classified according to WTO World Trade Statistical Review 2016.

What are the trends in applied tariffs in countries belonging to the same group?

Taking the averages of tariffs for a large country group – such as the ones used in Table 1 – can hide substantial differences in the way tariffs are applied within these groups, as shown for LDCs in Figure 1. For example, in LDCs, the average applied tariffs vary from 7.1 percent (Haiti) to 21.9 percent (Chad and the Central African Republic), and bound tariffs range from 19.2 percent (Lao PDR) to 199.2 percent (Lesotho). For developing countries – with the exception of Hong Kong and Macao, which have both their bound and applied tariffs at 0 percent – applied tariffs range from 1 percent (Brunei) to 65.6 percent (Egypt), while bound tariffs start at 9.5 percent (Albania) and arrive at 150 percent (Nigeria). In the developed countries group, the country with the lowest level of tariffs is Australia (bound: 3.4 percent, applied: 1.3 percent), while the country with the highest tariff level is Norway (bound: 133.6 percent, applied: 51.6 percent).

Tariff escalation

Tariffs can differ substantially between the different categories of products (such as dairy or cereals). Moreover, import duties can be higher for processed goods than for raw materials within the same category of products. This specific practice is known as tariff escalation, and it is described by the WTO as a measure that protects

domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.²

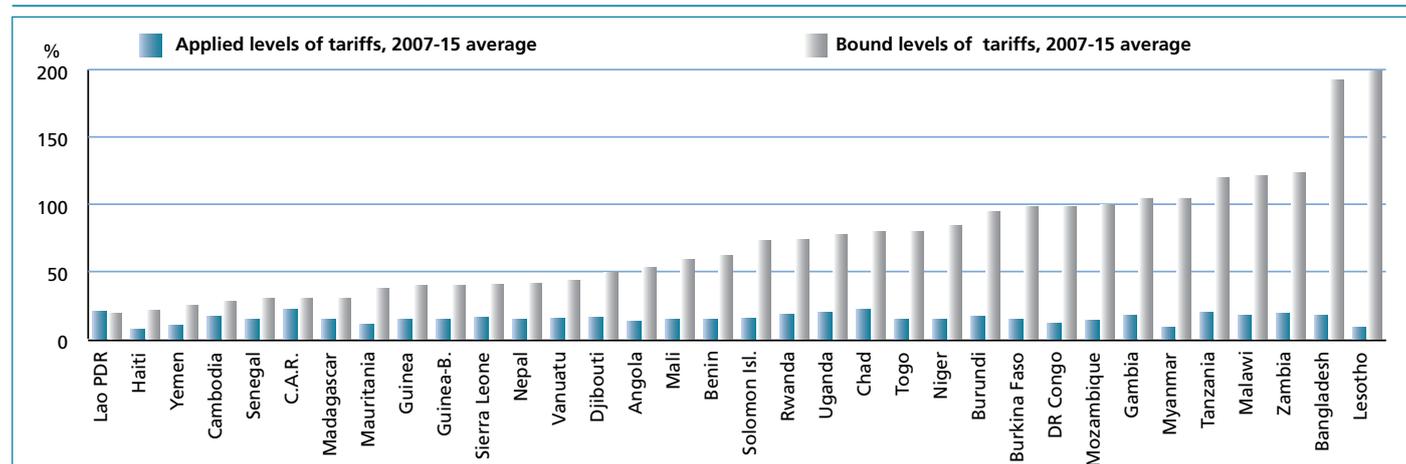
Table 2 shows the bound and applied tariffs in developing (including LDCs) and developed countries for two products where tariff escalation is evident: cocoa and coffee. First, applied tariffs differ substantially between developed and developing countries. Second, for developed countries there is a substantial tariff escalation both in the bound and applied tariffs in the cocoa and coffee value chains. In particular, this group of countries applies a duty-free import of cocoa and coffee beans, while food preparations containing cocoa and coffee have an average duty of over 8 percent. This can be detrimental for developing countries, since it may constrain exports of agricultural products, undermining the growth of processing industries and employment therein.

Key challenges

- 1 To further reduce tariff escalation affecting agricultural products from developing countries.
- 1 To achieve substantial improvements in market access for developing countries in the spirit of the long-term objective of the Doha Development Round.

² WTO. Glossary.

FIGURE 1. APPLIED AND BOUND LEVELS OF TARIFFS IN LDCs



Source: Own calculations based on World Tariff Profiles 2008 - 2016. Please refer to the annex on the World Tariff Profiles for further details about data source. Product coverage is based on Annex 1 of the Agreement on Agriculture. Country groups are classified according to WTO World Trade Statistical Review 2016.

TABLE 2. BOUND AND APPLIED TARIFFS FOR COCOA AND COFFEE

Product	AVERAGE BOUND TARIFFS 2012-13		AVERAGE APPLIED TARIFFS 2012-13		
	Developing economies	Developed economies	Developing economies	Developed economies	
COCOA AND COCOA PREPARATIONS					
HS 1801	Cocoa beans, whole or broken, raw or roasted	41.88	0.11	6.88	0.00
HS 1802	Cocoa shells, husks, skins and other cocoa waste	40.79	0.13	7.76	0.00
HS 1803	Cocoa paste, whether or not defatted	43.07	3.70	7.95	2.14
HS 1804	Cocoa butter, fat and oil	42.03	0.96	7.92	0.96
HS 1805	Cocoa powder, not containing added sugar or other sweetening matter	41.37	8.13	9.78	3.84
HS 1806	Chocolate and other food preparations containing cocoa	44.94	15.21	15.70	8.17
COFFEE AND COFFEE PREPARATIONS					
HS 090111	Green coffee not decaffeinated	49.47	0.13	13.62	0.00
HS 090112	Green coffee decaffeinated	49.49	1.16	13.87	0.92
HS 090121	Roasted coffee not decaffeinated	51.79	5.67	20.94	3.06
HS 090122	Roasted coffee decaffeinated	51.68	5.92	20.64	3.25
HS 090109	Coffee substitutes containing coffee	50.67	2.22	20.12	1.58
HS 210111	Extracts, essences and concentrates of coffee	47.14	13.92	17.41	6.24
HS 210112	Preparations with a basis of extracts, essences or concentrates or with a basis of coffee	46.89	16.93	18.34	8.36

Source: WTO tariff data. Developing countries also include LDCs.