

Profiles of Tariffs in Global Agricultural Markets. Paul Gibson, John Wainio, Daniel Whitley, and Mary Bohman. Market and Trade Economics Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 796

Abstract

High protection for agricultural commodities in the form of tariffs continues to be the major factor restricting world trade. The large differences in average tariffs across countries make it possible for farmers in one country to benefit from tariff protection while farmers in other countries lose income because of lower prices resulting from those tariffs. This report provides the first comprehensive analysis of agricultural tariffs and tariff-rate quotas (limits on imported goods) across a large number of countries and commodities and finds that high average tariffs create barriers to markets for U.S. and other farmers.

Keywords: Market access, megatariffs, tariff profiles, over-quota tariffs, in-quota tariffs, tariff-rate quotas, World Trade Organization.

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Summary

High protection for agricultural commodities in the form of tariffs continues to be the major factor restricting world trade. The large differences in average tariffs across countries make it possible for farmers in one country to benefit from tariff protection while farmers in other countries lose income because of lower prices resulting from those tariffs. This report provides the first comprehensive analysis of agricultural tariffs and tariff-rate quotas (limits on imported goods) across a large number of countries and commodities and finds that high average tariffs create barriers to markets for U.S. and other farmers.

Tariffs impose costs both in the country where they are applied and on other countries. Tariffs tax all products that cross a border, thus raising prices within the country imposing the tariff. Higher prices affect supply because farmers respond by increasing output, and higher prices affect demand because consumers buy less. The effects of tariffs on domestic markets can also spill over onto world markets as the combined effect of more supply and less demand reduces imports. If the country imposing the tariff is a large importer, then world prices can fall. Thus, the case against tariffs has two components: the distortions created within a country by higher domestic prices and the costs imposed on other countries by lost export sales and lower world prices.

During the Uruguay Round negotiations, the United States and other World Trade Organization (WTO) members began negotiations to reduce support and protection in agriculture. These negotiations, which concluded in 1994, instituted tariffication, which is the process of converting agricultural nontariff barriers (NTBs), such as variable import levies and import quotas, into bound tariffs (tariffs set at established rates). Tariffication resulted in a tariff-based system of border protection that allowed for an initial set of tariff cuts. Countries were also to provide a minimum level of import opportunities for products previously protected by NTBs. This was accomplished by creating tariff-rate quotas (TRQs), which generally impose a relatively low tariff (in-quota) on imports up to a specified level, with imports above that level subject to a higher tariff (over-quota).

In 2000, WTO members agreed to submit detailed proposals on how they plan to further liberalize trade. These proposals include plans for negotiating the levels of tariffs and TRQs, and for negotiating policies for domestic support and export subsidies. Three questions need to be answered in order to understand how the alternative proposals may affect agricultural markets:

- *What is the pattern of agricultural tariffs across countries?* Trade distortions across countries contribute to shifts in global resources, potentially at the expense of countries with a comparative advantage in agriculture.
- *How do tariffs vary across agricultural commodities?* Large trade distortions from high tariffs signal barriers to markets for competitive producers of specific commodities.
- *What does the structure of protection say about strategies in future trade negotiations?* For example, high tariffs for most agricultural commodities suggest the need to include all commodities in negotiations to provide the most benefits.

This report answers these questions and provides the first comprehensive analysis of agricultural tariffs and TRQs across a large number of countries and commodities. This information can help U.S. policymakers, producers, and consumers understand what is at stake in the ongoing WTO negotiations. Key findings include:

—*High average tariffs characterize agricultural markets.* The global average tariff on agricultural products is 62 percent and is much higher than those on manufactured items. From a global perspective, high average tariffs cause demand to contract and supply to expand by drawing resources into agriculture, both leading to lower world prices.

—*Average tariffs across 13 regions range from 25 to 113 percent, indicating that farmers in some countries are protected at the expense of farmers in other countries.* North America has the lowest regional tariff at 25 percent. Both developed and developing countries employ high tariffs, although within each group, the countries in the non-EU Western Europe and South Asia regions tend to apply much higher tariffs than their counterparts. Thus tariffs have the potential to transfer income from farmers in one country to those in another.

—*Average commodity tariffs range from 50 to 91 percent, with the highest tariffs set for tobacco, meats, dairy, sugar, and sweeteners.* Not only is protection high in the dairy, sugar, and meat markets, but it is uniformly high across most countries. This structure of high tariffs likely causes a significant drop in world prices. Thus, multilateral liberalization could substantially increase world prices for these commodities.

—*The average tariff for the United States is 12 percent, among the lowest in the world.* With one of the lowest average tariffs, U.S. agriculture, as a whole, stands to gain from ambitious cuts in tariffs. Like many developed countries, however, the U.S. schedule contains some high tariffs aimed at protecting specific commodities.

—*Agricultural tariffs in developing countries are considerably higher, on average, than in developed countries.* This, in part, reflects the special and differential treat-

ment provided to these countries, such as lower tariff reduction commitments. But, available data suggest that many developing countries actually apply tariffs that are considerably below the rates they agreed to in the Uruguay Round Agreement on Agriculture.

— *TRQs are associated with high tariffs and sensitive sectors, as might be expected from their relationship with products previously protected by nontariff barriers.* The average over-quota tariff of 128 percent is double the average for all agricultural products. This results from the Uruguay Round tariffication process, which allowed the conversion of some NTBs into very high tariffs. A number of countries have bound their in-quota rates at extremely high levels, even though the tariffication process called for the in-quota tariff to be set at a “low or minimal” rate. The estimated average in-quota tariff of 63 percent is 1 percentage point above the global average for all other tariffs. While no numerical rule defined “low or minimal,” these rates would seem to contradict the spirit of the agreement, indicating the need to negotiate some disciplines on these tariffs as well.

—*The presence of megatariffs, defined as tariffs of 100 percent or higher, across all commodities and regions suggests the need to use a formula that reduces higher tariffs at a greater rate.* No imports are likely to enter under tariffs this high, other than the minimum market access granted under a TRQ. In cases where megatariffs are not associated with a TRQ, the only way to provide market access will be to significantly cut tariffs.

— *The complexity of many countries’ tariff and TRQ schedules poses barriers to understanding the nature of protection.* The lack of transparency associated with non-ad valorem tariffs hides the actual level of protection being provided. This is particularly true of compound tariffs or those based on complex technical factors. The result is difficulty in comparing protection across countries or commodities, which hinders the process of negotiating tariff reductions. One of the goals of the next negotiations might be to increase certainty and transparency by formulating stricter rules on the submission of tariff and TRQ schedules.

Glossary of Trade Terms

Agreement on Agriculture. Part of the Uruguay Round agreement covering issues related to agriculture—e.g., market access, export subsidies, and internal support.

Applied tariff rates. The actual tariff rate charged at the border by an importing country, sometimes differing from the bound rate. The rate is allowable under the rules of the WTO if it is at or below the bound rate.

Articles (of the GATT). Clauses of the General Agreement that lay out the rules and procedures that Contracting Parties will observe in their conduct of international trade and trade policy. Each of the 38 Articles in the GATT deals with a different aspect of trade.

Bound tariff rates. Tariff rates resulting from GATT negotiations or accessions that are incorporated as part of a country's schedule of concessions. Bound rates are enforceable under Article II of GATT. If a GATT contracting party raises a tariff above the bound rate, the affected countries have the right to retaliate against an equivalent value of the offending country's exports or receive compensation, usually in the form of reduced tariffs of other products they export to the offending country.

Ceiling binding. In cases where an existing tariff was not already bound, developing countries were allowed to establish ceiling bindings. These ceiling bindings could result in tariffs that were higher than the existing applied rate. The ceiling bindings took effect on the first day of implementation of the Agreement.

Country schedules. The official schedules of subsidy commitments and tariff bindings as agreed to under GATT for member countries.

EU (European Union). Established by the Treaty of Rome in 1957 and known previously as the European Economic Community and the Common Market. Originally composed of 6 European nations, it has expanded to 15. The EU attempts to unify and integrate member economies by establishing a customs union and common economic policies, including CAP (Common Agricultural Policy). Member nations include Austria, Belgium, Denmark, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

GATT (General Agreement on Tariffs and Trade). Originally negotiated in Geneva, Switzerland in 1947 among 23 countries, including the United States, GATT is an agreement to increase international trade by reducing tariffs and other trade barriers. The agreement provides a code of conduct for international commerce and a framework for periodic multilateral negotiations on trade liberalization and expansion.

In-quota tariff. The tariff applied on imports within the quota. The in-quota tariff is less than the over-quota tariff.

Market access. The extent to which a country permits imports. A variety of tariff and non-tariff trade barriers can be used to limit the entry of foreign products.

Megatariffs. Extremely high tariffs that effectively cut off all imports other than the minimum access amounts granted under the agreement. Some well-known examples of megatariffs resulting from tariffication include the base tariffs calculated for EU tariffs on grains, sugar and dairy products; U.S. sugar, peanuts and dairy products; Canadian tariffs on dairy products and poultry; and Japanese tariffs on wheat, peanuts and dairy products.

Most-Favored-Nation (MFN) status. An agreement between countries to extend the same trading privileges to each other that they extend to any other country. Under a most-favored-nation agreement, for example, a country will extend to another country the lowest tariff rates it applies to any third country. A country is under no obligation to extend MFN treatment to another country, unless they are both members of the WTO, or unless MFN is specified in an agreement between them.

NAFTA (North American Free Trade Agreement). A trade agreement involving Canada, Mexico, and the U.S., implemented on January 1, 1994, with a 15-year transition period. The major agricultural provisions of NAFTA include: 1) the elimination of non-tariff barriers—immediately upon implementation, generally through their conversion to tariff-rate quotas or ordinary quotas; 2) elimination of tariffs—many immediately, most within 10 years, and some sensitive products gradually over 15 years; 3) special safeguard provisions; and 4) country-of-origin rules to ensure

that Mexico does not serve as a platform for exports from third countries to the United States.

Non-tariff trade barriers. Regulations used by governments to restrict imports from, and exports to, other countries, including embargoes, import quotas, and technical barriers to trade.

OECD (Organization for Economic Cooperation and Development). An organization founded in 1961 to promote economic growth, employment, a rising standard of living, and financial stability; to assist the economic expansion of member and nonmember developing countries; and to expand world trade. The member countries are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the U.S.

Over-quota tariff. The tariff applied on imports in excess of the quota volume. The over-quota tariff is greater than the in-quota tariff.

Round. Refers to one of a series of multilateral trade negotiations held under the auspices of the GATT for the purposes of reducing tariffs or other trade barriers. There have been eight trade negotiating rounds since the adoption of the GATT in 1947.

Sanitary and phytosanitary (SPS) measures. Technical barriers designed for the protection of human health or the control of animal and plant pests and diseases.

Tariff. A tax imposed on commodity imports by a government. A tariff may be a fixed charge per unit of product imported (specific tariff), a fixed percentage of value (ad valorem tariff), or some combination of both.

Tariff-rate quota. Quantitative limit (quota) on imported goods, above which a higher tariff rate is applied. A lower tariff rate applies to any imports below the quota amount.

Tariffication. The process of converting non-tariff trade barriers to bound tariffs. This is done under the UR agreement in order to improve the transparency of existing agricultural trade barriers and facilitate their proposed reduction.

UR (Uruguay Round) agreement. The Uruguay Round of multilateral trade negotiations, conducted under the auspices of the GATT, is a trade agreement designed to open world markets. The Agreement on Agriculture is one of the 29 individual legal texts included in the Final Act under an umbrella agreement establishing the WTO. The negotiation began at Punta del Este, Uruguay, in September 1986 and concluded in Marrakesh, Morocco, in April 1994.

World Trade Organization (WTO). Established on January 1, 1995, as a result of the Uruguay Round, the WTO replaces GATT as the legal and institutional foundation of the multilateral trading system of member countries. It provides the principal contractual obligations determining how governments frame and implement domestic trade legislation and regulations. And it is the platform on which trade relations among countries evolve through collective debate, negotiation, and adjudication.

