

Chapter 4

TARIFFS

1. OVERVIEW OF RULES

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

Definition of “Tariff”

Strictly defined, a tariff is a tax imposed on imported or exported goods.¹ In general parlance, however, it has come to mean “import duties” charged at the time goods are imported.²

Functions of Tariffs

Tariffs have three primary functions: (1) to serve as a source of revenue; (2) to protect domestic industries; and (3) to remedy trade distortions (as a sanction).

The revenue function simply means that the income from tariffs provides governments with a source of tax revenue. 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 developed members. For example, Japan generates about 886 billion yen in tariff revenue per year, which represents approximately 1.8 percent of total tax revenue (based on Fiscal Year 2005).

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 In Article 3 of Japan’s Customs Tariff Law, a tariff is defined as “a tax based on the standard of assessment of prices or volume of imported goods,” and explicitly limits tariffs to importation.

In some developing members, however, revenue generation may still be an important function of tariffs.

Tariffs are also a policy tool used to protect domestic industries by changing the competitive conditions, placing otherwise competitive imports at a commercial disadvantage. In fact, a cursory examination of the tariff rates employed by different members suggests that they reflect, to a considerable extent, the state of competitiveness of domestic industries. In some cases, “tariff quotas” are used to strike a balance between market access and protecting the domestic industry. Tariff quotas work by assigning low or no duties (in-quota duties) to imports up to a certain volume and then higher rates (out-of-quota duties) are applied to imports that exceed the initial volume.

Although the WTO generally bans the use of quantitative restrictions as a means of protecting domestic industries, it permits the use of tariffs for this purpose.³ The reason for this is due to an understanding that tariffs are more favourable methods to protect domestic industries than quantitative restrictions. (See “3. Economic Aspects and Significance” below.)

Tariffs as sanctions may be used to remedy trade distortions resulting from practices of companies or members found to injure the domestic industry. For example, the Antidumping Agreement allows members to use “antidumping-duties” to remedy proven cases of injurious dumping; similarly, the Subsidies Agreement allows members to impose countervailing duties when an exporting member provides its manufacturers with subsidies that, while not specifically banned, nonetheless injure the domestic industry of an importing member. (See Chapters 5 and 6 for further discussion.)

Tariff Rates

Obviously, one of the most important components of a tariff measure is the rate of the tariff. As noted in the tariff function discussion, above, additional tariffs can 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”, including the “Uruguay Round”, which finished in 1994), members set ceilings on their tariff rates for individual products and/or sectors. This is known as the “bound rate” and refers to the highest allowable rate a member may impose on imports of a specific product; the rate that is actually applied is referred to as the “applied rate.” The GATT has been successful in encouraging mutual reduction of these rates.

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

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”. Article XI, therefore, clearly bans quantitative restrictions while leaving the door open for tariffs.

therefore comparatively low. In addition, since the conclusion of the Uruguay Round, there have been further efforts to reduce tariffs in specific sectors i.e., Information Technology Agreement (ITA) and Duty-Free Treatment for Specified Pharmaceutical. Figure 4-1, below, provides a detailed comparison of average bound rates under the Uruguay Round for major trading partners.

On the other hand, there are some items in the agricultural sector, for example, the tariffs of which are maintained so high that they are called “tariff peaks”; examples include peanuts in the United States, bananas in the EU, butter in Canada and manioc in Republic of Korea.

Figure 4-1

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	12.2	36.9	28.0	4.8	9.1	24.6	32.4
Binding ratio (%)	Pre UR	98	99	100	24	36	30	12	100	2	9	12
	Post UR	100	100	100	89	96	92	70	100	79	66	68

Notes:

1. Japanese figures are based on Ministry of Economy, Trade and Industry calculations (excluding petroleum and forestry and fishery products). Average bound tariff rates for industrial sectors including forestry and fishery products are 1.7 percent.
2. GATT Secretariat calculations are used for other members (excluding petroleum).
3. Average bound tariff rates are based on a trade-weighted average. The average bound tariff rate is calculated as the sum over each tariff line of import value multiplied by the bound rate, divided by the total import value of bound tariff lines multiplied by 100.
4. Scope of bindings rates is the trade-weighted average. Binding ratio equals total import value of bound tariff line divided by total import value.
5. “Pre UR” and “Post UR” refer to tariffs before and after implementation of Uruguay Round commitments.

Figure 4-2
Tariff rates of major members

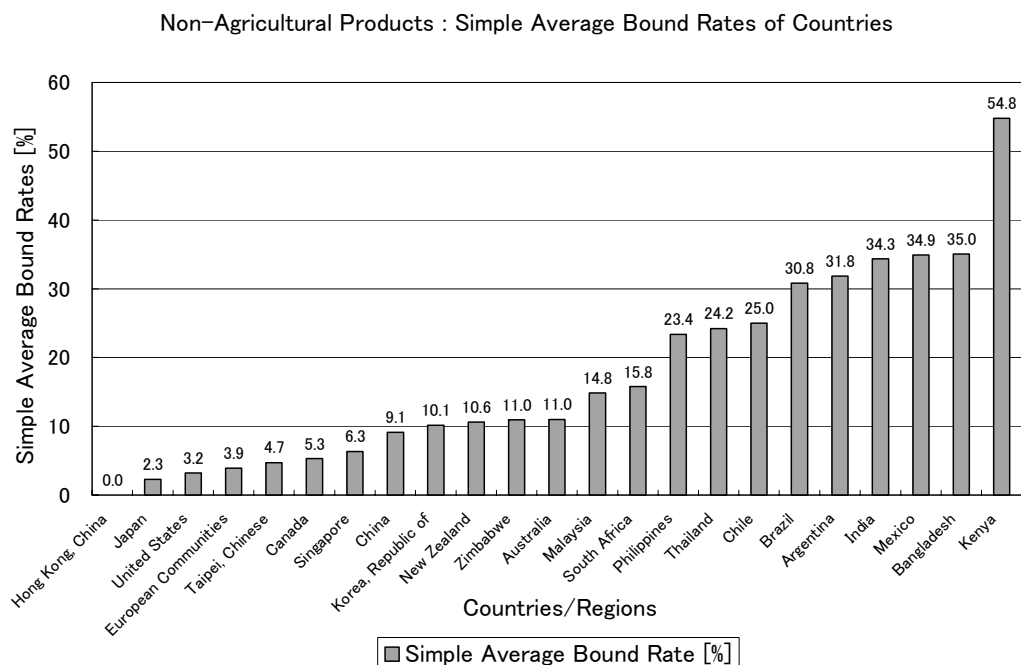
Names of countries and regions	Simple average bound rate (%)		Simple average applied rate (%)		Binding ratio (%)	
	Non-agricultural products	All products	Non-agricultural products	All products	Non-agricultural products	All products
Hong Kong	0.0	0.0	0.0	0.0	37.5	45.8
Japan	2.3	2.9	2.5	3.0	99.6	99.6
USA	3.2	3.6	3.2	3.6	100.0	100.0
EU	3.9	4.1	4.0	4.2	100.0	100.0
Chinese, Taipei	4.7	5.8	4.7	5.7	100.0	100.0
Canada	5.3	5.1	3.7	3.7	99.7	99.7
Singapore	6.3	6.9	0.0	0.0	64.5	69.2
China	9.1	10.0	8.9	9.8	100.0	100.0
Korea	10.1	16.0	6.6	11.2	93.8	94.5
New Zealand	10.6	10.0	3.2	3.0	99.9	99.9
Zimbabwe	11.0	94.1	18.7	19.7	9.0	21.0
Australia	11.0	9.9	3.8	3.4	96.5	97.0
Malaysia	14.8	14.5	7.9	7.2	81.3	83.7
South Africa	15.8	19.2	7.7	7.7	96.1	96.6
Philippines	23.4	25.6	5.8	6.3	61.8	66.8
Thailand	24.2	25.7	8.1	9.1	70.9	74.7
Chile	25.0	25.1	6.0	6.0	100.0	100.0
Brazil	30.8	31.4	12.6	12.3	100.0	100.0
Argentina	31.8	31.9	10.1	10.1	100.0	100.0
India	34.3	49.8	15.4	18.5	69.8	73.8
Mexico	34.9	34.9	13.3	13.6	100.0	100.0
Bangladesh	35.0	163.7	16.0	16.2	3.0	15.8
Kenya	54.8	95.7	11.7	12.7	1.6	14.6

Source: WTO

Note: non-agricultural products are products other than those subject to the Agreement on Agriculture and include forest and fishery products.

The simple average applied rate of some countries exceeds the simple average bound rate because the number of items used to calculate the simple average applied rate and the simple average bound rate are different. The figures do not necessarily indicate that the countries actually apply tariffs that exceed the bound rates.

Figure 4-3
Final bound rate of non-agricultural products
 (simple average)



Prepared by the Ministry of Economy, Trade and Industry based on the data of WTO.

Tariff Classification

Like tariff rates, tariff classification represents a basic component of the tariff system. The tariff schedule, which is the standard of each member's tariff system, consists of the tariff classification numbers assigned to each product and the tariff rates applicable to each of those products. The fair administration of this process is critical for proper application of tariff rates. For example, by intentionally classifying a certain product under a classification number with a higher tariff rate, tariff reduction negotiations become practically ineffective. Therefore, tariff classification is extremely significant for administering tariffs.

The GATT contains no rules regarding tariff classification. In the past, members maintained their own systems. As trade expanded, however, members recognized the need for a more uniform classification system, which resulted in the "Harmonized Commodity Description and Coding System" or "HS" system under the auspices of the Customs Co-operation Council (CCC; also known as the "World Customs Organization" or "WCO"). The HS was implemented on January 1, 1988, by the international HS Convention. The HS is maintained by the WCO Harmonized System Committee which consists of the signatories to the HS Convention. Members of the HS Convention must harmonize the lists of items included in their tariff and statistical

tables with the list of items found in the annex to the Convention (the HS item list uses a minimum 6 digits). The tariff schedules and the export/import statistical tables attached to Japan's Customs Tariff Law and Temporary Tariff Measures Law conform to the Harmonized System.

Some 125 members and regions around the world, including Japan, the United States, and the EU are Contracting Parties to the Convention; many other members follow the Convention even though they are not Contracting Parties. In all, about 202 members and regions employ HS tables in their tariffs using the 6-digit HS codes, providing uniform tariff classification for the majority of countries around the world (as of September 2006).

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 four times since 1988 (in 1992, 1996, 2002 and 2007) to accommodate these changes. In June 2004, parties to the General Meeting of the WCO agreed to add and modify some categories as part of the 2007 HS nomenclature revision, which includes, *inter alia*, IT-related equipment where drastic technological innovations continue. (The new HS nomenclature took effect in January 2007.)

Customs Valuation

The final component of tariffs is the valuation of goods for tariff purposes. If members 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

2. LEGAL FRAMEWORK

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

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 member of importation of goods produced in such member and minimum customs values).

GATT Disciplines

GATT Article II obligates members to apply tariff rates that are no higher than their bound rates. GATT Article XXVIII specifies that when Members wish to raise their bound rates or to withdraw tariff concessions, they must negotiate and reach agreements with the Members with whom they had initially negotiated. In addition, they must enter into consultations with major supplying members 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 HS stipulates that the signatories “shall not modify the scope of the sections, chapters, headings, or subheadings of the Harmonized System.” This language ensures uniform administration of the HS. However, the HS Committee regularly reviews classifications in order 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, members 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 WTO rules do not prohibit Members from setting high bound rates or not agreeing to be bound at all. The WTO rules therefore allow members to raise their applied tariff rates within the scope of their bound rates and to raise tariff rates at will for unbound items. However, even if the rules allow such measures, sudden hikes in tariffs will undoubtedly and inevitably cause adverse effects on trade.

Moreover, non-binding tariff rates are also contrary to the spirit of the WTO, which is based on the idea of using “binding” to reduce tariffs. Thus, the importance of binding cannot be overemphasized. As a result of the Uruguay Round, binding coverage (total number of bound tariff products / total number of products \sim 100) of Japan, the United States, the EU, and Canada is now about 100 percent. The percentage of other members and regions is somewhat lower, and in some cases substantially lower. For example: the Republic of Korea (94 percent), Indonesia (96 percent), Thailand (71 percent), Malaysia (81 percent), Singapore (65 percent), and Hong Kong, China (38 percent).⁵

When making concessions, Members should coordinate bound tariff rates and applied tariff rates wherever possible in order to improve predictability. The general practice among developing members, however, is to maintain a large disparity between bound and applied tariff rates. This practice allows a member to raise tariff rates at will up to the level of the bound rates. In terms of predictability, this poses a problem. The practice of binding tariff rates at such higher levels over the applied tariff rates must be

5 Source : WTO

corrected. Developed members seldom engage in this practice.

3. ECONOMIC ASPECTS AND SIGNIFICANCE

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 under the WTO.

The Effect of Tariffs

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

The rise in domestic prices of the imported goods expands domestic production while at the same time, decreasing demand. Tariffs benefit competing domestic producers, but harm consumers. Obviously, the importing member 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 create changes in the economic welfare of the importing member as a whole. For “small members” with no influence on world prices, the imposition of a tariff necessarily reduces economic welfare, while for “large members” a tariff can improve economic welfare because world prices are depressed, improving the terms of trade. If tariffs are sufficiently low, the improvement in terms of trade will always be greater than the costs of the tariff; there exists in theory an “optimal tariff” that will maximize economic welfare. However, an improvement in one member’s terms of trade corresponds to a deterioration in the terms of trade of other members and, therefore, a reduction in the economic welfare of trading partners. This may cause frustration among the trading partners.

When goods are produced using imported raw materials, the tariff rate on the finished goods by itself does not generally constitute the level of protection that the finished goods enjoy. Tariffs on the raw materials must also be considered in terms of overall trade. 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 being import quotas. Theoretically, the effect of quantitative restrictions is the same as that of import tariffs, *i.e.*, 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 member’s government gains no revenue from quotas while the importers to whom the licenses are allocated obtain excessive profits (“rents”). (However, the importing member government could obtain the same revenues as from tariffs if licenses were sold to importers by auction.)

It is generally understood that the “equivalence theorem” does not hold when the domestic market is not under perfect competition (*e.g.*, in the case of a monopoly), when the market is growing, or when there are changes in the price of the 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 generally bans all quantitative restrictions, but permits 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 their quantities may be arbitrary) compared to tariffs. 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 quota allocation will be fair. Finally, where tariffs are used, exporters can export by improving their efficiency.

Justifications for Tariff Reductions

The WTO Agreement permits tariffs as a means of industrial protection (unlike quantitative restrictions, which are generally banned), but also seeks to gradually reduce those tariffs through negotiations among members.

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 members to enjoy economies of scale, bringing benefits to the economy as a whole.

There are also arguments against reducing tariffs. Tariffs have certain benefits because they improve the terms of trade for “large countries” (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 through an “optimal tariff” is achieved at the expense of trading partners and reduces worldwide economic welfare relative to potential results in a free trade context. Even

the economic welfare of the member imposing the tariff is uncertain because retaliatory measures imposed by trading partners may ultimately result in reduced economic welfare. Thus, domestic market failures would be better addressed directly of domestic measures than through border measures such as 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 because they increase economic efficiency and are therefore indisputably desirable. It is rare, however, for members to eliminate their tariffs completely. In practice, members often impose tariffs not to increase overall welfare, but to redistribute income. This is a reflection of political will, as influenced by the lobbying activities of interest groups and others.

When tariffs are imposed for politically motivated 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.

4. PREFERENTIAL TREATMENT FOR LDCS

History

During the Lyon Summit of June 1996, Renato Ruggiero, then Director-General of the WTO, advocated a tariff waiver program for least-developed members (LDCs). Subsequent Summits have also advanced declarations calling for studies on ways to improve LDCs' access to markets.

It was against this background that an initiative to provide duty-free and quota-free treatment to essentially all products from LDCs, was proposed during the third WTO Ministerial Conference in December 1999 in Seattle. Unfortunately, an agreement could not be reached at that time.

In February 2000, Director-General Mike Moore again proposed this initiative as a confidence-building measure for developing members in preparation for the launch of the new round of negotiations. 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 initiative and encourage the participation of other major members. By the end of March of that year, Japan, the EU, the United States and Canada reached an agreement that developed Members would provide least-developed Members with enhanced market access by according and implementing duty-free and quota-free treatment consistent with domestic requirements and international agreements for all essentially products originating in LDCs.

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 intention to join.

The Chairman's statement in June 2000 APEC Ministerial Meeting also urged the participation of more APEC member economies in this LDC initiative. It was since then confirmed that Hong Kong, Australia and Singapore would join.

In May 2001, the Brussels Declaration issued by the Third United Nations Conference on LDCs noted that UN members "aim at improving preferential market access for LDCs by working towards the objective of duty-free and quota-free market access for all LDCs' products in the markets of developed members." A Programme of Action for LDCs was also adopted. The same course was reaffirmed in the G8 Communiqué issued by the Genoa Summit in July and in the 2001 Doha WTO Ministerial Declaration. The Brussels Declaration was also reaffirmed in: (i) the G8 Africa Action Plan adopted at the Kananaskis Summit held in Canada at the end of June 2002; (ii) the Plan of Implementation adopted at the WSSD (World Summit on the Sustainable Development) in South Africa at the end of August 2002; (iii) the Cooperative G8 Action on Trade committed at the Evian Summit in France in June 2003; and (iv) the G8 Official Document on Trade committed at the Gleneagles Summit in UK in July 2005.

In Japan, the Council on Customs, Tariff Foreign Exchange and Other Transactions submitted a recommendation in December 2002 on the revision of customs duties for Fiscal Year 2003. For the GSP scheme (Generalized System of Preferences), in particular, Japan recognizes the discussions in the UN LDC Conference and in various summits and has substantially expanded duty-free treatment of agricultural products for LDCs (adding 198 agricultural items to the duty-free and quota-free list). Industrial products are already virtually 100 percent duty-free and quota-free for LDCs. With respect to agricultural products, Japan provides duty-free and quota-free access for 93 percent of imports (by value) from LDCs.

In December 2005 the Council on Customs, Tariff and Foreign Exchange and Other Transactions submitted a recommendation that East Timor, Djibouti, and Comoros be added to Japan's LDC preference system after Fiscal Year 2006.

Before the WTO Ministerial Conference in Hong Kong, Japanese Prime Minister Junichiro Koizumi introduced "Japan's Development Initiative" which included duty-free and quota-free market access for essentially all products from all LDCs, as well as certain capacity building initiatives.

The Hong Kong Ministerial Declaration provides a principle that developed Members shall provide duty-free and quota-free market access on a lasting basis for all products originating from least developed countries. In addition, Members reached an agreement with respect to raw cotton and other S&D measures for LDCs. Accordingly, Japan believes that the WTO Hong Kong Ministerial Conference achieved success in advancing meaningful results for developing countries.

In December 2006 the Council on Customs, Tariffs and Foreign Exchange and Other Transactions issued a recommendation for the expansion of duty-free and quota-free treatment for LDCs, as called for by the WTO Hong Kong Ministerial Declaration for the further support of LDCs. Progress has been made on domestic procedures based on this recommendation and implementation is planned for FY2007.

Column: Information Technology Agreement

History

The Information Technology Agreement (ITA) was concluded at the Singapore Ministerial Conference in December 1996. At the conference, 29 countries and regions agreed to eliminate tariffs on information technology (IT) products by the year 2000.

Summary and Overview of the ITA

- Current participants: 69 members and regions (*see* table below). These members account for more than 97% of world trade in IT products; however, major Latin American members such as Mexico and Brazil have not participated.
- Covered products: Semi-conductors, computers, communication equipment, semi-conductor manufacturing equipment, etc.
- Tariff elimination schedule: members were to eliminate tariffs beginning in 1997 and phase them out by 2000. (Japan also eliminated tariffs on communication wires and Gallium-Arsenic wafers.) Developing members were allowed to phase out tariffs on certain products by 2005.
Example: Chinese Taipei (elimination by 2002), Korea (2004), Indonesia (2005), Malaysia (2005), Thailand (2005), Philippines (2005) and India (2005)
- Current issues being considered include addressing non-tariff measures, adjusting divergences in customs classifications and transposition of covered items to HS2002 and HS2007. Issues affecting individual items are also becoming more prominent (*see* “Part I”).

ITA participants (69 in total; the EC represents 27 countries.)

Albania	Guatemala	Macao, China	Saudi Arabia
Australia	Honduras	Malaysia	Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu
Bahrain	Hong Kong, China	Mauritius	
Canada	Iceland	Moldova	
China	India	Morocco	Singapore
Costa Rica	Indonesia	New Zealand	Switzerland
Croatia	Israel	Nicaragua	Thailand
Egypt	Japan	Norway	Turkey
El Salvador	Jordan	Oman	United States
European Communities (EC)	Korea	Panama	Viet Nam
Georgia	Kyrgyz Republic	Philippines	

Main Agenda

(1) Non tariff measures (NTM)

- A work program for examining NTM was proposed at the ITA committee and EMC/EMI regulation (EMC: electromagnetic compatibility; EMI: electromagnetic interference) was discussed as a pilot project.

Note: Discussions are not aimed at establishing a binding rule.

- At the ITA committee held in May 2005, guidelines for EMC/EMI conformity assessment procedures for adopting self declaration were formulated. In order to promote transparency the Secretariat produced a list in March 2006 identifying by type the conformity assessment procedures adopted by individual countries. Individual countries are being asked to provide information on their conformity assessment procedures.

(2) Conforming the List of Covered Items to HS2002 and HS2007

The list of ITA covered products has never been revised since it was established in December 1996. As such, clarity of coverage is being reduced due to remarkable technological developments in the 10 years since the establishment of ITA, and subsequent revisions to HS classifications (HS2002 and HS2007, following HS96).

It is necessary to maintain the clarity of items covered by ITA in order to ensure its effectiveness. This is why it is desirable to base the list on the latest HS classifications. Japan proposed a renewal and clarification of the items on the list at the official meeting of the ITA Committee in October 2006, and the appropriate manner to proceed is being debated.

(3) Adjusting Divergences in Customs Classifications

The treatment of the items that are in Attachment B and those stipulated as “for Attachment B” in the “Comments” column of Attachment A, Section 2 of the 1996 ITA Ministerial Declaration is not correlated to the customs classification numbers of covered items and customs classification varies by country. Customs officials have met since 1998 to develop a list of appropriate tariff codes for each item.

Consequently, in February 2005 customs classifications for 27 items, including CD drives for computer systems, were developed and approved from the 55 items that were discussed in the December 2004 meeting. Currently, there are primarily 20 items under discussion by the ITA Committee and debates are ongoing based on the opinions presented by various countries.

Note: The items covered by ITA are listed in Attachment A (covered items are on the list of items designated by HS96) and Attachment B (a list of items covered regardless of classification).

Negotiation on expanding product coverage

1. ITA 2

- A negotiating session for expanding product coverage was held prior to the December 1999 WTO Ministerial Meeting in Seattle, but failed to reach agreement over what items should be covered.

Note: Japan and other countries supported the November 1998 proposals for product coverage, but Malaysia opposed the proposals because home electrical appliances were not included in the list. India also voiced objections, claiming that some items threatened its national security. Due to the disagreement among the participants, the Meeting failed to reach a consensus.

- Currently, discussions on expanding IT product coverage are suspended without prospect of resumption.

2. DDA

- In light of the above circumstances, Japan seeks, in cooperation with other interested Members, comprehensive elimination of tariffs on electronics and electrical products, such as digital home electronic appliances, via the Doha Development Agenda negotiations on market access for non-agricultural products.