

CHAPTER 4 TARIFFS

1. OVERVIEW OF RULES

(1) Background: Tariffs

Tariffs are the most common kind of barrier to trade; indeed, one of the purposes 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, classifications, and valuations).

(a) 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

(b) 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 one of the major reasons 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 90 billion yen in tariff revenue, but this is only 1.7 percent of total tax revenues (fiscal 1996). In some developing countries, however, revenue may still be an important tariff function.

Tariffs is also a policy tool 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 The cost of protecting

¹ With regard to the scope of general 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” and thus it 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,” explicitly limiting tariffs to import cargo.

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”, and therefore it clearly bans quantitative restrictions while leaving the door open for tariffs.

domestic industry comes in the form of a general reduction in the protecting country's economic welfare and in the welfare of the world economy at large, but tariffs are still considered to be more desirable than quantitative restrictions. (See Heading "(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.)

(c) 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. For examples, the Information Technology Agreement "ITA" successfully removed tariff barriers to information equipment and technology, and the EVSL/ATL Initiative has been discussed in APEC.

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	U.S	EC	Canada
All products: Simple average bound rate (1999)	4.8%	3.8%	7.2%	5.0%
Industrial products: Import-weighted average applied rate (1999)	1.5%	3.6%	3.6%	4.8%

Note:

1. The products coverage of the industrial sector covers all goods except for the products coverage of the Agreement on Agriculture. The industrial sector covers forestry and fishery products.
2. Japanese figure on industrial products based on Ministry of International Trade and Industry Calculation (excluding petroleum and forestry and fishery products). Japanese figure on the industrial sector including forestry and fishery products is 1.7.

<Box-1> The Information Technology Agreement “ITA”

During the WTO Ministerial Meetings 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 in order 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.
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, and participating members started to reduce tariffs from June 1997.

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

As of December 1999, there were fifty-one countries and customs territories that had joined the ITA, accounting for a combined 93 percent of the world trade in information technology. The ITA will take on increasing importance in information technology industries.

A new initiative, commonly known as ITA II, is now in progress. The WTO is studying the potential for expanding the range of items covered and tackling non-tariff measures (for example, standards and certification), but as yet no agreement has been reached.

<Box-2> EVSL / ATL

EVSL stands for “Early Voluntary Sectoral Liberalization,” an initiative taken by APEC during the 1997 Ministerial Meeting in Vancouver. The program identifies fifteen sectors for liberalization by APEC members. This initiative includes tariffs, non-tariff measures, and economic and technical cooperation. APEC further divides these fifteen sectors into nine sectors for priority discussions and six other sectors.

Nine priority sectors (for tariffs, eight sectors because the telecomm sector is omitted):

Environmental goods and services, Energy sector, Toys, Gems and jewellery, Medical equipment and instruments, Chemicals, Fish and fish products, Forest products, Telecommunications mutual recognition arrangement (MRA)

Six other sectors (for tariffs, five sectors because the automobile sector is omitted):

Oilseeds and oilseed products, Food sector, Natural and synthetic rubber, Fertilizers, Civil aircraft, automobiles (standards and certification)

APEC members have initiated a WTO tariff process in the nine priority sectors, attempting, as stated in the Ministerial Declaration from the Kuala Lumpur meetings, to form a critical mass within the WTO so that agreement can be reached during 1999. This WTO process is called an ATL, or Accelerated Tariff Liberalization, in order to clarify that it is a tariff initiative. The September 1999 APEC Ministerial Meeting in Auckland agreed that the members would continue to work towards agreement on the ATL during 2000 if agreement could not be reached during 1999.

During the third WTO Ministerial Meeting, which was held in Seattle between November 30 and December 3, 1999, the United States, Canada, Australia, New Zealand and others argued for agreement on the ATL, but encountered strong opposition from the European Union, Brazil, India, and other non-APEC members. Japan's position is that the industrial tariffs should be negotiated comprehensively in the WTO next round, this ATL process therefore should not prejudice this position.

The Auckland Trade Ministers Declaration of June 1999 states that the remaining six sectors should be handled as part of the agricultural and industrial goods tariffs negotiations during the WTO next round.

<Box-3> Expansion of market access for least developed-countries

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

During the Third WTO Ministerial Meeting, held in Seattle from November 30 to December 3, 1999, Japan and the EU proposed an initiative that would energize least developed countries exports, building on economic development and technical cooperation to ensure faithful implementation of the WTO agreement. This initiative consists of: 1) enhanced market access by extending and implementing tariff-free and quota-free treatment via their respective preferential system for essentially all products originating in least developed countries, and 2) enhanced technical cooperation through the WTO.

(d) Tariff Classifications

Like tariff rates, tariff classifications represent one of the basic components of the tariff system. National tariffs 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 classifications are applied in an arbitrary fashion, they can in effect nullify rate reductions.

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

(e) 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 and so on, developing country Members may delay application of the this agreement for the particular period if other members approved. As of January 2000, some forty members have delayed implementation.

(2) 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 (“bound rates”) for individual items (in principle following the tariff classification nomenclature) and negotiate for their progressive reduction.

(a) 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 Members wish to raise their bound rates or 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.

(b) Disciplines on Tariff Classifications

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 in order 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.

(c) 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 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.

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.

Nevertheless, not binding tariff rates also runs against the spirit 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: Korea (89 percent), Indonesia (92 percent), Thailand (70 percent), Malaysia (79 percent), Singapore (73 percent), and Hong Kong (23 percent).

(3) Economic Implications

This section analyses some of the basic economic issues associated with tariffs, specifically, why they 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.

(a) 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 international prices), the rise in domestic price is equivalent to the amount of the tariff. In “large countries” (those that have an impact on international prices), the price rises somewhat less than the amount of the tariff because part of the tariff is reflected in a reduction in international prices.

A tariff-induced price rise creates a gap between prices in the importing and exporting countries. This in turn causes supplies (production) to rise in the importing country, while demand (consumption) falls, which is the essence of the “industrial protection” function of tariffs. Obviously, a tariff also generates revenues for the government of the importing country (revenue function). Tariffs therefore benefit the government and producers of the importing country in the form of tax revenues at the expense of its consumers in the form of higher prices.

Because tariffs bring different benefits and costs to different groups,⁵ the net cost to the importing country is the “cost to consumers minus profits to producers minus government revenues.” This is equal to the sum of the “efficiency loss” caused by distortions to the pricing system and the “profits from improved terms of trade” brought by a reduction in international prices.

Therefore, for “small countries” which see no improvement in their terms of trade because their tariffs have no influence on international prices, the benefits from a tariff will necessarily be negative. However, for “large countries” that can expect an improvement in terms of trade because part of the tariff will lead to a reduction in international prices, the pros and cons are not so easily weighted. Economists sometimes refer to “optimal tariffs” that are low enough for the improvement in the terms of trade to exceed the costs, thereby maximizing economic welfare.

⁵ In point of fact, it is difficult to gauge the net effect of tariffs in any strict sense because different people will assign different values to the same profits in absolute terms. We will therefore forgo further discussion here. We should note, however, that this point becomes important in real-world discussions, and thus we consider “weighted social welfare” later in this chapter.

The degree of protection afforded by a tariff (the effective protection rate) is not equal to the tariff rate. The first reason for this is because of the potential influence from an improvement in the terms of trade. The second reason is that the effective protection rate will differ depending on which stage of the production process the tariff is applied (tariffs on parts or tariffs on finished goods).⁶ We must therefore point out that even a relatively low tariff rate can function adequately as a means of protecting domestic industry.

(b) The Effect of Quantitative Restrictions

Quantitative restrictions take many forms, the most common of which is import quotas. The effect of quotas is the same as that of import tariffs—reduction of amount of imported goods and higher domestic prices for those goods.

Quotas differ from tariffs because the importing country's government gains no revenue from quotas while importers to whom the quotas are allocated obtain excessive profits ("rents") from them. The cost of quotas to importing country governments is therefore higher than the cost of tariffs. Moreover, when there is a monopoly in the domestic market, and domestic demand is increasing due to economic growth, an import quota results in higher domestic prices than an import tariff that achieves the same import volume.

(c) 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. One of the reasons for this is because it is easier to negotiate tariffs down than it is to negotiate a reduction in quantitative restrictions in all their many forms. Tariffs are also preferable from an economic standpoint because unlike quantitative restrictions, tariffs have a revenue generating function and less of a distorting effect on markets where monopolies exist. In addition, import quotas may not always be administered fairly. Finally, exporters can respond to tariffs by improving their efficiency.

(d) Justifications for Tariff Reductions

While the WTO Agreement permits tariffs as a means of industrial protection (unlike quantitative restrictions, which it bans outright), 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" costs generated by the distortions to the price system that the tariff causes. Reducing the degree of market protection also expands the market, allowing producers in 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 tariff"

⁶ For an industry with an added-value rate of 25% (for example, purchases parts for \$75 and assembles them into a finished good worth \$100), a tariff of 25% on finished goods (resulting in a domestic price of \$125) will increase the costs that can be tolerated by the industry from \$25 to \$50, which gives an effective protection rate of 100%.

debate). Similarly, when there are domestic market failures, tariffs might be seen as a means of increasing welfare.

These rebuttals might themselves be challenged by questioning whether the hypothesis of “large countries” is reasonable and significant, by questioning whether the optimal results can be achieved if other countries take retaliatory measures, or by questioning whether market failures can be measured.

(e) 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 therefore tariff reductions are undisputably desirable for all countries other than “large countries” (in practical terms, the vast majority of countries), and for the world economy as a whole.

It is rare, however, for countries to completely eliminate their tariffs. In point of practice, countries often impose tariffs not for the purpose of increasing overall welfare from a purely economic standpoint, but for the purpose of redistributing income. As a result of lobbying by various interest groups, policy-makers assess marginal benefits differently depending on which group is benefiting.

When tariffs are imposed for such domestic reasons, domestic political interests often will outweigh “greater economic welfare” in the view of the government, making it more difficult to reduce tariffs. 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 forego the marginal benefits that positively affect one sector to obtain the broader general welfare benefits that affect a group of sectors.

2. 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 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 (see section 1(2)) 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 (CCC; also known as the “World Customs Organization” or “WCO”) 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 individual countries' customs tariffs described below 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 level on some sectors such as home electric equipment (maximum 14 percent), textiles and textile products (maximum 12 percent) is higher than other developed countries.

(2) United States

(a) High tariff goods

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

(b) 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 wrist watch 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 wrist watch 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 the tariff for each component: the movement, case, band, and battery.

This method of calculating tariff rate 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 break down 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% 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.

(3) Korea

After the implementation of the Uruguay Round, the internationally competitive 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 86 percent.

Korea's efforts to push forward liberalization, including dropping its 80 percent high-end bound rate for automobiles to a flat rate of eight percent in February 1999, is 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 is expected.

(4) Australia

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

Australia began a unilateral program of phased-in tariff reductions in 1998, and 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.

In its "Individual Action Plan" for APEC, Indonesia made an explicit commitment to begin in 1995 to reduce effective tariffs 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 15.7 percent) 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 is bound while only about 70 percent of industrial goods as a whole is bound.

(8) Malaysia

(a) 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, for example, textile products (average 21.5 percent) and transportation equipment (average 22.6 percent). 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.

(b) Hiking the tariff on the steel plate

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

(10) India

(a) 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; low rates, 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.

(b) 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 which were requested by the EU pursuant to based on GATT Article XXII.

India argues that the introduction of the special additional duty is aimed at providing a level playing-field to the domestic industry, which is compatible with WTO rules. It is still necessary to evaluate the facts related to this issue to see whether these new special additional duties violate the WTO rules or not. If they violate the WTO rules, we need to request India to take a remedial measure at an early stage. However, as of December 1999, India has not yet answered in writing the questionnaire presented by the EU during the first consultation in December 1998. We request India to cooperate to allow a smooth settlement of this case.

<Figure 4-2> Changes of Average Bound Tariff Rates (Non Agricultural Products)

		Japan	US	EU	Korea	Aust Ralia	Indo nesia	Thai land	Canada	Malay sia	Philippi nes	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 based on Ministry of International Trade and Industry Calculation (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 used for other countries(excluding petroleum).
3. Average bound tariff rates are trade-weighted average.
Average bound tariff rate :
the sum over each tariff line of import value multiplied by bound rate ÷ total import value of bound tariff lines×100
4. Scope of bindings rates are trade-weighted average.
Scope of bindings rates :
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.