

**Committee on Agriculture
Special Session**

PROPOSED APPROACH FOR ADDRESSING TARIFF ESCALATION

The following communication, dated 1 June 2006, is being circulated at the request of the Delegation of Canada.

-
1. As a concept, tariff escalation refers to situations where tariffs are higher on processed products than on primary products. As a result, tariff escalation impedes the efforts of countries to move from primary to value-added production and hinders economic development. Tariff escalation also serves to artificially protect domestic processing in import markets.
 2. Tariff escalation is of real concern to WTO Members, as evidenced by their commitment to address it as part of the Doha Development Agenda. The 2004 Agreed Framework notes that "tariff escalation will be addressed through a formula to be agreed."
 3. A practical approach to addressing tariff escalation involves three basic steps:
 - (1) Identification of primary products which, once processed, face higher tariffs;
 - (2) Establishing how far along the processing chain to address the issue of escalation; and
 - (3) Treatment - i.e. the formula approach to address instances of escalating tariffs.

Identification

4. Before a formula can be applied to address tariff escalation, it is first necessary to determine instances where escalation occurs. Of all the multitude of products which potentially face escalation, it can be assumed that the particular concerns of Members fall within a narrower sub-set of products.
5. To establish practical modalities, a list of products whose processing chains will be examined for instances of tariff escalation should be established by Members. Such a list should clearly state which tariff lines should be subject to the modalities, including how far up each processing chain the approach should apply.

Establishing Limits...

6. From a practical standpoint, limits on how far up a processing chain to consider are necessary, as there comes a point when it becomes impossible to clearly link a given processed product to a less-processed or primary product. These limits should be negotiated as part of a broader process of establishing a list of products.

7. A normal list of products and their processing chains follows:

Product	Primary	Processed
Bovine Meat	Live cattle	<ul style="list-style-type: none"> • Carcasses/half carcasses • Cuts - fresh, chilled, frozen • Edible offal - fresh, chilled, frozen • Prepared or preserved meat, offal or blood
Swine Meat	Live swine	<ul style="list-style-type: none"> • Carcasses/half carcasses • Cuts - fresh, chilled, frozen • Edible offal - fresh, chilled, frozen • Prepared or preserved meat, offal or blood
Sheep Meat	Live sheep and lamb	<ul style="list-style-type: none"> • Carcasses/half carcasses • Cuts - fresh, chilled, frozen
Vegetables	Potatoes – Fresh or chilled	<ul style="list-style-type: none"> • Frozen • Prepared or preserved
	Tomatoes - Fresh or chilled	<ul style="list-style-type: none"> • Prepared or preserved • Juices/sauces
Fruit	Fresh (orange, grapefruit, grape, and apple)	<ul style="list-style-type: none"> • Dried • Juices
Coffee	Coffee – not roasted (not decaffeinated and decaffeinated)	<ul style="list-style-type: none"> • Roasted (not decaffeinated and decaffeinated) • Extracts, essences and concentrates
Cereals	Wheat – Durum or other	<ul style="list-style-type: none"> • Wheat flour, meal, pellets, starch and gluten
	Barley	<ul style="list-style-type: none"> • Rolled, flaked or otherwise worked • Meal and pellets • Malt
	Oats	<ul style="list-style-type: none"> • Rolled, flaked or otherwise worked • Meal and pellets
Oilseeds	Soya beans	<ul style="list-style-type: none"> • Crude and refined oil • Flour/ meal
	Peanuts	<ul style="list-style-type: none"> • Crude and refined oil • Shelled, ground, flour/meal • Peanut butter
	Canola seed	<ul style="list-style-type: none"> • Crude and refined oil • Flour/meal
	Sunflower seed	<ul style="list-style-type: none"> • Crude and refined oil • Flour/meal
	Safflower seed	<ul style="list-style-type: none"> • Crude and refined oil • Flour/meal
	Palm nut	<ul style="list-style-type: none"> • Crude and refined oil • Flour/meal
	Cotton seed	<ul style="list-style-type: none"> • Crude and refined oil • Flour/meal
Sugar	Raw cane and beet sugar	<ul style="list-style-type: none"> • Refined sugar • Sugar confectionery
Cocoa	Beans	<ul style="list-style-type: none"> • Paste, powder, butter • Chocolate

... and Checking for Escalation

8. The 2004 Agreed Framework states that "progressivity in tariff reduction will be achieved through deeper cuts in higher tariffs with flexibilities for sensitive products." Although higher tariffs will be subject to deeper cuts, instances of tariff escalation will continue to exist. After the application of the tiered tariff reduction formula, a check should be made along the agreed product processing chains to identify instances of escalation.

9. The check for escalation will be the simple calculation of whether the bound tariff of the processed product is higher than the bound tariff of the primary product after the application of the tariff reduction formula. For non-*ad valorem* tariffs, this comparison should be made on the basis of the *ad valorem* equivalents (AVEs).

Treatment

10. Instances of escalation should be addressed through an extension of the tiered reduction formula whereby the formula cut for a processed product would be multiplied by a factor to be negotiated [1.3]. This approach preserves the relative ambition of the tiered structure for tariff reductions as called for in the 2004 Agreed Framework.

Hypothetical Example: Oilseed

Assume that the application of the tiered tariff reduction formula would reduce the bound tariff for a hypothetical oilseed to 10% and the bound tariff for its oil from 50% to 20%. As the more processed product in this example has a higher tariff, escalation exists. Assume that the bound tariff for oil was subject to a 60% formula-cut. The formula-cut of 60% will now be multiplied by the agreed factor [1.3] to address escalation, thus subjecting the bound tariff for oil to an adjusted cut of 78% ($60\% \times 1.3$) rather than a 60% cut. With this factor-adjusted cut of 78%, the initial bound tariff for oil falls to a final bound tariff of 11%, and as a result, escalation between seed (10%) and oil (11%) is dramatically reduced.

11. In addressing those instances of escalation where the factor-adjusted tariff reduction would bring the tariff for the processed product below that of the primary form of the product, the factor would be reduced so that the tariff of the processed product will be reduced to the same level as that of the primary product.

For example, if the tiered tariff reduction formula would reduce the bound tariff for the hypothetical oilseed to 10% and the bound tariff for its oil from 40% to 16%. Applying an adjusted cut to the bound tariff for oil 78% ($60\% \times 1.3$) rather than a 60% cut, will result in a final bound tariff of 8.8%. In this case the factor would be reduced so that the final bound tariff for the oil would be 10%, eliminating escalation between the seed (10%) and the oil (10%).

Key Examples of Primary and Processed Products

Bovine meat

Primary product	Processed product
0102.90 Live bovine animals other than pure bred breeding animals	0201.10 – Meat of bovine animals, fresh or chilled; Carcasses and half-carcasses Meat of bovine animals, fresh or chilled. 0201.20 – Other cuts with bone in 0201.30 – Boneless 0202.10 – Meat of bovine animals, frozen; Carcasses and half-carcasses Meat of bovine animals, frozen. 0202.20 – Other cuts with bone in 0202.30 – Boneless 0206.10 – Edible offal of bovine animals, fresh or chilled Edible offal of bovine animals, frozen. 0206.21 – Tongues 0206.22 – Livers 0206.29 – Other 0210.20 – Meat of bovine animals salted, in brine or dried or smoked; Other, including edible flours and meals of meat and meat offal 1602.50 – Prepared or preserved meat, meat offal or blood of bovine animals

Swine meat

Primary product	Processed product
<p>Live Swine, other than pure-bred breeding animals 0103.91 Weighing less than 50 kg 0103.92 Weighing 50 kg or more</p>	<p>0203.11 – Meat of swine, fresh or chilled; Carcasses and half-carcasses</p> <p>Meat of swine, fresh or chilled. 0203.12 – Hams, shoulders and cuts thereof, with bone in 0203.19 – Other</p> <p>0203.21 – Meat of swine, frozen; Carcasses and half carcasses</p> <p>Meat of swine, fresh or chilled. 0203.12 – Hams, shoulders and cuts thereof, with bone in 0203.19 – Other</p> <p>Meat of swine, frozen. 0203.22 – Hams, shoulders and cuts thereof, with bone in 0203.29 – Other</p> <p>0206.30 – Edible offal of swine, fresh or chilled Edible offal of swine, frozen. 0206.41 – Livers 0206.49 - Other</p> <p>Meat of swine salted, in brine, dried or smoked; Edible flours and meals of meat and meat offal 0210.11 – Hams, shoulders and cuts thereof, with bone in 0210.12 – Bellies (streaky) and cuts thereof 0210.19 – Other</p> <p>Prepared or preserved meat, meat offal or blood of swine. 1602.41 – Hams and cuts thereof 1602.42 – Shoulders and cuts thereof 1602.49 – Other, including mixtures</p>

Sheep meat

Primary product	Processed product
0104.10 Live sheep	0204.10 –Carcasses and half-carcasses of lamb, fresh or chilled 0204.21 – Other meat of sheep, fresh or chilled; Carcasses and half-carcasses 0204.30 – Carcasses and half-carcasses of lamb, frozen Other meat of sheep, fresh or chilled. 0204.22 – Other cuts with bone in 0204.23 – Boneless Other meat of sheep, frozen. 0204.42 – Other cuts with bone in 0204.43 – Boneless

Vegetables

Primary product	Processed product
0701.90 – Potatoes, fresh or chilled; Other than seed	0710.10 – Potatoes (uncooked or cooked by steaming or boiling in water), frozen 2004.10 – Potatoes prepared or preserved otherwise than by vinegar or acetic acid, frozen
0702.00 – Tomatoes, fresh or chilled	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid. 2002.10 – Tomatoes, whole or in pieces 2002.90 – Other 2009.50 – Tomato juice, unfermented and not containing added sugar or other sweetening matter 2103.20 – Tomato ketchup and other tomato sauces

Fruits

Primary product	Processed product
0805.10 – Oranges, fresh or dried	Orange juice, unfermented and not containing added spirit, whether or not containing added sugar or sweetening matter. 2009.11 – Orange juice, frozen 2009.12 – Orange juice, not frozen, of a Brix value not exceeding 20 2009.19 – Other
0805.40 – Grapefruit, fresh or dried	Grapefruit juice, unfermented and not containing added spirit, whether or not containing added sugar or sweetening matter. 2009.21 – Of a Brix value not exceeding 20 2009.29 – Other
0806.10 – Grapes, fresh	0806.20 – Grapes, dried
0808.10 – Apples, fresh	0813.30 – Apples, dried Apple juice, unfermented and not containing added spirit, whether or not containing added sugar or sweetening matter. 2009.71 – Of a Brix value not exceeding 20 2009.79 – Other

Coffee

Primary Product	Processed Product
0901.11 - Coffee, not roasted: Not decaffeinated	0901.21 - Coffee, roasted: Not decaffeinated 2101.11 - Extracts, essences and concentrates
0901.12 - Coffee, not roasted: Decaffeinated	0901.22 - Coffee, roasted: Decaffeinated 2101.11- Extracts, essences and concentrates

Cereals

Primary Product	Processed Product
1001.10 – Durum Wheat 1001.90 - Wheat: Other	11.01 - Wheat or meslin flour 11.03.11 - Groats and meal, of wheat 11.03.20 - Pellets ¹ 1108.11 - Wheat starch 11.09 - Wheat gluten, whether or not dried
10.03 - Barley	11.03.19 Groats and meal, of other cereals ¹ 11.03.20 Pellets ¹ 1104.19 - Rolled or flaked grains, of other cereals ¹ 1104.29 - Other worked grains, of other cereals ¹ Malt, whether or not roasted 1107.10 - Not roasted 1107.20 - Malt, Roasted
10.04 - Oats	11.03.19 Groats and meal, of other cereals ¹ 11.03.20 Pellets ¹ Cereal Grains Otherwise Worked (for example, hulled, rolled, flaked, pearled, sliced or kibbled), except rice of heading 10.06; germ of cereals, whole, rolled, flaked or ground 1104.12 - Rolled or flaked grains: Of oats 1104.22 - Other worked grains: Of oats

Oilseeds

Primary Product	Processed Product
12.01 - Soya Beans, whether or not broken	Flours and meals of oil seeds or oleaginous fruits, other than those of mustard: 1208.10 - Of soya bean Soya bean oil and its fractions, whether or not refined, but not chemically modified. 1507.10 - Crude oil, whether or not degummed 1507.90 – Other

¹ The test for determining tariff escalation will require examination of national schedules with detail beyond the 6 digit level.

Primary Product	Processed Product
<p>1202.10 - Ground-nuts, not roasted or otherwise cooked, whether or not shelled or broken: In shell</p>	<p>Ground-nuts, not roasted or otherwise cooked, whether or not shelled or broken: 1202.20 - Shelled, whether or not broken</p> <p>Flours and Meals of Oilseeds or oleaginous fruits, other than those of mustard, 12.08.90 – Other than of soybeans¹</p> <p>Ground-nut oil and its fractions, whether or not refined, but not chemically modified. 1508.10 - Crude oil 1508.90 - Other</p> <p>Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included. 2008.11 – Ground nuts</p>
<p>Rape or colza seeds, whether or not broken 1205.10 - Low erucic acid rape or colza seed 1205.90 - Other</p>	<p>Flours and Meals of Oilseeds or oleaginous fruits, other than those of mustard, 12.08.90 – Other than of soybeans¹</p> <p>Rape, colza or mustard oil and fractions thereof, whether or not refined, but not chemically modified. - Low erucic acid rape or colza oil and its fractions: 1514.11 - Crude oil 1514.19 - Other - Other: 1514.91 - Crude oil 1514.99 - Other</p>
<p>12.06 - Sunflower seeds, whether or not broken</p>	<p>Flours and Meals of Oilseeds or oleaginous fruits, other than those of mustard, 12.08.90 – Other than of soybeans¹</p> <p>Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified. Sunflower-seed or safflower oil and fractions thereof: 1512.11 - Crude oil 1512.19 - Other</p>

Primary Product	Processed Product
1207.60 - Safflower seeds	Flours and Meals of Oilseeds or oleaginous fruits, other than those of mustard, 12.08.90 – Other than of soybeans ¹ Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified. Sunflower-seed or safflower oil and fractions thereof: 1512.11 - Crude oil 1512.19 - Other
Other oil seeds and oleaginous fruits, whether or not broken 1207.10 – Palm nuts and kernels	Flours and Meals of Oilseeds or oleaginous fruits, other than those of mustard, 12.08.90 – Other than of soybeans ¹ Palm oil and its refractions, whether or not refined, but not chemically modified 1511.10 - Crude oil 1511.90 - Other
Other oil seeds and oleaginous fruits, whether or not broken 1207.20 - Cotton seeds	Flours and Meals of Oilseeds or oleaginous fruits, other than those of mustard, 12.08.90 – Other than of soybeans ¹ Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified. Cotton-seed oil and its fractions: 1512.21 - Crude oil, whether or not gossypol has been removed 1512.29 - Other

Sugar

Primary product	Processed product²
1701.11 – Raw cane sugar, not containing added flavouring or colouring matter	1701.91 – Cane or beet sugar containing added flavouring or colouring matter
1701.12 – Raw beet sugar, not containing added flavouring or colouring matter	1701.99 – Cane or beet sugar, other than containing added flavouring or colouring matter 1704 – Sugar confectionery (including white chocolate) not containing cocoa

² This does not preclude the possible addition of additional products within Chapter 17 and 18 that can be linked back to the primary product.

Cocoa

Primary product	Processed product
1801.00 – Cocoa beans, whole or broken, raw or roasted	1803.10 – Cocoa paste, not defatted 1803.20 – Cocoa paste, wholly or partly defatted 1805.00 – Cocoa powder, not containing added sugar or other sweetening matter 1804.00 – Cocoa butter, fat and oil Chocolate and other food preparations containing cocoa. 1806.10 – Cocoa powder, containing added sugar or other sweetening matter 1806.20 – Other preparations in blocks, slabs or bars more than 2 kg or liquid, paste, powder, granular or other bulk form in containers or immediate packings of a content exceeding 2 kg 1806.32 – Other, in blocks, slabs or bars, not filled 1806.90 – Other
