

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee III - Expansion of Trade

## PILOT STUDY OF DIFFERENTIAL TARIFFS

### Introduction

1. At its meeting of October-November 1962, the report of which is contained in L/1925, the Committee agreed that "a study should be undertaken on the existence of differential tariffs on the semi-processed and processed derivatives of the major products exported by the less-developed countries". This document outlines the aims of such a study and the methods used in the attached pilot studies on copper and groundnuts. The customs areas examined are the European Economic Community, Sweden, the United Kingdom and the United States. Only the m.f.n. tariffs of these areas are discussed. Results would, of course, be modified if preferential duties and duties charged on imports from other members of regional groupings were taken into account.
2. When more duty is payable on a processed product than on the material from which it is made the differential between the duties will protect the processing industry in the importing country. An index of the height of this protection can be obtained by expressing the duty differential as a percentage of the differential between the prices of the raw material and the processed product. It will be appreciated that a study of this kind will only give an idea of the order of magnitude of protection. The estimates given could be changed quite considerably, for instance, if raw material costs were to fluctuate while processing costs remained relatively stable. It should also be pointed out that a study of this kind provides an estimate only of the height of the protective tariff. Other factors, such as quantitative restrictions, might affect the actual degree of protection enjoyed by domestic producers. It is also important to note that this exercise alone does not enable an estimate to be made of the additional foreign exchange which might be earned by a less-developed country which exported its basic materials in the processed rather than the raw form.
3. In the secretariat note (COM.III/97), it was suggested that import prices might be used as a basis for the present study. It has, however, been found difficult to proceed on the basis of import figures alone. In many cases trade in the processed products concerned is small, partly it may be suspected as a result of the differential duty under examination, and the unit values derived from these trade figures are, therefore, likely to be atypical. Individual categories for which trade statistics are available often cover a range of products and it may not always be possible to isolate the items required. It may, in some cases, be legitimate to

compare the average price of a group of raw materials with the average price for a group of processed products, but in other cases the processed products may, for instance, be made from only one type or grade of raw material. Other sources of information, such as censuses of production and information on internal prices have therefore been examined.

4. It is suggested that if further studies are to follow this pilot work they might best be based on information available to contracting parties on the value added in processing their own raw materials and on transport and insurance costs to the main import markets.

### Copper

5. Among the factors determining the form in which copper is traded are differential tariffs applied to products at successive stages of manufacture. The m.f.n. tariff rates of the customs areas examined in this study are given in Table 1. It will be seen that no distinction is made between electrolytic and copper at earlier stages of manufacture which account for the great bulk of world trade. The European customs areas only apply differential duties to imports from non-preferential sources on items falling under BN 74.03, wrought bars, rods, angles, shapes and wire; 74.04, plates and sheets and 74.07, tubes. In the United States, however, the same tariff rate is applied to plates and bars as to the unwrought metal, differential duties being charged on rods, rolls, sheets and tubes.

6. Because a very large number of products are involved, many being made in small runs to the individual specification of the purchaser, average results for fairly broad groups of semi-manufactures have been calculated. An official report published in the United Kingdom some years ago<sup>1</sup> gave the differential between the price of most semi-manufactures and the unwrought metal from which they were made as from 10 to 65 per cent on the price of the unwrought metal.<sup>2</sup> For rods, bars, etc. (excluding black hot rolled wire rods which did not come under the terms of reference of the Commission) the differential amounted to about 50 per cent of the price of the unwrought metal. For wire the comparable figure was 15 per cent, for plates, sheets etc. 30 per cent and for tubes 60 per cent.<sup>3</sup> An examination of recent import statistics and product prices (such as are quoted in the Metal Bulletin) indicates that no very large change in these ratios has occurred since this date. The report itself does not go into

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<sup>1</sup>"Report on the Supply and Export of Certain Semi-Manufactures of Copper and Copper Based Alloys", the Monopolies and Restrictive Practices Commission, 1955.

<sup>2</sup>Op. cit., page 94.

<sup>3</sup>Op. cit., calculated from the table on page 76. Similar figures referring to individual products are also given in Appendix 20.

detail on the height of the protection granted to the processing industry in the United Kingdom but remarks that "the duty, at the present price of copper amounts to some 80 per cent or more of the conversion cost" (page 101) having earlier pointed out that it is this cost "which alone is relevant in assessing the protective effect on the home producer" (page 94).

7. Table 2 gives an estimate of the height of the protection granted by differential duties in the European customs areas under discussion, using average price differentials for broad categories. The unit value of products falling under each tariff heading, and therefore the height of the protection granted to domestic processors, may vary widely. This occurs especially where items which might be regarded as intermediate products are included under the same tariff heading as semi-manufactures proper. One example, that of black hot rolled wire rod, may be cited. This seems to be classified under BN 74.03. If it is assumed that the differential between the price of this product and of the unwrought metal from which it is made is of the order of 10 per cent, the height of the protection granted by the tariff would be about 110 per cent ad valorem in the United Kingdom and the EEC and about 33 per cent in Sweden. There are, on the other hand, many semi-manufactures with high conversion costs, such as complex sections and tubes made in small runs, for which the height of the protection would be lower than the estimates shown in Table 2.

8. Table 3 gives an estimate of the height of protection in the United States which has been treated separately primarily because its tariff is on a different nomenclature from that of the European countries. The table is based on import unit values. While a direct comparison is not possible, the differentials obtained seem in some cases to be rather different from those used for the European countries. The protection granted by the tariff appears, however, to be relatively low.



Table 2

COPPER

United Kingdom, EEC and Sweden  
Estimated Height of Protective Duty for Processing Industry

(per cent)

B N	Product Group	Estimated average price differential semi compared with unwrought metal  %	United Kingdom		EEC		Sweden	
			m.f.n. Tariff differential  %	Estimated Height  %	m.f.n. Tariff differential  %	Estimated Height  %	m.f.n. Tariff differential  %	Estimated Height  %
74.03	Bars, rods, angles, shapes and wire of which:							
	Wire	15	10	77	10	77	3	23
	Other	50	10	30	10	30	3	9
74.04	Plates and sheets	30	15	65	8	35	3	13
74.07	Tubes	60	20	53	10	27	3	8

Table 3

Estimated Height of Duty Protecting Processing IndustryUNITED STATES

(US cents per pound and per cent, 1961)

Schedule A number	Item	Unit Import value ¢ per pound	Unit value differential semis compared with refined ¢ per lb.	Import duty and IRC ¢ per lb. copper content	Ad valorem equivalent %	Tariff differential ¢ per pound	Estimated height of duty protecting processing industry %
6417 100	Copper, refined in ingots, plates or bars	29.9	-	1.71	5.7	-	-
6420 200	Copper in rods	39.0	9.1	2.96	7.6	1.25	14
6420 100	Copper in rolls and sheets	40.9	11.0	2.96	7.2	1.25	11
6430 040	Copper tubes and tubing, seamless	50.7	20.8	5.21	8.3	3.5	17
6430 050	Copper tubes and tubing, brazed	64.0*	32.8*	6.21	9.7	4.5	14

\*Based on 1960 data, average unit import value of refined metal, 31.2 cents per pound.

### Groundnuts

9. The m.f.n. tariffs of the customs areas examined in this study on groundnuts, and the crude oil and cake derived from them are given in Table 4. Of these only the European Economic Community and the United Kingdom levy a differential tariff on imports of the processed product, and this is only charged on non-preferential goods which account for a very small percentage of total trade.<sup>1</sup> It will be seen that the tariff differential of 5 per cent ad valorem in the United Kingdom and of 10 per cent ad valorem in the EEC applies only to groundnut oil and not to groundnut cake which is subject to the same duty as nuts.

10. The average unit value of Nigerian groundnuts, shelled, c.i.f. European ports<sup>2</sup>, for the five crop years 1956 to 1960, which was 8.65 cents per pound, has been taken as the base price for the raw material. Import prices in France were somewhat above this level during this period but the assumption has been made that at the end of the transitional period protection will be granted only by the tariff in the EEC. It must be borne in mind, however, that groundnuts, groundnut oil and cake may in addition be subject to a common agricultural policy in the Community.

11. For the purposes of this study the differential between the c.i.f. price of groundnuts and the processed products is estimated at 0.5 cents per pound of raw material.<sup>3</sup> Translated into percentage terms this means that at the port of entry the unit value of the crude oil and cake combined is taken to be 6 per cent higher than the groundnuts from which they are derived. The oil, although less than half by weight of the raw material, accounts for the larger part of the value of the processed product. Details of the weight and value relationships between the raw material and the processed products used in this study are given below in percentage terms:

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<sup>1</sup>The common external tariff is of course not yet in force. However, France accounts for the majority of the EEC's imports of groundnut oil and most of her imports are from associated countries. For details of patterns of trade see W(63)4.

<sup>2</sup>This price series is published in the FAO Monthly Bulletin of Agricultural Economics and Statistics.

<sup>3</sup>The crushing margin for groundnuts seems to be of the order of 0.6 cents per pound of raw material. A figure of 0.75 cents is quoted in commercial circles and this seems to be borne out by the United States census of production but estimates made for the purpose of this study based on information for India, Nigeria and Senegal vary from 0.75 to 0.31 cents per pound. Both Nigerian and Senegalese experience seem to indicate that transport and insurance charges to the main export markets are higher on the raw material than on the processed product.

	<u>Weight</u>	<u>Value</u>
Shelled groundnuts	100	100
Processed products	98	106
of which:		
Crude oil	43	85
Cake	55	21

12. In the United Kingdom groundnuts not benefiting from preference attract a duty of 10 per cent ad valorem. Groundnuts valued at 100 units of account would therefore pay a duty of 10 units of account. The same groundnuts exported in processed form would attract a duty of 14.85 units of account, on the assumptions set out in paragraph 11, the oil paying 12.75 units of account (15 per cent of 85) and the cake paying 2.1 units of account (10 per cent of 21). In this case the additional duty paid on the processed product would be 4.85 units of account, or about 80 per cent of the estimated price differential. The height of the protection granted to domestic crushers may therefore be estimated at 80 per cent ad valorem.

13. The Common External Tariff of the European Economic Community foresees a tariff of 10 per cent ad valorem on crude, edible, fluid groundnut oil, but free entry for groundnuts and groundnut cake. Duty payable on groundnut oil extracted from groundnuts valued at 100 units of account would, therefore, be 8.5 units of account or about 140 per cent of estimated price differential.

14. In the United States a negative duty differential exists. No duty differential exists in the case of Sweden.



Table 4

Groundnuts, Groundnut Oil and Groundnut Cakes:  
m.f.n. Import Duties, Selected Countries

Brussels Nomenclature	Item	United Kingdom *	EEC CET *	Sweden	United States of America		
					Schedule A	Item	Rate
12.01	Groundnuts	10%	Free	Free	1368 000	Groundnuts, unshelled	4.25 cents lb.
15.07	Groundnut oil, unrefined	15%	10%**	Free	1367 000	Groundnuts, shelled	7 cents lb.
					1380 080	Groundnuts, blanched, roasted, prepared or preserved	7 cents lb.
23.04	Groundnut cake	10%	Free	Free	1427 000	Groundnut oil, edible	4 cents lb.
					ex 1119 900	Groundnut cake	0.3 cents lb.

\* Preferred sources: duty free

\*\* Edible, fluid,