

# Tariff escalation and EU agricultural imports

An assessment of selected products



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## An assessment of selected products

Siemen van Berkum

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## **Tariff escalation and EU agricultural imports: An assessment of selected products**

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This study investigates whether tariff escalation does occur in the EU's agricultural imports for ten selected product groups, for which developing countries are the main source of imports in the Union. Key findings are that tariff escalation does occur, but not for all ten product categories selected for this study. Further, the empirical analysis shows no strong evidence of a unambiguous link between the level of tariffs and imports: high (or low) import tariffs do not correspond much with low (or high) imports. At the same time, data point at a positive impact of the EBA agreement on less developed countries' exports to the EU since tariffs have been eliminated in 2002.

In dit onderzoek wordt nagegaan of er tariefescalatie plaatsvindt op het gebied van agrarische invoer in de EU voor tien geselecteerde productgroepen die grotendeels vanuit ontwikkelingslanden worden ingevoerd. De belangrijkste bevindingen zijn dat er wel tariefescalatie plaatsvindt, maar niet binnen alle productcategorieën die voor dit onderzoek zijn geselecteerd. Daarnaast kon aan de hand van de empirische analyse geen ondubbelzinnig verband worden vastgesteld tussen de hoogte van de tarieven en de invoerhoeveelheid: hoge (lage) invoertarieven gaan niet altijd samen met lage (hoge) invoerhoeveelheden. Tegelijkertijd blijkt uit gegevens dat de EBA-overeenkomst omtrent uitvoer vanuit minder ontwikkelde landen naar de EU een positieve invloed heeft gehad sinds de tarieven in 2002 zijn geëlimineerd.

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# Preface

Tariffs at the EU border may be an important impediment for all those countries that want to sell products in the European market. EU agricultural trade policies with its base in the Common Agricultural Policy (CAP) are criticised for taking in tariff structures that benefit imports of raw, unprocessed commodities over processed agricultural products. Tariff escalation is of special importance to developing countries, because they attempt to add value to their agricultural products and take advantage of greater returns to differentiated value-added goods. Tariff escalation works against such efforts to enter the rapidly growing markets of processed products.

Several studies provide evidence that tariff escalation is indeed a feature of developed countries' tariff structure, although they found that the degree of their impact differs between countries and between commodity sectors to provide insight into the extent and impacts of tariff escalation on the opportunities of developing countries' in the EU market. LEI Wageningen UR was commissioned by the Ministry of Agriculture, Nature and Food Quality. The study aims to quantify the degree of tariff escalation occurrence in the EU import structure on ten agricultural product categories and provides estimates of the impact of tariff escalation on EU imports as an indication of the effect of protection on the EU's processing industry.

This project was financed by the Netherlands Ministry of Agriculture, Nature and Food Quality in the context of the DLO-programme BO-03-003. The study was performed by Siemen van Berkum, with assistance from Henk Kelholt for the tariff and trade data, and Jeff Powell for the quantitative assessment in section 4. The study was supervised by a steering committee with as members Henk Massink (Ministry of Agriculture, Nature and Food Quality), Evert-Jan Krajenbrink (Ministry of Agriculture, Nature and Food Quality) and Tjalling Dijkstra (Ministry of Foreign Affairs, DG International Cooperation). I would like to thank the members of the steering committee for their constructive comments during the inception and finalisation of the report.



Prof Dr R.B.M. Huirne  
Director General LEI Wageningen UR

# Summary

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EU agricultural trade policies with their base in the Common Agricultural Policy (CAP) are criticised for taking in tariff structures that benefit imports of raw, unprocessed commodities over processed agricultural products. Tariff escalation is at a disadvantage to developing countries who want to export processed products in order to promote economic development. In order to provide insight into the extent and impacts of tariff escalation on the opportunities of developing countries to enter the EU market, this brief study analyses the structure of EU's agricultural import tariffs of ten agricultural product categories which are important to developing countries, and estimates the possible consequences for market access to the EU.

The empirical analysis indicates that EU tariff escalation does occur in agricultural imports for a number of the ten selected product categories. Using a detailed tariff dataset the conclusion is that the EU applies tariff escalation on its imports of cocoa, tomatoes, palm oil, soy, leather and cotton. Import tariffs (as percentage, as an amount per tonne or a combination of the two) applied on these product categories are higher for processed than for unprocessed products. There are, however, no signs of tariff escalation at EU's imports of sugar, poultry meat, beef, wood and hides & skins. EU import tariffs on sugar and beef are high for all tariff lines, both for raw materials as well as processed products. The imports of wood and hides & skins are not or only very little taxed by tariffs.

Developing countries are the main source of EU imports of all products subject to this study, except for wood. The EU offers many developing countries preferential treatment in their agricultural exports to the Union. The ACP and EBA countries in particular benefit from the absence of, or the relatively low EU import tariffs.

High import tariffs may be a serious obstacle for exporting countries to enter the importing country. The empirical analysis of the data, however, shows no strong evidence of an unambiguous link between the level of tariffs and imports: high import tariffs do not correspond much with low imports and low tariffs do not correlate significantly with high import values. In quite a number of cases it was found that the major import item of the product category happened to be the one with significant import tariffs (compared to tariffs applied to other products in that group).

The lack of a clear relation between (high) tariffs and (low) import flows does not, however, indicate tariffs would not act as barriers to trade. The example of

the EBA agreement, in force since 2002, points to a positive impact on the less developed countries' export opportunities to the EU after the Union's import tariffs had been abolished. The data point out that EBA exports have increased more than exports from other countries, thereby strengthening their market share in EU imports.

Next to import tariffs, import levels are determined by many factors such as demand and/or consumer preferences, quality and other specific product features (which may provide them a price premium) and shortage or lack of domestic supply. The question whether developing countries are hampered to export to the EU because of Union's perceived high tariffs (or, stated otherwise: whether developing countries would benefit from an EU import tariff reduction) depends on their competitiveness in the international market. To assess this requires further analysis of demand and supply trends in both the EU and developing countries, and of other market and product specific characteristics that should comply with EU public standards on quality and food safety.



# Samenvatting

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## Tariefescalatie bij agrarische invoer in de EU: een beoordeling van een aantal producten

Het agrarisch handelsbeleid van de EU met zijn basis in het Gemeenschappelijk Landbouwbeleid (GLB) wordt bekritiseerd voor het hanteren van een tariefstructuur waarbij de invoer van ruwe, onverwerkte producten wordt bevoordeeld boven verwerkte landbouwproducten. Tariefescalatie is vooral nadelig voor ontwikkelingslanden die ten behoeve van hun economische ontwikkeling met name verwerkte producten op de internationale markt willen aanbieden. Om inzicht te bieden in hoeverre tariefescalatie zich voordoet en in hoeverre zo'n tariefstructuur de exportmogelijkheden van ontwikkelingslanden naar de EU beïnvloedt, analyseert deze beknopte studie de structuur van de importtarieven van de Europese Unie van tien voor ontwikkelingslanden belangrijke agrarische exportproducten en wordt een inschatting gemaakt van het consequenties van tariefescalatie voor markttoegang tot de EU.

De empirische evaluatie wijst uit dat tariefescalatie zich voordoet bij de invoer van de EU van een aantal van de tien in deze studie betrokken productgroepen. Dat is het geval bij de invoer van cacao, tomaten, palmolie, soja, leer en katoen. Tariefescalatie doet zich niet voor bij de invoer van suiker, pluimveevlees, rundvlees, hout en huiden. Importtarieven op suiker en rundvlees zijn hoog voor veel tarieflijnen, van onverwerkte en verwerkte producten. Op invoer van hout en huiden zijn geen of slechts hele geringe tarieven van toepassing.

Ontwikkelingslanden zijn de belangrijkste exporteurs van de invoerproducten die onderwerp zijn van deze studie, met uitzondering van hout. De EU biedt deze landen een preferentiële behandeling in hun agrarische export naar de Unie. Vooral de ACP- en EBA-landen profiteren van geen of relatief lage EU-importtarieven.

Hoge invoertarieven worden gezien als een serieus obstakel voor markttoegang tot exporterende landen. De empirische analyse toont echter geen significant en eenduidig verband aan tussen het Europese importtarief en de invoerwaarde: hoge invoertarieven corresponderen niet sterk met lage importwaarden en lage tarieven niet met hoge importwaarden. In nogal wat gevallen bleek dat op producten die binnen een groep het meest werden geïmporteerd ook de hoogste invoertarieven werden geheven.

Het gebrek aan een eenduidig verband tussen (hoge) tarieven en (lage) importwaarden betekent overigens niet dat tarieven niet als handelsbelemmering optreden. Het voorbeeld van de EBA-overeenkomst, sinds 2002 van kracht, wijst op een positieve invloed van tariefsverlaging op de exportresultaten van de betrokken ontwikkelingslanden: de agrarische export van EBA-landen naar de EU is sterker gegroeid dan die uit andere landen, waardoor het aandeel van EBA-landen in de agrarische invoer van de Unie de laatste jaren is toegenomen.

Naast importtarieven wordt import door veel andere factoren beïnvloed; ook vraagontwikkelingen en/of consumentenpreferenties, plus een tekort of gebrek aan binnenlands aanbod spelen een rol. De vraag of ontwikkelingslanden worden belemmerd in hun export naar de EU vanwege de importtarieven (of anders gezegd, de vraag of ontwikkelingslanden zullen profiteren van een reductie van EU-tarieven) hangt af van hun concurrentiekracht in de internationale markt. Dit vergt nader onderzoek van de vraag- en aanbodontwikkelingen in zowel de EU als de ontwikkelingslanden, inclusief de markt- en productspecifieke kenmerken waaronder de eis aan de kwaliteitsstandaarden te voldoen.

# 1 Introduction

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## 1.1 Background, research questions and approach

Tariff escalation occurs when tariff levels increase with the degree of processing of a product. This favours imports of raw materials and discourages local processing in the exporting country. Tariff escalation is of special importance to developing countries, because as developing countries attempt to add value to their agricultural products and take advantage of greater returns to differentiated value-added goods, tariff escalation works against their efforts to enter the rapidly growing markets of processed products. Tariff escalation is particularly pronounced in agriculture, with processed agricultural products being subject to significantly higher tariffs than raw farm products (FAO, 2005: 42). The fact that the developed countries' tariff structures protect the market for processed products more than they do for primary products is seen as an obstacle for the industrial and economic development of developing countries (World Bank, 2007; FAO, 2004). Due to its development objectives the WTO Doha negotiations address tariff escalation.

Without further quantification or reference to specific empirical studies on this issue, the Social Economic Council (SER) calls tariff escalation a serious impediment for developing countries to enter the European market. EU agricultural trade policies with its base in the Common Agricultural Policy (CAP) are criticised for taking in tariff structures that benefit imports of raw, unprocessed commodities over processed agricultural products. Several studies provide evidence that tariff escalation is indeed a feature of developed countries' tariff structure, although they found that the degree of their impact differs between countries and between commodity sectors (part of which is of particular interest to developing countries and part is not).<sup>1</sup> In order to provide insight into the extent and impacts of tariff escalation on the opportunities of developing countries' to enter the EU market, this report attempts to quantify the degree of tariff escalation occurrence in the EU import structure on ten agricultural product categories and provides estimates of the impact of tariff escalation on EU imports as an indication of the effect of protection on the EU's processing indus-

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<sup>1</sup> For an overview see J. Wainio and D. Vanzetti (2008). Tariff escalation in the Doha Talks - Bringing the Issues to resolution. Australian Agricultural and resource Economics Society (AARES) 52nd Annual Conference, 5-8 February 2008.

try. To determine whether the EU applies tariff escalation to a greater extent than other developed countries, the USA's import tariff structures are also presented and discussed.

This report hence aims at answering three (sets of) questions:

1. Does the EU's import tariff structure show significant tariff escalation? How does the EU's tariff structure compare to applied US import tariffs? Does the EU practice tariff escalation to a greater extent than the US?
2. What are the levels of imports of the selected agricultural products, and are they differentiated according to processing level and country of origin? Are developing countries at a disadvantage?
3. Is there a relation between the level of a tariff and import flow? Do high tariffs restrict imports significantly?

The analysis focuses on existing trade flows and ignores the possibility that there might be situations in which developing countries could not export their products because of the high tariff barriers by the EU. This issue is briefly discussed in the conclusion of this report.

Product categories selected for answering the above formulated questions are (processed and unprocessed items from) cocoa, tomatoes, palm oil, soybeans, sugar, skins & leather, beef, poultry, wood and cotton. The selection of these products has been made in consultation with the client, the Ministry of LNV. The rationale for this selection is that these products are important export products for many developing countries, while at the same time these commodities are important agricultural imports of the EU.

We use the tariff dataset with 2004 data (MacMapHS6 Version 2.1), compiled and processed by the GTAP consortium<sup>1</sup> for the selection of the tariffs of the European Union and the USA. These data have been linked to data on EU-15 import values taken from the UN-COMTRADE trade database, to show the relation between tariff levels and trade flows. The analysis is conducted at HS 6-digit product level - this is the most detailed level at which world wide data on tariffs and trade flows are available.

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<sup>1</sup> Global Trade Analysis Project which is a global network of economic policy analysts working together and using a global trade model with a database that contains bilateral trade information. LEI is part of this network.

## 1.2 Objectives and structure of the report

The objective of this report is to provide insights into the tariff structure of EU agricultural products and the presence and extent of tariff escalation, and to analyse the consequences of tariff escalation on imports from developing countries. However, it should already be made clear from the outset that imports - levels as well as their origin - cannot be explained by the level of tariffs only: imports depend on many other factors such as income levels, consumer preferences, competing domestic supply, vicinity of countries and a number of product features such as quality. A country's position in international trade is also increasingly related to its ability to comply with standards and regulations focused on quality, food safety, animal welfare, et cetera (non-tariff measures). It is outside the scope of this brief assignment to go into all of the relevant factors that may explain trade flows. As statements on the link between tariff escalation and import flows are based only on the available tariff and trade data, these are highly indicative.

The structure of the report is as follows. Chapter 2 briefly presents the outline of the EU's external relations with developing countries, focused on agricultural trade agreements. Chapter 3 reports for each selected agricultural commodity on EU's tariff structure, the level of EU imports and their origin, and the link between tariff structure and import levels. Similar information and analysis are presented for the USA. Chapter 4 examines the relation between the levels of applied tariffs and the import flows. Chapter 5 summarises the main findings and concludes with some observations.

## 2 EU agricultural trade policy and its relations with developing countries

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In its Common Agricultural Policy the EU applies the principle of domestic market support and protects the market against imports by means of import tariffs. Rates of import charges are set either as ad valorem percentage rates (% of import value) or as absolute values (in terms of euro per tonne). In certain cases a combination of both systems is applied.

Most of the EU's import tariffs for agricultural products are set in the EU's tariff schedules within the WTO Uruguay Round. These represent the legal maximum rates - bound rates - at which tariffs may be set for each product. For various reasons the EU may choose to set applied tariffs for specific products at below the maxima, as part of a bilateral or multilateral trade deal with one or more third countries.

Although under the Uruguay Round rules the basic tariffs should in principle be the sole form of market protection against imports, in practice certain other mechanisms are permitted. A particularly significant mechanism is tariff rate quotas (TRQs). Under this regime a lower tariff rate can apply to a given annual quantity of imported product, with a higher rate - though no higher than the WTO-bound maximum - applying on imports above that volume. Traders wishing to import under TRQ must be in possession of a relevant import licence.

Relations with African, Caribbean, and Pacific (ACP) countries (former colonies of the original six member states of the Community) are established in Conventions (Yaounde, Lome, 1975; Cotonou, 2000) in which arrangements have been made on trade and aid. Virtually all imports from ACP countries can enter the EU duty free, with a few exceptions. There are TRQs granted to ACP countries for sugar (1.3m tonne white sugar duty free, imported at EU prices), bananas (775,000 tonnes of duty free) and beef (52,100 tonnes against 8% of EU's full import tariff).

In 2001 the EU drew up a trade programme which consciously gave significant trade advantage to the world's 48 Least Developed Countries. The scheme essentially eliminates quotas and duties on all products except arms from the world's poorest countries. Full trade liberalisation also extends to agricultural products with three exceptions: sugar, rice and bananas. In these cases, liberalisation is being phased in over a transition period ending in July 2009.

In view of the increasing erosion of the trade preferences established between the EU and ACP countries - because of the WTO-inspired reductions in general tariffs and the adoption of the Everything But Arms initiative in 2001 - the EU-ACP trade relations are presently in a process of being rearranged in Economic Partnership Agreements between the EU and appropriate groups of ACP countries. These Partnerships are expected to be established in the course of 2009 and will replace the traditional set of trade preferences between the EU and each country, which expired at the end of 2007.<sup>1</sup>

The EU not only has multilateral agreements under the WTO, and with ACP and EBA countries, but also specific agreements with other countries or regions. The most significant for trade in agriculture and food are with candidate and potential candidate member states in south and south-eastern Europe (Balkan region), with South Africa, and with Mediterranean and Middle East countries. Among other things, the agreements include concessional agricultural trade, either on a bilateral or on a regional basis. A bilateral agreement with Mercosur (the South America trade bloc) has been put on the back burner while the multilateral Doha Round negotiations have been continuing.

The above review indicates that the EU has offered many developing countries concessions in agricultural exports to the Union. Especially the ACP and EBA countries benefit from the absence of - or relatively low - import tariffs when exporting to the EU.

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<sup>1</sup> More and up to date details on the process of EPA negotiations can be found at [www.agritrade.cta.int](http://www.agritrade.cta.int).

# 3 Tariff structures and import flows of selected agricultural product categories

This chapter provides insights into the structure of EU import tariffs of selected product categories and shows the import levels of the Union for these products. Conclusions on whether the EU's import regime is characterised by tariff escalation are based on the tariff structures presented. Trade and tariff data are combined to evaluate the relation between tariff levels and the amount of imports.

## 3.1 Cocoa

Chapter 18 in the UN international trade statistics COMTRADE distinguishes between cocoa products such as beans, paste, butter, powder and chocolate (see table 3.1). Ascending numbers indicate an increasing level of processing. The first tariff lines mentioned with HS (Harmonised system - a UN defined system of product categories in trade statistics) codes 180100 and 180200 (beans and shells) are raw, unprocessed commodities. Tariff lines HS180310 to HS180610 (paste, butter and cocoa powder) are semi-processed products. Other tariff lines refer to processed products.

Table 3.1	Tariff lines (HS codes) for cocoa
180100	Cocoa beans, whole or broken, raw or roasted
180200	Cocoa shells, husks, skins and waste
180310	Cocoa paste not defatted
180320	Cocoa paste wholly or partly defatted
180400	Cocoa butter, fat, oil
180500	Cocoa powder, unsweetened
180610	Cocoa powder, sweetened
180620	Chocolate and other food preps containing cocoa >2k
180631	Chocolate, cocoa preps, block, slab, bar, filled, >2k
180632	Chocolate, cocoa prep, block/slab/bar, not filled,>2k
180690	Chocolate/cocoa food preparations nes



Table 3.2 shows how the EU's tariff structure for cocoa has been build up. Tariffs in this table indicate those according to the WTO Most-Favoured Nations clause, the 'bounds' (maximum levels) according to WTO Uruguay Round agreement and the applied specific and ad valorem tariffs. The applied tariffs are usually lower than the bound tariffs. Some tariff lines are differentiated according to the country of origin: the tariff line indicates more than one tariff, as shown for HS180320 (cocoa paste) and ascending HS codes.

<b>Table 3.2</b>		<b>Tariff structure for cocoa at EU border, at HS6-digit level</b>						
<b>HS6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>EU import value 2007 (in million USD) a)</b>		
180100	0	0	0	0	1,825	,084		
180200	0	0	0	0	563	20		
180310	9.6	0	0	0	2,594	312		
180320	9.6	0	0	0; 6.1;9.6	1,997	39		
180400	7.7	0	0	0; 4.2; 7.7	3,218	729		
180500	8.0	0	0	0; 2.8; 8	2,455	47		
180610	8.0	305.9	305.9	0; 3.65;8	1,787	11		
180620	9.5	0	0	0; 5.8; 9.5	2,126	91		
180631	8.3	0	0	0; 4.8; 8.3	3,271	139		
180632	8.3	0	0	0; 4.8; 8.3	3,606	290		
180690	8.3	0	0	0; 4.8; 8.3	3,974	451		
Total EU imports						5,106		
Of which from developing countries b)						3,350		
a) EU-15 imports; b) WTO definition of developing countries.								

The table above shows that:

- There are no tariffs on the commodities beans and shells;
- Along with zero tariffs there are import tariffs on semi-processed products in the range of 1-9.6%;
- An importer has to pay USD305 per tonne for sweetened cocoa powder (HS180610).<sup>1</sup> This equals an ad valorem tariff of around 15% based on a

<sup>1</sup> This tariff is linked to the sugar market regime in the EU in which import tariffs are an important instrument (see also section 3.4 on sugar in this report)

world market price of nearly USD1,800 in 2007. Further to this specific tariff, imports from a number of countries are subject to an ad valorem tariff of 3.65% or 8%. Most developing countries - at least the ACP and EBA countries - pay no tariffs at all;

- Imports of HS180620 to 180690 (chocolate) enter tariff-free or with ad valorem tariffs varying between almost 1% to more than 8%. Tariffs are a bit lower than those for semi-processed products like paste.

Table 3.2 also shows EU's import value for each HS6 product for 2007. By far the most important imported product is cocoa beans; about 60% of total import value. Other major import flows are cocoa butter (180400) and chocolate (180632 and 180690).

Ivory Coast, Ghana, Cameroon and Nigeria (all four ACP countries) are the most important countries of origin for cocoa beans imported by the EU: imports from these countries account for about 85% of all cocoa imports by the EU-15. Most of these imports are cocoa beans, of which 95% are from these four countries. Cocoa butter and paste are the EU's second and third most import cocoa import product. The Ivory Coast is the major supplier, next to Malaysia and Indonesia although the imports from the latter countries are being charged 4.2% ad valorem tariffs which, however, did not prevent imports valued at USD230m in 2007 entering the EU, a third of the Union's total cocoa butter imports. Imports of cocoa powder (HS 180610) is heavily taxed and very low. Imports of chocolate products (HS 180620 and ascending numbers) are mainly from Switzerland. Total EU imports valued USD5.1bn, of which 3.3 came from developing countries, largely in the form of beans, paste and butter.

#### *USA tariff structure and import flows*

The US import tariff structure related to cocoa beans and processed products shows similarities with the EU, yet there are important differences as well. Tariffs are absent at the unprocessed products (HS180100 and HS180200), as is the case for EU imports (table 3.3). Ad valorem percentages on pasta, butter and powder imports into the USA are zero, while these may increase to 8% in the EU. Major discrepancies between the EU and the USA are to be found in the application of specific tariffs: while the EU applies this instrument only to HS 180610 (cocoa powder, sweetened), the USA uses specific tariffs for HS 180500, 180610, 180620, 180632 and 180690. Their level is in the range of 5-10% of the import price.

<b>HS6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>USA Import value 2007 (in million USD)</b>
180100	0	0	0	0	1,825	780
180200	0	0	0	0	563	0
180310	0	0	0	0	2,594	56
180320	0	2	2	0	1,997	44
180400	0	0	0	0	3,218	384
180500	0	5.20	5.20	0	2,455	5
180610	0	312.20	276.50	0	1,787	3
180620	6.4	291.41	167-291	0-6.6	2,126	446
180631	5.6	0	0	5.6	3,271	134
180632	4.9	337.50	139-337.50	0-4.9	3,606	73
180690	6	382	223-382	0-5.4	3,974	306
Total						2,231

US cocoa imports accounted for USD2.2m in 2007. Where EU imports are dominated by the imports of cocoa beans, US imports more equally distributed around raw, semi-processed and processed products. Imports of raw produce are largely from Ivory Coast, Indonesia, Ecuador Papua New Guinea, Ghana and Dominican Republic. Semi-processed and processed products are mainly from Canada and Mexico. Both countries do not cultivate cocoa beans but apparently there is a significant processing of beans resulting in exports of semi-processed products and chocolate to the USA. Trade among these three countries may benefit from the free trade agreement NAFTA, established in 1996.

In summary, both the import tariff structures of the EU and the USA indicate tariff escalation: tariffs on raw produces are non-existent while imports of (semi) processed products are subject to specific and/or ad valorem tariff rates. EU imports of cocoa are largely raw produce (beans and paste). The EU also imports butter which is taxed by 7.7% ad valorem tariff. Cocoa powder is subject to a significant specific tariff; imports are really low. Tariffs on semi-processed and processed products remain below 10%. The USA, however, applies specific tariffs to imports of a number of (semi) processed products tariffs, next to ad valorem tariffs. This indicates stronger tariff escalation in the US tariff structure

than noted in the EU's tariff structure. Yet, its tariff structure does not seem to have had much impact on the US import flows, half of which are processed products.

### 3.2 Tomato

Trade statistics for tomatoes are registered as fresh tomatoes (HS 070200), prepare/preserved (HS 200210/2000290), as juice (HS 200950) and ketchup or other tomato sauces (HS 210320).

<b>Table 3.4 Tariff lines (HS codes) for tomatoes, at HS6-digit level</b>	
070200	Tomatoes, fresh or chilled
200210	Tomatoes, whole/pieces, prepared/preserved, no vinegar
200290	Tomatoes nes, prepared or preserved, not in vinegar
200950	Tomato juice not fermented or spirited
210320	Tomato ketchup and other tomato sauces

Table 3.5 presents the WTO bound and the applied tariffs to tomato import in the EU. Fresh tomatoes come in without any tariff, although the EU has the option to apply a specific tariff of USD370 per tonne (which is equal to 33% of the - calculated - average international price in 2007). Imports of preserved tomatoes have free entry or they are charged with an import tariff ranging from 10 to 14.4% depending on the origin of the import. Imports of juices and sauces are charged too, with tariffs up to 16.7% on tomato juice. This overview of EU tariffs applied indicates tariff escalation in the product category of tomatoes.

<b>Hs6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>EU Import value 2007 (in million USD) a)</b>
070200	10.7	370.2	0	0	1,106	524
200210	14.4	0	0	0-14.4	590	20
200290	14.4	0	0	0-14.4	709	129
200950	16.4	0	0	0; 16.4	470	2
210320	10.2	0	0	0-10.2	1,203	49
Total						724
Of which from developing countries b)						555
a) EU 15 imports; b) WTO definition of developing countries.						

The import value of tomato products from outside the EU-15 is a bit more than USD700m in 2007. Most imports are fresh tomatoes, which are mainly from Morocco (USD360m in 2007) and Israel (USD55m), based on a zero import tariff.<sup>1</sup> Tomatoes prepared (HS 200290) are mainly from China, while imports face a 14.4% tariff. Turkey is the major supplier of EU imports of tomato product categories HS 200210 (prepared, et cetera) and HS 210320 (ketchup). These imports from Turkey are not subject to ad valorem tariffs.

#### *Tariff structure of and import flows into the USA*

USA imports in this product category are largely fresh tomatoes (see table 3.6), which originate from Mexico and Canada. Imports from these NAFTA countries are free of tariffs. The US tariff structure does include specific tariffs on fresh tomato and on tomato juice. These are applied to imports from, among others, New Zealand, Morocco, Chili and the Philippines. Because of this, imports from these countries is all but absent. In addition, there are tariffs on prepared tomatoes and ketchup/sauces. These tariffs are lower than those applied by the EU to the same categories.

<sup>1</sup> Imports of fresh tomatoes are subject to EU's fruit and vegetable entry price system, broadly intended to bring import prices up to an established minimum import price. Detailed rules are laid down in Commission Regulation 1590/2007 (21 December 2007).

Hs	WTO Bound ad valorem tariff (%)	WTO Bound specific tariff (USD/tonne)	Applied specific tariff (USD/tonne)	Applied ad valorem tariff (%)	World market price (unit value, in USD/tonne)	USA Import value 2007 (in million USD)
070200	0	31.7	0; 19.3;22.3;31.7	0	1,106	1,255
200210	12.5	0	0	0; 12.5	590	10
200290	11.6	0	0	0-11.6	709	26
200950	0	1.4	0-1.4	0	470	1
210320	8.8	0	0	0-8.8	1,203	99
Total						1,391

In summary, both the import tariff structures of the EU and the USA indicate tariff escalation. By far, most imports are fresh tomatoes, imported tariff free by both the EU and USA, indicating that there is a clear (negative) relation between the level of the tariff and the import value. The tariff wedge between the raw and the processed products is higher in the EU than in the US (16.4% versus 12.5%).

### 3.3 Palm oil

Trade statistics distinguish four tariff lines related to palm oil products (see table 3.7). Nuts and kernels are unprocessed raw materials, which are little traded internationally. Much more trade is in crude and processed oil, as well as in the oil cake, the product that results from crushing, next to oil.

Hs	Commodity
120710	Palm nuts and kernels
151110	Palm oil, crude
151190	Palm oil, other than crude, & fractions thereof , whether/not refined but not chemically modified
230660	Oil-cake & other solid residues, whether/not ground/in pellets, from extraction of palm nuts/kernels

The EU's tariff structure of palm oil products presented in table 3.8 indicates tariff escalation: there is no tariff applied to imports of raw, unprocessed nuts and kernels, only a low tariff on crude oil imports and the highest tariffs are found on processed oil imports. Meanwhile, EU tariffs are not that high: the maximum tariff on processed oil is only 9.5%.

<b>HS6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>EU Import value 2007 (in million USD) a)</b>
120710	0	0	0	0	753	3
151110	1.9	0	0	0; 1.9	430	1,888
151190	9.5	0	0	0; 3.2; 8.9; 9.5	440	925
230660	0	0	0	0	67	331
Total EU imports						3,147
Of which from developing countries b)						2,651

a) EU 15 imports; b) WTO definition of developing countries.

EU-15 total imports of palm oil products values up to USD3.1bn in 2007. Malaysia and Indonesia - world's major palm oil producers and exporters - are by far the most dominant trading partners in imports of crude and refined oil as well as of oil-cake. The imports of refined oil from Malaysia and Indonesia is taxed by 9.5% import tariffs, while still accounting for 90% of EU's imports of this item.

The tariff structure of the USA is quite different from the EU: the USA does not apply tariffs to any of the four products (table 3.9). The USA largely imports processed oil: imports values over USD500m in 2007, coming from USD50-60m in the years around 2000. These increased imports are fully accounted for by Malaysia.

In sum, then, the figures show tariff escalation at EU imports but not at US imports of palm oil.

<b>HS6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>USA Import value 2007 (in million USD)</b>
120710	0	0	0	0	753	0
151110	0	0	0	0	430	1
151190	0	0	0	0	440	558
230660	0	3.2	0	0	67	0
Total						559

### 3.4 Sugar

The category of 'sugars and sugar confectionery' consists of 17 tariff lines at 6-digit level (see table 3.10). The 'unprocessed commodities' are the result of a first refining. After that several steps in processing follow. Intermediate products are included in the category of first processing stage.

<i>Unprocessed raw material</i>	
170111	Cane sugar, raw, in solid form, not containing added flavouring/colouring matter
170112	Beet sugar, raw, in solid form, not containing added flavouring/colouring matter
<i>First processing level</i>	
170191	Cane/beet sugar & chemically pure sucrose, in solid form, containing added flavouring/colouring matter
170199	Cane/beet sugar & chemically pure sucrose, in solid form, not containing added flavouring/colouring matter
170211	Lactose & lactose syrup, containing by weight 99%/more lactose, expressed as anhydrous lactose, calc. on the dry matter
170219	Lactose & lactose syrup, containing by weight >95% but <99% lactose, expressed as anhydrous lactose, calc. on the dry matter



<b>Table 3.10</b>		<b>Tariff lines for sugar and confectionery at EU border (continued)</b>	
170220	Maple sugar & maple syrup		
170230	Glucose & glucose syrup, not containing fructose/containing in the dry state <20% by weight of fructose		
170240	Glucose & glucose syrup, containing in the dry state at least 20% but < 50% by weight of fructose (exclusive invert sugar)		
170250	Chemically pure fructose		
170260	Fructose (exclusive chemically pure fructose) & fructose syrup, containing in the dry state >50% by weight of fructose (exclusive invert sugar)		
170290	Sugars, inclusive invert sugar & other sugar & sugar syrup blends containing in the dry state 50% by weight of fructose (exclusive of 1702.11-1702.60)		
170310	Cane molasses		
170390	Molasses, other than cane molasses, resulting from the extraction/refining of sugar		
<i>Processed products</i>			
170410	Chewing gum, whether/not sugar-coated		
170490	Sugar confectionery other than chewing gum (inclusive white chocolate), not containing cocoa		

The sugar and confectionery import tariff structure of the EU is rather complex (see table 3.11). What should be noted is the frequent application of specific tariffs. These tariffs are extremely high for raw material (some 200% of the international price) and significant for many 'first stage processed products'. Those processed products with most value added and highest world market prices are subject to ad valorem tariffs but their specific import tariffs are relatively low. Tariff protection therefore seems much higher for raw and semi-processed products than for final processed products, indicating a reverse of tariff escalation.

**Table 3.11 Tariff structure for sugar and confectionery at EU border**

Hs6	WTO Bound ad valorem tariff (%)	WTO Bound specific tariff (USD/tonne)	Applied specific tariff (USD/tonne)	Applied ad valorem tariff (%)	World market price (unit value, in USD/tonne)	EU import value 2007 (in million USD) a)
170111	0	470.81	470.81 c)	0	247	1,295
170112	0	470.81	470.81	0	247	7
170191	0	520.50	520.50	0	385	3
170199	0	520.50	520.50 d)	0	266	330
170211	0	173.91	173.91 e)	0	718	27
170219	0	173.91	173.91	0	1,113	1
170220	4	2.48	2.48	4	3,464	42
170230	0	358.51	358.51	0	352	15
170240	0	439.13	439.13	0	477	6
170250	16	629.81	629.81 f)	0	1,180	108
170260	0	213.25	213.25	0	606	25
170290	1.4	164.53	164.53 g)	0-1.4	831	34
170310	0	4.35	0-4.35	0	65	218
170390	0	4.35	0-4.35	0	108	71
170410	18	360.25	0	18	3,096	55
170490	9.45	56.02	0-56.02	0-9.45	2,827	483
Total EU imports						2,720
Of which from developing countries b)						1,897

a) EU 15 imports; b) WTO definition of developing countries; c) India excluded, yet subject to a TRQ; d) Croatia, Aruba and India excluded; e) Israel en Morocco excluded; f) Israel excluded; g) Cape Verde and Aruba excluded.

Total EU-15 sugar imports were valued at about USD2.7bn in 2007. Two-thirds of this amount comes from developing countries. Raw sugar cane for further refinery and processing is the major import product. Most important suppliers are Mauritius (USD322m), Guyana (142), Fiji (118), Jamaica (98) and Swaziland (86), all these imports are subject to the ACP Sugar Protocol that allows ACP countries to export 1.3m tonne raw sugar to the EU without import duties being charged. Cane/beet sugar in solid form (170199) is mainly from Croatia, which imports is not taxed by specific or ad valorem tariffs as part of a bilateral agreement. Pakistan and India - only recently - are the main suppliers of cane molasses (170310), a residual product of the first stage in the sugar refinery process on which imports are charged a relatively low specific tariffs. Imports of sugar confectionery belonging to the HS170490 category are largely from east European countries like Poland and Czech Republic which are now

member of the European Union.

The tariff structure of the USA (table 3.12) shows that the level of protection is much lower compared to EU tariffs: although the US applies ad valorem tariffs more often to specific tariff lines than the EU, US specific import tariffs are in most cases much lower so that the overall protection rate is less in the US case. Imports are largely raw cane sugar (against a small specific tariff of almost USD5 per tonne) and sugar confectionery products (HS 170490), which are subject to relatively high tariff rates (ad valorem plus specific tariff together add up to 15% of the world market price).

<b>Hs6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>USA Import value 2007 (in million USD)</b>
170111	0	338.70	4.87	0	247	754
170112	0	357.40	357.40	0	247	0
170250	9.6	0	0	9.6	1,180	5
170191	4.9	129.43	129.43	4.9	385	49
170199	0	357.40	357.40	0	266	110
170211	6.4	0	0	0	718	5
170219	6.4	0	0	6.4	1,113	0
170220	2.55	84.50	84.50	2.55	3,464	143
170230	4,275	47.75	47.75	4,275	352	27
170240	5.55	84.75	84.75	5.55	477	26
170260	5.55	84.75	84.75	5.55	606	31
170290	2.55	173.56	173.56	2.55	831	27
170310	0	1.31	1.31	0	65	108
170390	0	1.30	1.30	0	108	28
170410	4	0	0	4	3,096	126
170490	7.4	171.43	171.43	0-7.4	2,827	997
Total						2,436

Summarising this section, the data shows relatively high tariffs but no evidence of tariff escalation in the EU's sugar import tariff structure. The latter also holds for the US while their import tariffs on sugar are generally (much) lower than those the EU applies.

### 3.5 Poultry meat

Table 3.13 below presents a description of 16 poultry meat tariff lines. Products are split into three categories: unprocessed, semi-processed and processed.

<b>Table 3.13</b>		<b>Tariff lines for poultry meat at the EU border</b>
<i>Unprocessed</i>		
020711	Meat of fowls of species <i>Gallus domesticus</i> , not cut in pieces, fresh/chilled	
020712	Meat of fowls of species <i>Gallus domesticus</i> , not cut in pieces, frozen	
020724	Meat of turkeys, not cut in pieces, fresh/chilled	
020725	Meat of turkeys, not cut in pieces, frozen	
020732	Meat of ducks/geese/guinea fowls, not cut in pieces, fresh/chilled	
020733	Meat of ducks/geese/guinea fowls, not cut in pieces, frozen	
<i>Semi-processed</i>		
020713	Cuts & edible offal of species <i>Gallus domesticus</i> , fresh/chilled	
020714	Cuts & edible offal of species <i>Gallus domesticus</i> , frozen	
020726	Cuts & edible offal of turkey, fresh/chilled	
020727	Cuts & edible offal of turkey, frozen	
020734	Fatty livers of ducks/geese/guinea fowls, fresh/chilled	
020735	Meat & edible meat offal of ducks/geese/guinea fowls (exclusive of 0207.32-0207.34), fresh/chilled	
020736	Meat & edible meat offal of ducks/geese/guinea fowls (exclusive of 0207.32-0207.34), frozen	
<i>Processed</i>		
160231	Prepared/preserved preparations of turkey (exclusive homogenised preparations)	
160232	Prepared/preserved preparations of fowls of the genus <i>Gallus domesticus</i> (exclusive homogenised preparations)	
160239	Prepared/preserved preparations of fowls of 01.05 (exclusive turkey & fowls of the genus <i>Gallus domesticus</i> )	

The European Union applies specific tariffs to imports of many poultry meat products (table 3.14). These tariffs are about 20-30% of the international (import) prices of unprocessed and semi-processed products, and up to around 40% in several cases. As a percentage of the import price specific tariffs for processed products are lower than those in the US, but the EU applies also ad valorem tariffs to imports of these products. So, generally the tariff percentage of the import prices is quite similar for all products. Therefore, tariff escalation cannot be established.

<b>Hs6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>EU Import value 2007 (in million USD) a)</b>
020711	0	366.87	366.87	0	1,618	21
020712	0	387.58	387.58	0	818	38
020724	0	442.86	442.86	0	2,004	20
020725	0	442.86	442.86	0	2,353	4
020732	0	575.57	575.57	0	3,772	9
020733	0	596.27	596.27	0	2,156	94
020713	0.7	565.63	565.63	0.7	2,361	217
020714	0.7	565.63	565.63	0-0.7	1,326	517
020726	0.64	512.80	512.80	0.64	2,814	277
020727	0.64	512.80	512.80	0.64	1,659	122
020734	0	0.00	0.00	0	11,482	36
020735	0.42	806.46	806.46	0.42	6,214	46
020736	0.37	711.58	711.58	0.37	4,360	157
160231	8.5	0.00	0.00	8.5	3,864	277
160232	8.175	269.25	269.25	8.175	3,217	894
160239	8.175	269.25	269.25	8.175	4,173	117
Total EU imports						2,846
Of which from developing countries b)						1,636
a) EU 15 imports; b) WTO definition of developing countries.						

EU 2007 imports valued up to around USD2.8bn, of which USD1.6bn is from developing countries. Major import items are to be found in the semi-processed category, such as preserved meat (HS160232) and frozen cuts and

edible offal (HS020714). Especially the latter is in the higher range of specific tariffs, which indicates that despite high tariffs, imports occurs. Major suppliers of preserved meat are Thailand (USD505m in 2007) and Brazil (USD265m). Brazil is also the main supplier of frozen cuts and edible offal (together with Poland, which is within EU25) a position Brazil has taken for many years. Noteworthy is that EU imports of this group of products from Brazil has increased considerably since 2002/2003. Brazil is also the EU15's most important supplier of turkey meat (HS160231). This import flow also has show a significantly increasing trend in the last 5 to 10 years.

The poultry meat related tariff structure at the US border is quite different from the Union's tariff structure. The US structure places bound tariffs for all unprocessed and semi-processed products, yet applies only a few of them (Table 3.15). The applied specific tariffs are much lower than those applied by the EU. Ad valorem tariffs are absent or 6.4%, which is also much lower than EU tariffs. The US are a major exporter of poultry meat in the world: imports are modest, with USD200m in 2007.

<b>Hs6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>USA Import value 2007 (in million USD)</b>
020711	0	88.00	0.00	0	1,618	10
020712	0	88.00	88.00 a)	0	818	2
020724	0	150.00	0	0	2,004	4
020725	5	44.00	0	0	2,353	-
020732	0	88.00	0	0	3,772	0
020733	0	88.00	0	0	2,156	4
020713	0	176.00	0	0	2,361	26
020714	0	176.00	176.00 b)	0	1,326	71
020726	0	176.00	0	0	2,814	2
020727	0	176.00	0	0	1,659	5
020734	0	176.00	0	0	11,482	1
020735	0	176.00	0	0	6,214	1
020736	0	176.00	0	0	4,360	2

Hs6	WTO Bound ad valorem tariff (%)	WTO Bound specific tariff (USD/tonne)	Applied specific tariff (USD/tonne)	Applied ad valorem tariff (%)	World market price (unit value, in USD/tonne)	USA Import value 2007 (in million USD)
160231	6.4	0	0	0; 6.4	3,864	13
160232	6.4	0	0	0; 6.4	3,217	64
160239	6.4	0	0	0; 6.4	4,173	0
Total						205

a) Only for China; b) Only for China and India.

In sum, the EU's import tariff structure on poultry does not indicate tariff escalation and most imports are in the category of processed or semi-processed products. The US generally applies lower tariffs than the EU, and there are no signs of tariff escalation in its tariff structure either.

### 3.6 Bovine meat

Trade statistics on bovine meat products refer to 12 HS codes on 6-digit level. These are presented in table 3.16 below. Products are split into 4 unprocessed, 2 semi-processed and 6 processed products.

<i>Unprocessed</i>	
020110	Carcasses/half-carcasses of bovine animals, fresh/chilled
020120	Meat of bovine animals, fresh/chilled (exclusive of 0201.10), bone-in
020210	Carcasses/half-carcasses of bovine animals, frozen
020220	Meat of bovine animals, frozen (exclusive of 0202.10), bone-in
<i>Semi-processed</i>	
020130	Meat of bovine animals, fresh/chilled, boneless
020230	Meat of bovine animals, frozen, boneless
<i>Processed</i>	
020610	Edible offal of bovine animals, fresh/chilled
020621	Tongues of bovine animals, frozen

020622	Livers of bovine animals, frozen
020629	Edible offal of bovine animals (exclusive tongues & livers), frozen
021020	Meat of bovine animals, salted/in brine/dried/smoked
160250	Prepared/preserved preparations of bovine animals (exclusive homogenised preparations), inclusive mixtures

Import tariffs of bovine meat are relatively high (table 3.17). Except for two products, all imports of bovine meat are subject to specific tariffs. These specific tariffs are one third to about 70% of the import price; in case of HS020210 (carcasses frozen) the specific tariff is even higher than the import price. The EU also applies ad valorem tariffs to imports of these products: to unprocessed and semi-processed products 12.8% and different rates to the processed products. All together, the EU's bovine meat protection rates are high. The composition of the tariffs structure does not however indicate tariff escalation.

Imports of bovine products in the EU are largely fresh/chilled (HS020130) and rozen boneless meat (HS 020230). These two product categories account for more than 70% of total import value of USD3.2bn in 2007. Brazil (USD663m) and Argentina (USD553m) are main suppliers of fresh/chilled boneless meat. It is worth mentioning that imports from Brazil are subject to the full specific tariff of USD3,769 per tonne while the EU charges only 50% of that tariff on imports from Argentina. Brazil also accounts for the highest share (72%) in EU15's import of frozen boneless meat (HS020230). Again these imports are subject to substantial specific tariff (USD2,315 per tonne, less than the maximum that is applied). Botswana is EU's major supplier of fresh/chilled and frozen bovine meat out of the ACP group of states. This country exports to the EU without paying ad valorem and specific import tariffs up to a maximum quantity of 52,100 tonnes (an annual quota that is shared with Namibia, Kenya, Madagascar, Swaziland and Zimbabwe).



**Table 3.17 Tariff structure for bovine meat at EU border**

Hs6	WTO Bound ad valorem tariff (%)	WTO Bound specific tariff (USD/tonne)	Applied specific tariff (USD/tonne)	Applied ad valorem tariff (%)	World market price (unit value, in USD/tonne)	EU Import value 2007 (in million USD) a)
020110	12.8	2,196.27	2,196.27	12.8	3,267	216
020120	12.8	2,470.81	2,470.81 c)	12.8	3,305	243
020210	12.8	2,196.27	2,196.27	12.8	1,510	2
020220	12.8	2,498.76	1,756.52	12.8	2,885	7
020130	12.8	3,768.94	3,768.94 c)	12.8	4,571	1686
020230	12.8	3,090.27	3,090.27 d)	12.8	2,314	646
020610	3.2	942.24	942.24	3.2	2,407	9
020621	0	0	0	0	4,700	2
020622	0	0	0	0	749	1
020629	4.3	1,259.21	1,259.21	4.3	1,490	7
021020	15.4	3,531.68	3,531.68	15.4	7,375	26
160250	12.45	942.24	942.24	12.45	2,983	394
Total EU imports						3,239
Of which from developing countries b)						2,412
a) EU 15 imports; b) WTO definition of developing countries; c) Chili excluded; d) Chili excluded; 5) Australia, Lebanon and Madagascar excluded.						

US import tariffs of bovine meat are completely different from those in the EU (table 3.18). The USA applies rather low specific tariffs to unprocessed and semi-processed beef products. Ad valorem tariffs - also applied to these two categories - are again significantly higher than those applied by the EU. While specific and ad valorem tariffs are not applied on processed products, this US import tariff structure indicates tariff escalation.

<b>Hs6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>USA Import value 2007 (in million USD)</b>
020110	26.4	0	0;22;44	0	3,267	38
020120	26.4	0	0;7.3; 14.7	26.4	3,305	136
020210	26.4	0	0;22;44	26.4	1,510	0.7
020220	26.4	0	0;7.3;14.7	26.4	2,885	10.8
020130	26.4	0	0; 7.3; 14.7	26.4	4,571	1,080
020230	15.2	0	0;17.6	15.2	2,314	1,684
020610	0	0	0	0	2,407	45,3
020621	0	0	0	0	4,700	4,1
020622	0	0	0	0	749	0,5
020629	0	0	0	0	1,490	65,7
021020	0	0	0	0	7,375	16,9
160250	2.1	0	0	2.1	2,983	455
Total						3,404

Summarising the above: the EU's bovine meat protection rates are high, especially because of the application of specific tariffs. The composition of the tariffs structure does not, however, indicate tariff escalation. The US, on the other hand, applies tariff escalation in their beef imports.

### **3.7 Soybeans**

Trade statistics distinguish between four tariff lines with respect to soybeans and its products: soybeans, soybean oil (crude and other than crude) and oil cake of soybean oil (see table 3.19).

120100	Soya beans, whether/not broken
150710	Soya bean oil, crude, whether/not degummed, not chemically modified
150790	Soya bean oil, other than crude, & fractions thereof, whether/not refined but not chemically modified
230400	Oil-cake & other solid residues, whether/not ground/in pellets, from extraction of soya bean oil

EU ad valorem tariffs on imports of soybean oil are relatively low; on oil other than crude oil the EU applies a higher tariff than to crude oil imports (table 3.20). Tariffs on imports of beans and oil cake are zero. The difference between tariff rates on soybeans (the raw material) and oil (a product with high value added) indicates tariff escalation.

Hs6	WTO Bound ad valorem tariff (%)	WTO Bound specific tariff (USD/tonne)	Applied specific tariff (USD/tonne)	Applied ad valorem tariff (%)	World market price (unit value, in USD/tonne)	EU Import value 2007 (in million USD) a)
120100	0	0	0	0	240	5,544
150710	4.8	0	0	0-4.8	504	342
150790	7.35	0	0	0-7.35	573	368
230400	0	0	0	0	232	5,923
Total EU imports						12,177
Of which from developing countries b)						10,977

a) EU 15 imports; b) WTO definition of developing countries.

The EU's total import value adds up to over USD12bn, the bulk of which is from importing soy beans (HS 120100) and oil cake (HS 230400) which both enter the EU free of import tariffs. Argentina and Brazil are the major suppliers, with the latter being a more important origin for EU imports than Argentina. However, next to Brazil (USD3.5bn), imports of soybeans are mainly from the USA (USD1.1bn in 2007), while imports of beans from Argentina are particularly low. On the other hand, imports of oil cake are only from Argentina (USD3.4bn) and Brazil (USD2.3bn in 2007). Both countries also play a dominant role as supplier of EU imports of soy bean oil. These imports are subject to relatively low ad valorem tariffs.

USA soy bean imports are free of tariffs (table 3.21). Ad valorem tariffs on oil are much higher at the USA border than at the EU border. Next, there are specific tariffs on oil cake that enters the US. The US soy market is more protected compared to the EU. Also, the US applies significant import tariffs to soy bean oil, which points toward tariff escalation. The USA is world's largest soy-bean producer and imports are therefore very small.

**Table 3.21 Tariff structure for soybeans at the US border**

Hs6	WTO Bound ad valorem tariff (%)	WTO Bound specific tariff (USD/tonne)	Applied specific tariff (USD/tonne)	Applied ad valorem tariff (%)	World market price (unit value, in USD/tonne)	USA Import value 2007 (in million USD)
120100	0	0.00	0.00	0	240	103
150710	19.1	0.00	0.00	19.1	504	7
150790	9.55	0.00	0.00	9.55	573	8
230400	0	4.50	4.50	0	232	28
Total						146

In summary, in both the EU's and the US' import tariff structure tariff escalation is observable, yet while the EU is a major importer of soybeans, the US is world's largest producer and one of the main exporters in the world.

### 3.8 Wood

The trade chapter on wood products contains 67 tariff lines. From these lines 24 are included in the definition of agricultural products. These lines are presented in table 3.22.

**Table 3.22 Tariff lines in the Chapter wood, included in Agriculture**

<i>Unprocessed raw material</i>	
440110	Fuel wood, in logs/billets/twigs/faggots/similar forms
440310	Wood, in the rough, whether/not stripped of bark/sapwood/roughly squared, treated with paint/stains/creosote/other preservatives
440320	Wood, in the rough, whether/not stripped of bark/sapwood/roughly squared (exclusive of 4403.10), coniferous
440341	Dark Red Meranti, Light Red Meranti & Meranti Bakau, in the rough, whether/not stripped of bark/sapwood/roughly squared
440349	Topical wood spec. in SH Note 1 to Ch.44 (exclusive of 4403.41), in the rough, whether/not stripped of bark/sapwood/roughly squared
440391	Oak ( <i>Quercus</i> spp.), in the rough, whether/not stripped of bark/sapwood/roughly squared
440392	Beech ( <i>Fagus</i> spp.), in the rough, whether/not stripped of bark/sapwood/roughly squared
440399	Wood, in the rough (exclusive of 4403.10-4403.92), whether/not stripped of bark/sapwood/roughly squared
440724	Lumber, Virola, Mahogany
<i>Semi-processed</i>	
440610	Railway/tramway sleepers (cross-ties) of wood, not impregnated
440690	Railway/tramway sleepers (cross-ties) of wood, other than those not impregnated
440710	Wood sawn/chipped length wise, sliced/peeled, whether/not planed, sanded/end-jointed, of a thickness >6mm, coniferous
440725	Wood sawn/chipped length wise, sliced/peeled, whether/not planed, sanded/end-jointed, of a thickness >6mm, of Dark Red Meranti, Light Red Meranti & Meranti Bakau
440726	Wood sawn/chipped length wise, sliced/peeled, whether/not planed, sanded/end-jointed, of a thickness >6mm, of White Lauan, White Meranti, White Seraya, Yellow Meranti & Alan
440729	Wood sawn/chipped lengthwise, sliced/peeled, whether/not planed, sanded/end-jointed, of a thickness >6mm, of tropical wood specified in Subheading Note 1 to this Ch. (exclusive of 4407.21-4407.28)
440791	Oak ( <i>Quercus</i> spp.), sawn/chipped length wise, sliced/peeled, whether/not planed, sanded/end-jointed, of a thickness >6mm
440792	Beech ( <i>Fagus</i> spp.), sawn/chipped length wise, sliced/peeled, whether/not planed, sanded/end-jointed, of a thickness >6mm
440799	Wood (exclusive of 4407.10-4407.95), sawn/chipped lengthwise, sliced/peeled, whether/not planed, sanded/end-jointed, of a thickness >6mm

<b>Table 3.22</b>		<b>Tariff lines in the Chapter wood, included in Agriculture (continued)</b>
<i>Processed</i>		
440121	Wood, in chips/particles, coniferous	
440122	Wood, in chips/particles, non-coniferous	
440130	Sawdust & wood waste & scrap, whether/not agglomerated in logs/briquettes/pellets/similar forms	
440200	Wood charcoal (including shell or nut charcoal)	
440910	Wood (including strips & friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded, moulded, rounded/the like) along any of its edges, ends/faces, whether/not planed, sanded/end-jo	
440920	Non-conifer wood continuously shaped along any edges	

The agricultural wood product's tariff structure is presented in table 3.23. The sequence is the same as in the table above. Most tariffs are zero. Those HS-codes with a tariff all belong to the semi-processed category. These tariffs are generally low. Therefore, one cannot speak of tariff escalation.

Meanwhile, tariffs on wood products excluded from the agricultural products definition are low too (UN-COMTRADE). In some product groups a tariff of 7 to 8% applies, yet most tariffs applied are very much below that percentage. EU import tariffs are highest on products from the USA, Canada, Brazil, Indonesia, Malaysia and Singapore.

Total import value of wood (under the agricultural product definition) of the EU15 adds up to USD11.8bn in 2007. The top-3 exporting countries are Russia, the USA and Brazil. About half of the import value is related to semi-processed products. Only some HS-codes in this group of products are taxed by import tariffs and these account for only a few percentage of the import value.

The USA applies import tariffs only to HS 440910 and HS 440920 (shaped wood). These tariffs, however, are only around 1% of the import value.

**Table 3.23 Tariff structure for wood at the EU border**

Hs6	WTO Bound ad valorem tariff (%)	WTO Bound specific tariff (USD/tonne)	Applied specific tariff (USD/tonne)	Applied ad valorem tariff (%)	World market price (unit value, in USD/tonne)	EU Import value 2007 (in million USD) a)
440110	0	0	0	0	52	130
440310	0	0	0	0	299	19
440320	0	0	0	0	65	1164
440341	0	0	0	0	137	5
440349	0	0	0	0	369	432
440391	0	0	0	0	173	90
440392	0	0	0	0	57	116
440399	0	0	0	0	106	1184
440724	3.45	0	0	0-1.5	930	55
440610	0	0	0	0	227	13
440690	0	0	0	0	182	6
440710	0	0	0	0	283	3257
440725	3.0	0	0	0-1.75	737	338
440726	3.0	0	0	0-1.75	327	17
440729	3.24	0	0	0-1.5	658	911
440791	0	0	0	0	543	831
440792	0	0	0	0	403	140
440799	0.42	0	0	0-0.42	471	959
440121	0	0	0	0	62	229
440122	0	0	0	0	94	116
440130	0	0	0	0	66	399
440200	0	0	0	0	362	188
440910	0	0	0	0	1124	148
440920	0	0	0	0	1461	1053
Total EU imports						11800
Of which from developing countries b)						2733
a) EU 15 imports; b) WTO definition of developing countries.						

**Table 3.24 Tariff structure for wood at the US border**

Hs6	WTO Bound ad valorem tariff (%)	WTO Bound specific tariff (USD/tonne)	Applied specific tariff (USD/tonne)	Applied ad valorem tariff (%)	World market price (unit value, in USD/tonne)	USA Import value 2007 (in million USD)
440110	0	0	0	0	52	7
440310	0	0	0	0	299	56
440320	0	0	0	0	65	186
440341	0	0	0	0	137	-
440349	0	0	0	0	369	1
440391	0	0	0	0	173	1
440392	0	0	0	0	57	0
440399	0	0	0	0	106	28
440724	0	0	0	0	930	-
440610	0	0	0	0	227	5
440690	0	0	0	0	182	5
440710	0	0	0	0	283	582
440725	0	0	0	0	737	15
440726	0	0	0	0	327	212
440729	0	0	0	0	658	-
440791	0	0	0	0	543	7
440792	0	0	0	0	403	1
440799	0	0	0	0	471	225
440121	0	0	0	0	62	2
440122	0	0	0	0	94	8
440130	0	0	0	0	66	140
440200	0	0	0	0	362	-
440910	0.9	0	0	0.9	1,124	824
440920	1.0	0	0	1.0	1,461	-
Total						2,305

In sum, tariffs are generally nonexistent or very low and there is no tariff escalation in either the EU's import tariff structure nor in the US' structure.

### 3.9 Leather

The chapter on raw hides, skins (other than fur skins) and leather (HS 41) counts 54 HS-codes. As with wood, only a limited number of the products -



hides and skins - are included in the agricultural definition. These products are the raw materials that will be used in the leather industry for further processing. These raw materials are included in table 3.25.

<b>Table 3.25 Tariff lines of hide and skins which are under the agricultural products definition</b>	
410110	Bovine skins, whole, raw
410121	Bovine hides, whole, fresh or wet-salted
410122	Butts and bends, bovine, fresh or wet-salted
410129	Hide sections, bovine, nes, fresh or wet-salted
410130	Bovine hides, raw, nes
410140	Equine hides and skins, raw
410210	Raw skins of sheep/lambs (fresh/salted/dried/limed/pickled/othw. preserved but not tanned/parchment-dressed/further prepared), with wool on
410221	Raw skins of sheep/lambs, pickled but not tanned/parchment-dressed/further prepared, without wool on
410229	Raw skins of sheep/lambs (fresh/salted/dried/limed/pickled/othw. preserved, but not tanned/parchment-dressed/further prepared), split, other than those excluded by Note 1 (c) to this Ch.
410310	Goat or kid hides and skins, raw, nes
410390	Raw hides & skins (fresh/salted, dried, limed, pickled/othw. preserved, but not tanned, parchment-dressed/further prepared), whether/not dehaired/split, other than those excld. by Note 1 (b)/1 (c) to this Ch., n.e.s. in Ch 41

The overview below shows that the EU does not apply tariffs to imports of hides and skins (table 3.26). The import value is about USD1bn, of which is only a very small part from developing countries. Main EU suppliers are the Russian Federation and the USA.

Meanwhile, imports of many non-agricultural products in this Chapter 41 are subject to tariffs. These tariffs are up to 9% maximum (e.g. for 'Gloves, et cetera). Import tariffs are highest for these imports originating from East-Asian countries (including India), some OECD countries, Brazil and Argentina.

<b>Hs6</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>WTO Bound specific tariff (USD/tonne)</b>	<b>Applied specific tariff (USD/tonne)</b>	<b>Applied ad valorem tariff (%)</b>	<b>World market price (unit value, in USD/tonne)</b>	<b>EU import value 2007 (in million USD) a)</b>
410110	0	0	0	0	2,548.50	88
410121	0	0	0	0	1,788.60	505
410122	0	0	0	0	1,345.47	16
410129	0	0	0	0	815.72	51
410130	0	0	0	0	618.54	21
410140	0	0	0	0	2,869.55	2
410210	0	0	0	0	2340	10
410221	0	0	0	0	4,693.39	166
410229	0	0	0	0	2,510.53	2
410310	0	0	0	0	3,299.54	99
410390	0	0	0	0	1,326.96	25
Total EU imports						985
Of which from developing countries b)						53
a) EU 15 imports; import values HS 410110 to HS 410140 are 2001 data; b) WTO definition of developing countries.						

The USA does not tax imports of the agricultural products shown in table 25 and 26; hence, the tariff structure is identical to the one of the EU. Yet, both the EU and the US apply tariffs to leather products processed from these hides and skins. Therefore, tariff escalation occurs in this industry.

### 3.10 Cotton

The product category on cotton (HS 52) consists of 131 tariff lines at 6 digit level. Because of its length at that detailed level, table 3.27 presents the applied tariff structure and EU import data at 4-digit level. The EU does not apply specific tariffs on imports of any of these cotton product categories, only ad valorem tariffs. The tariffs applied are relatively small: 8% of the import value at the most. Yet, the data on tariffs shows that the EU clearly applies tariff escalation with respect to cotton product imports: while unprocessed cotton does not face tariffs, the imports of the more processed products are indeed taxed by

tariffs and these tariffs increase with the processing level.

<b>Hs4</b>	<b>Description of the tariff line</b>	<b>WTO Bound ad valorem tariff (%)</b>	<b>Applied ad valorem tariff (%)</b>	<b>EU Import value 2007 (in million USD) a)</b>
5201	Cotton, not carded or combed	0	0	447
5202	Cotton yarn waste (including thread waste)	0	0	127
5203	Cotton, carded or combed	0	0	35
5204	Cotton sewing thread	4 or 5	0, 3.2 or 4	19
5205	Cotton yarn, not retail	4 or 4.2	0, 3.2, 4 or 4.2	1,168
5206	Cotton yarn <85% single uncombed or multiple combed, not retail	4	0, 3.2 or 4	43
5207	Cotton yarn (except sewing thread) >85% cotton, retail	5	5	31
5208	Plain and/or twill weave cotton	8	0, 6.4 or 8	1,455
5209	Plain weave cotton, >85% >200g/m <sup>2</sup> , unbleached	8	0, 6.4 or 8	776
5210	Plain weave cotton <85% +manmade fibre <200g unbleached	8	0, 6.4 or 8	148
5211	Plain weave cotton, <85% +manmade fibre, >200g/m <sup>2</sup> unbleached	8	0, 6.4 or 8	105
5212	Woven cotton fabric, >200g/m <sup>2</sup> , unbleached, nes	8	0, 6.4 or 8	60
Total EU imports				3,933
Of which from developing countries b)				3,650
a) EU 15 imports; import values HS 410110 to HS 410140 are 2001 data; b) WTO definition of developing countries.				

Tariff escalation with respect to cotton is even more visible if the imports of clothing based on cotton (HS 61,62 and 63) are taken into consideration. Most clothing, for instance shirts of cotton, is subject to 12% import tariffs.

EU 2007 imports were valued at almost USD4bn. Imports from developing countries were more than USD3.6bn.

As with the other commodities discussed, the EU charges highest (bound

rates or close to bound rates) tariffs on imports of cotton from developed countries. The picture with respect to developing countries is very mixed: import rates depend on history and bilateral agreements whereby ACP and EBA countries have preferences above other developing countries. This is also the case for imports of cotton and cotton based clothes. The EU imports a lot of cotton and clothing products from Bangladesh; around USD5.3bn in total. All these imports are free from import duties. China, on the other, is charged the bound tariff rates at the EU border. Yet, imports from China amounted to USD16.5bn in 2007. Imported cotton and clothes based on cotton from India are also charged tariff rates close to the bound rates. Still, the import value of USD5.9bn in 2007 was substantial. These data indicates that there is no clear correlation between EU's country specific import tariff and its related import flow.

## 4 Relation between the levels of tariffs and import flows

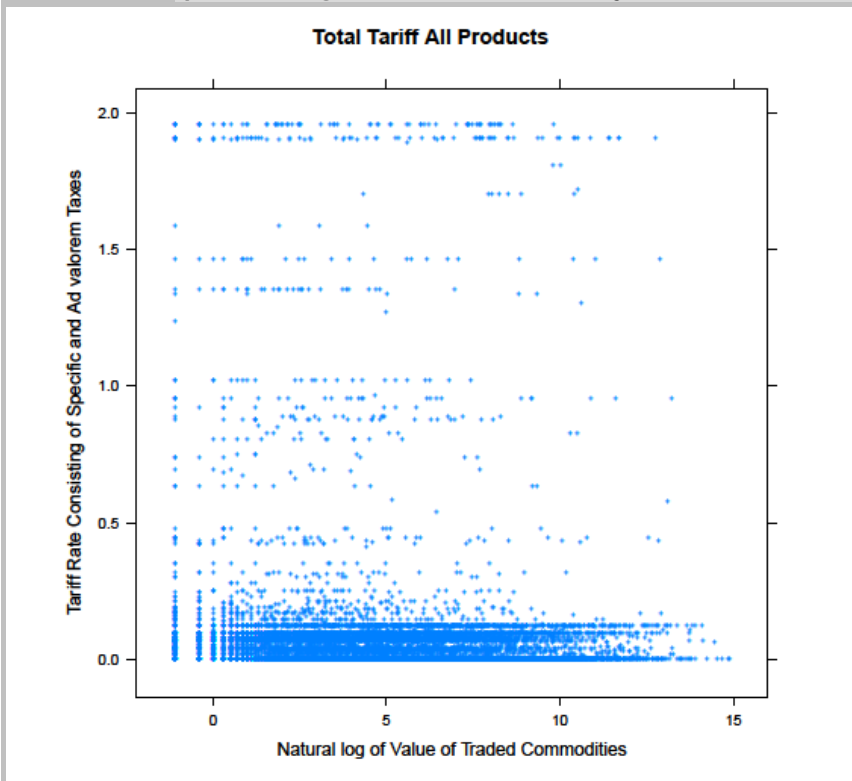
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In the previous section, overviews of tariffs and imports at a detailed 6-digit product level have been presented for ten product categories of importance both to developing countries and the EU. This section aims at looking at the relation between the level of the tariff and the import flow in a structured way.

The problem with import tariffs in general and tariff escalation in particular is that it limits or even prevents exporting countries entering a foreign market. Behind this thought is the basic assumption the higher the tariff the lower the import flow. However, based on data observations and analyses, there is no indication of an unambiguous relation between EU's import tariffs and import flows: high tariffs do not necessarily prevent products from entering the EU and there are examples in which imports of products charged with highest tariff rates are higher than any other product within the same product category (see for instance in the sections on poultry and beef). Below we explore this issue and show the results of a quantitative assessment of the link between the two in graphs.

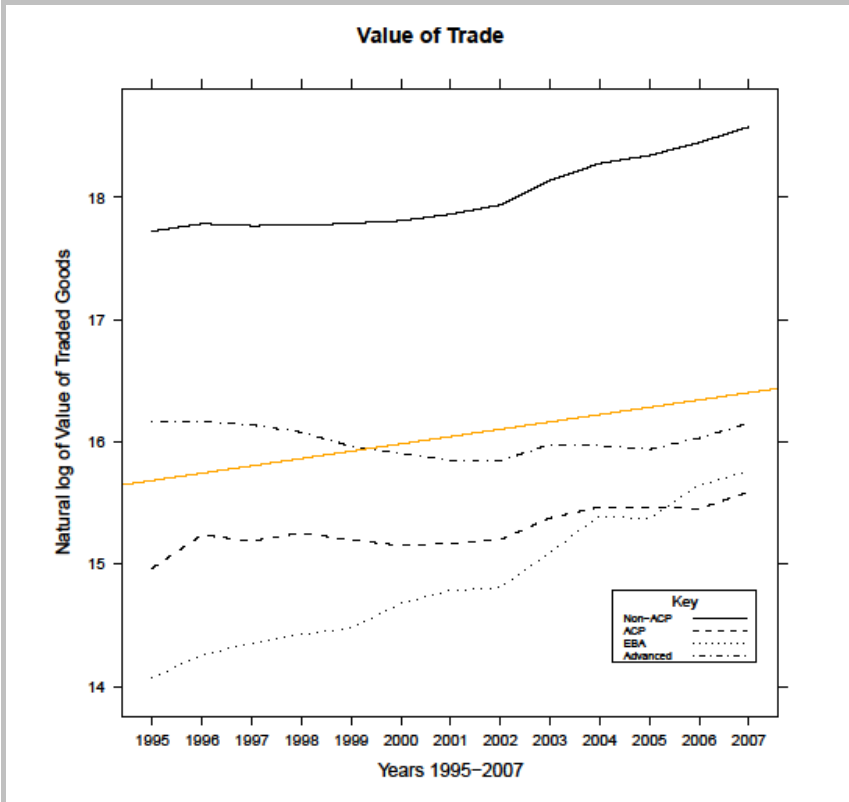
In figure 4.1, we present a plot of 2004 tariff rates against the three year average (2004-2007) import values for all selected agricultural products and countries that have been exporting to the EU-15 over the period 1995-2007. The graph shows EU import tariffs as a combination of specific and ad valorem tariffs, added together in the case a country exporting to the EU faces both of them and presented as percentage of the 2004 world market price (source is the MacMapHS6 database). The graph shows the scattered observations of import flows, with imports coming in against high and low tariffs. Most import flows are against zero or rather low tariffs (up to 20-25%). Import values are either rather small or quite large. Imports do occur against high tariffs too, and in quite some cases the import values are significant. Generally, hence, the proposition of the negative relation between the level of tariffs and the level of imports does not seem to be confirmed by the data in this graph.

**Figure 4.1** Link between EU tariff rates and its import values, for ten product categories selected for this study



Also, if we focus on product categories or on the distinction between processed and unprocessed products we do not find convincing results indicating at a negative correlation between the level of tariffs and imports. This outcome also seems to support the statement presented in section 1.2 that tariffs are not the decisive factor in EU's imports, but that other factors such a consumer preferences, compliance to standards and supply factors (in the exporting country) are important too.

**Figure 4.2** Trend in EU imports of ten selected product categories from several country groups



The above analysis does not indicate, however, that high tariffs do not restrain trade. They surely may act as market entry barriers (simply because it raises the price of imports against domestic supply), but it is difficult to show how much they do among all other factors that may influence trade too. A way to show the possible effect of tariffs on trade is to present the trend in EU imports while there has been changes in the import tariffs over time. Unfortunately, we do not have a dataset on tariff rates at different years, but we know that due to the WTO Uruguay Round import tariffs have been adjusted and declined step by step in the years 1995-2000. Also, the EU and the 48 less developed countries adopted the EBA initiative arranging free access to the EU for this group of developing countries (see section 2). Figure 4.2 shows the trend in EU imports of the ten selected product categories making a distinction between

different set of (groupings of) countries. The orange line in this figure shows the average increase of EU imports over the period 1995-2007. The slope of the line representing the import from the EBA countries is significantly steeper than the 'average' since 2002, which is the first year the EBA agreement was in force, allowing a tariff free market access to the Union from that year onwards (except for sugar). This indicates that EBA countries have benefitted from that agreement by exploiting their export opportunities to a greater extent than their competitors. Whether this is only because of the tariff elimination or also due to other factors, would be subject to further research.



## 5 Conclusions

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This study shows that EU tariff escalation does occur in agricultural imports for a number of products but not for all. Based on a quick scan of EU imports of ten selected agricultural product groups, UN trade statistics and a detailed tariff dataset the conclusion is that the EU applies tariff escalation on its imports of cocoa, tomatoes, palm oil, soy, leather and cotton: import tariffs (a combination of specific and ad valorem tariffs) applied on these product categories are higher for processed than for unprocessed products. There are, however, no signs of tariff escalation at EU's imports of sugar, poultry meat, beef, wood and hides & skins. EU import tariffs on sugar and beef are high for all tariff lines, raw materials as well as processed products. The imports of wood and hides & skins are not or only very little taxed by tariffs. Table 5.1 summarises these findings.

Developing countries are the main source of EU imports of all products subject to this study, except for wood. The EU has offered many developing countries preferential treatment in their agricultural exports to the Union. Especially the ACP and EBA countries benefit from the absence of, or the relatively low EU import tariffs.

Starting from the proposition that high import tariffs may be a serious obstacle for exporting countries to enter the importing country, we were seeking a link between the level of tariffs and import values in the EU data. The analysis per product category and for the whole sample in general shows no strong evidence for such a link: high import tariffs do not correspond much with low imports and low tariffs do not correlate significantly with high import values. In quite a number of cases it was found that the major import item of the product category happened to be the one with significant import tariffs (compared to tariffs applied to other products in that group).

The lack of a unambiguous relation between (high) tariffs and (low) import flows does not, however, indicate tariffs do not act as barriers to trade. The example of the EBA agreement, in force since 2002, point at a positive impact on the less developed countries' export opportunities to the EU after the Union's import tariffs had been abolished. The data indicate that EBA exports have increased more than exports from other countries, thereby strengthening their market share in EU imports.

<b>Product</b>	<b>Tariff wedge (min. and max. ad valorem tariff)</b>	<b>Tariff escalation?</b>
Cocoa	0-9.6	Yes
Tomato	0-16.4	Yes
Palm oil	0-9.5	Yes
Sugar	0-18	No
Poultry meat	0-8.5	No
Beef	0-15.4	No
Soybeans	0-7.35	Yes
Wood	0-3.45	No
Hides & Skins	0	No
Cotton	0-8	Yes
Overall		No

The level of imports is determined by more factors than the level of the import tariff only; demand and/or consumer preferences for these products, their quality (which provides them a price premium) and the lack of domestic supply are some of the other determining factors. The question whether developing countries are hampered to export to the EU because of Union's perceived high tariffs (or, stated otherwise: whether developing countries would benefit from an EU import tariff reduction) is difficult to answer without a further analysis of demand and supply trends in both the EU and developing countries, and of other market and product specific characteristics (that should comply with EU public standards on quality, et cetera) that all contribute to the competitiveness of the supplier at the international market. This, however, goes beyond the scope of this brief analysis into the tariff escalation features of the EU agricultural import protection structure.

Based on the tariff and trade database available, further analysis could explore the relation between the tariff levels and import flows by comparing import data (tariffs and import flows) of OECD countries. Variations in tariffs between OECD countries with a comparable income level could indicate an effect of tariffs on import flows. By focusing on imports of OECD countries one excludes the effects on imports caused by the differences in consumer patterns due to differences in income levels. At the same time such an approach would not give insights into the extent developing countries would be able to supply their produce in the international markets at competitive rates, complying with all standards regarding quality and food safety.

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