



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

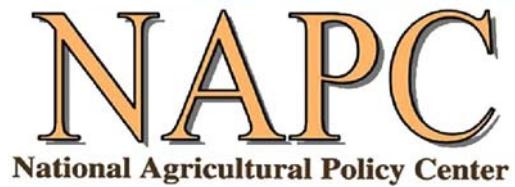
AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Ministry of Agriculture and Agrarian Reform



WORKING PAPER NO 43

Ad Valorem Equivalent in the WTO

Mahmoud Babili

NAPC- TPD

Damascus 2009

1. Abstract

In order for WTO member countries to progress in Doha Round negotiations, and particularly on their negotiations on agricultural tariff reductions, they should clear the obstacle of how to convert specific tariffs into ad valorem equivalents (AVEs). This would be a transparency exercise that will allow tariffs to be categorized into different tiers set for different reductions. This working paper goes into the technical details of the issue, elaborating the various views about it, and introducing practical examples in this context. The paper also focuses on the Syrian perspective in this relevance, and how can Syria benefit from it.

2. Introduction

The difficulties that agricultural negotiations face, particularly in terms of market access, represent an obstacle beyond international agricultural production that the UN hopes to achieve in the millennium development goals, which was set for this target. Therefore, more explicit and coherent principles in regards to agricultural negotiations, and specifically in market access, should be adopted.

3. Historical background

The agreement of agriculture (AoA) in the WTO implies that country members should cut their high agricultural tariffs by specific percentages to achieve the so-called “market access”. This terminology is newly invented, and it became known after Uruguay Round. Market access means the accession of foreign commodities to the national market, as well as accession of national commodities to the foreign market. National and foreign commodities should be treated equally in member countries’ markets, without any discrimination. According to the AoA, tariff cut percentages are as follows:

- developed countries were required to reduce their tariffs by an average of 36%, with a minimum per tariff line reduction of 15%, over 5 years
- developing countries were required to reduce their tariffs by 24% overall, with a 10% per tariff line minimum, over 9 years
- Least Developed Countries (LDCs) were exempted from tariff reductions, but either had to convert non-tariff barriers to tariffs or bind their tariffs so that they could not be raised in the future

Indeed, what increases the difficulty of agricultural negotiations is the plurality of tariff levels in several countries. Furthermore, each level requires ad hoc reduction. Thus, negotiators are supposed to organize tariffs into 3 categories, and define the three categories (or the four ranges agreed in Hong Kong). For each category, amount of reduction and tariff bound should be defined, which means defining 16 numbers in the negotiations; that is not an easy job. In this sense, importing “Suisse Formula” from NAMA (None Agricultural Market Access) to agricultural negotiations would be a reasonable step to push forward negotiations on market access. This formula is characterized with justice, symmetric and transparency. Moreover, the more disparities in custom tariffs among countries are, the greater the impact of the formula would be. Nevertheless, the real difficulty springs from the existence of quantitative tariffs in agriculture (on contrary to industry, which seldom has such tariffs). This needs converting specific tariffs into ad valorem tariff, which means converting specific tariffs into ad valorem equivalents (AVEs), and then agricultural trade can be liberalized thereafter. Yet, this conversion potentially threatens that protection may increase rather than decrease.

The conversion itself is a major and important step, and it would be useful anyway. In addition, it would not cost any thing. The Suisse formula, if implemented, would accelerate defining fixed

and real dates to finalize Doha Round. It would also hinder the mentality of exemptions that have been dominated in the WTO. In addition, it would allow for better linking between NAMA and agricultural negotiations, which makes negotiations goes in parallel.

The mentioned problem about specific tariffs relates to that some countries apply tariffs on quantities and volumes of imported agricultural products, and not on their prices. These countries were supposed to replace their specific tariff or volume tariff with AVEs. Equally important, in light of the freedom offered to each member country to choose its products that their tariffs should be cut, it can be seen that the subject is quite complex and difficult. This, in fact, results from the flexibility that AoA endowed to member countries in terms of the way to define products and distribute reductions on them. Later on, establishing AVEs became a barrier to agricultural negotiations. Countries that have specific tariffs were supposed to convert them into AVEs before reducing their tariffs. Actually, converting specific tariff and volume tariff into AVE is basically a procedure of transparency, which is one of WTO principles. However, it is a very sensitive subject, because ad valorem tariffs will be organized into different categories (tires), and each tire has its ad hoc reduction. This means that rigging numbers, even by slight figures, in the context of conversion process, would probably results in huge change in reductions.

4. What is AVE equivalent?

AVE is tariff based on the value of imported commodities. Ad valorem equivalent can be calculated mathematically by converting absolute tax per ton or liter into a percentage of the value of imported commodity. Thus, AVE is basically linked with the merchandise's value, and the higher the commodity's value is, the smaller the AVE is¹.

5. How to calculate AVE?

According to the WTO, AVE can be calculated by two ways:

- either by comparing custom revenues with the value of imported commodities, and therefore concluding the percentage of tax in one unit value; the concluded figure is the special AVE for the given commodity. This method is called the income method, and its formula is: $AVE = (\text{custom revenues} / \text{commodities' values}) * 100$
- or by "unit value" method, where value of one imported unit is compared to specific tariff that are imposed before conversion, to conclude the value of proper AVE. the formula here is $AVE = (\text{specific tariff} * 100) / \text{value average}$

In theory, the conversion process should be simple, since it just requires dividing tariff on commodity value. Nevertheless, this outward simplicity could be very complex due to several reasons, such as:

- statistically disagreement on imports volume in a given country. Indeed, many countries reject figures that some countries present about their national imports volume; while import quantities (and therefore import values) play a major role in AVE conversion, as mentioned above.
- the existence of several and complex versions of tariff, such as mixed tariff, escalating tariff, tariff rate quotas...etc, which reduce the transparency and allow for rigged conversion
- the difficulty in defining price that should serve as a basis for AVE calculation, which is the most important reason for clashes in terms of AVE

The problem in details

¹ EC, 2005.

The issue of AVE is an old standing subject for deep disagreement between the EU, G10 (a group of net food importer countries, such as Switzerland and Norway), and the US on the one hand; and CARINS group of agricultural exporter countries, and G20 which comprises several major developing countries on the other hand. Each of the EU, the US, Switzerland and Norway has a lot of commodities that are characterized with specific tariffs. These commodities need to be converted by AVE, but the EU and G10 prefer to keep these tariffs as they are, on contrary to attitude of other member countries. The core of the problem is that member countries are supposed to use the unit value method in calculating AVEs, relying on import values that the WTO received from its member countries, which are available in the WTO database (IDB), and on the quantities or volumes of imports. Nevertheless, some products, like sugar for instance², enjoy special and deferential treatment when they are imported. Or alternatively, they are substantially imported through quotas. Thus, their import prices differ largely from international prices that are available in the UN database (COMtrade). Agricultural exporter countries prefer to base the conversion on the lower price, which results in higher AVE, and consequently deeper cut of tariffs. In this context, the US and CARINS want to use the UN database in the conversion process, considering that COMtrade prices are lower than other databases. However, the EU and G10 want to base the conversion on the WTO database, noting that the UN database prices are not sufficient and don't take into consideration none trade reasons that make import prices higher than international prices. For example, geographical indicators that rise the prices of French wine, not due to tariff reasons, can be mentioned. Moreover, some varieties of French cheeses have the same situation, where the UN database has only single price for French wine or French cheeses, and do not consider the above factor. Furthermore, according to the EU, WTO database ignores specific factors that impact on prices. Additionally, some tariffs would result in relatively small AVEs.

6. Current negotiations

After long and almost useless negotiations, it became obvious that there is a necessity to find a compromise containing fair price between the values of IDB and COMtrade if a deal about AVE is to be stroke. Both groups, either countries in favor of IDB or those in favor of COMtrade databases accepted potentially this solution. However, there are still two obstacles. A relative weight should be given to each database if a formula to produce an agreed price is required. In this context, agricultural producer countries ask for a conversion that is closer to the low international prices, which would result in greater AVE, and thus greater cut. The other obstacle is of executive nature. Indeed, it is whether the needed and agreed price should be looked for in between the two prices and thus it could be converted later, or that two AVEs should be calculated for the two primary prices and then they have to be weighted and averaged by an agreed percentage?

In October 2004 negotiations, which resulted later in Hong Kong declaration, technical issues related to the three pillars of agriculture were discussed, such as green box in the context of domestic support, credit and insurance programs in the context of export subsidies, and AVE and Special Safeguard Mechanism (SSM) in the context of market access.

The negotiations on market access focus, in addition to the SSM, on AVE, which guarantees converting specific tariff of (dollar/ton) into a percentage of the value. Thus, after conversion, it would be possible to define the level that the new tariff relates to, and consequently the cutting formula that should be applied. The discussion also highlighted the reference pricing that should be counted on to calculate the AVE, and the reference period that should be adopted. This is because the problem of period is not less important than the problem of pricing.

The agricultural committee in the WTO asked the general secretary during these negotiations (in 7-10-2004) to prepare a special memorandum that contains relevant data to be obligatory

² And some kinds of cheeses as well.

used in calculating AVEs, which would enable conducting the obliged reduction through harmonized (Swiss) formula. The memorandum was prepared in 15-10-2004. It contained all types of tariff that were agreed to be bound (put a ceiling for them). In fact, there are several types of tariffs that can be categorized in two groups: ad valorem tariff and quantitative tariffs; the later can be divided into four groups:

- Quantitative tariff: based on weight or volume
- Compound tariff: a ad valorem tariff, but a negative or positive quantitative tariff is added to or subtracted from it
- Mixed tariff: a mixture of ad valorem tariff and specific tariff, basing on the lowest level or highest level that is set in the custom system
- Other types: tariffs based on complex technical considerations, like sugar percentage in milk or ethanol percentage in some beverages

Currently, these four types of specific tariffs are available in COMtrade under this name "Consolidated Tariff Scheduled Database".

In the negotiations took place in mid 2005, the US suggested a mathematical formula that is capable of settling some cases; these cases are characterized with big gaps between international prices and import prices. Thus, a compromised price can be obtained in between the two prices, and then each case can be tackled separately. Nevertheless, it was revealed that the EU import prices are hugely low in terms of some products, either due to preferential agreements with some African countries, or due to high guaranteed prices for some exporters, such in sugar case (which will be discussed in details in this paper). Consequently, in light of this distortion, it was agreed with the EU to tackle such cases separately. Therefore, 30 ministers from 30 countries held a meeting in 4-5-2005 and agreed on a draft that was considered as a great break in WTO agricultural negotiations. This break can settle the AVE problem, which hampered the entire Doha Round. The solution was a preliminary settlement that was agreed on basically by the handful³ countries, on the sidelines of OECD summit in Paris. The following article will give details about this settlement.

7. The agreement on AVE

Participants in Paris mini-summit agreed on specific percentages to weight averages of each one of the two databases. Raw agricultural prices will be rather close to the COMtrade database prices, which are lower than other database's prices. Processed agricultural and manufactured commodities' prices, however, will be relatively closer to IDB database's prices, which are higher than the first database. In this context, the EU tried in all ways to bring prices closer to IDB database level. An average price will be calculated in between the two prices obtained from both databases, and then the new price will be converted into an AVE (therefore the proposal to calculate two AVEs before averaging them has been neglected). As a result, the EU and the G10 were satisfied, considering that processed and manufactured commodities will be close to IDB database prices, even better than what the EU was willing to accept primarily.

Calculating the AVE according to the agreement

According to the agreement, each database prices will be weighted to achieve the average prices. Nevertheless, in terms of major raw materials, the price value coefficients used to obtain the AVE will be 82.5-17.5. This means that the average price will be far by 85.5% from IDB database price, against 17.5% from COMtrade. Concerning manufactured products, the agreed figures are 60-40. Thus, the two formulas for obtaining AVE will be as follows:

- Averaged price for raw commodities = $0.825 \times \text{IDB price} + 0.175 \times \text{COMtrade price}$

³ The five major countries in the WTO, the US, the EU, Brazil, India and Australia.

- Averaged price for processed and manufactured commodities = 0.6*IDB price + 0.4*COMtrade price

Consequently, counting on the averaged price, the conversion into AVE can be done. Nonetheless, the agreement still needs the formal adoption on general council or ministerial council of the WTO. Moreover, special cases like sugar; and the way to verify the AVE accuracy for each member by others, also still need more negotiations. In addition, several countries have questions and suspicions about the agreement. Moreover, (20-5-2005) was declared as the primary date for main countries to introduce their calculations on AVE issue, while other countries were to be offered longer period for these calculations. Yet, this didn't materialize, because stumbling agricultural negotiations and Doha negotiations in general, made countries' aspiration to continue working on this sensitive issue weak.

7.1. Practical example

Examples about calculating AVEs, and some implications for them.

Formula for calculating AVE based on the corrected price

Formula (1): $AVE (25-75) = \text{specific tariff} / (0.25 * \text{EU value} + 0.75 * \text{international value})$

It can be also shown as follows:

Formula (1) (prism): $AVE (25-75) = \{ (0.25 * \text{specific tariff} / \text{EU price}) * (\text{EU price} / (0.25 \text{EU price} + 0.75 * \text{international price})) \} + \{ (0.75 * \text{specific tariff} / \text{international price}) * (\text{international price} / (0.25 * \text{EU price} + 0.75 * \text{international price})) \}$

On contrary, a formula that applies direct weighting can be written simply like:

Formula (2): $AVE (25-75) = \{ (0.25 * \text{specific tariff}) / \text{EU price} \} + \{ (0.75 * \text{specific tariff}) / \text{international price} \}$

In both cases, EU price is derived from EU imports' data, and international price is quoted from UN imports' data.

It's clear above that formula (2) omits the relatively weighting of prices themselves. Thus, it drops the second item in each squared parentheses of formula (1) (prism).

In fact, it doesn't take into consideration the escalated differences, but rather it simply takes weighted averages (25% and 75%) from both AVE calculations. This method is completely arbitrary in order to take into account quotas' revenues (quantitative barriers) or qualitative differences among products.

Formally, if the EU price is higher than the international price then:

$\{ \text{EU price} / (0.25 * \text{EU price} + 0.75 * \text{international price}) \} > 1$ and it increases as long as the gap between the two prices increases.

$\{ \text{EU price} / (0.25 * \text{EU price} + 0.75 * \text{international price}) \} < 1$ and it decreases as long as the gap between the two prices decreases.

Source: EC, 2005.

8. Sugar case

In terms of sugar, an agreement has not been achieved. This issue specifically was postponed to the final deal. Negotiators previously discussed the possibility of relying on prices of New York and London stock markets in the conversion calculations. Nevertheless, the EU and the US find this conversion problematic; the EU claims that this would hurt its ex-colonies in ACP group, which had been enjoying preferential access to the EU market. On the other hand, sugar producer countries, such as Mauritius, Philippines and Antigua considered that the agreement about AVE in the WTO is worrying because it excludes sugar. Australia, in turn, blamed the EU

and the US because they distort the international price by their over-protectionism, which makes any tariff reduction meaningless, regardless the used database.

9. Countries that apply specific tariff

Uruguay agreement on agriculture resulted in complex situation in terms of tariffs, characterized with big share of quantitative and mixed tariffs (mixed tariff is price and quantitative tariff). In fact, tariff is the most important tool for protection; yet, the impact of specific tariff is most noticeable in the following WTO member countries:

- Botswana
- Cyprus (before joining the EU)
- The EU
- Korea
- Japan
- Singapore
- Switzerland

Specific tariff is the only applied system in the last two countries. Moreover, concerning the above countries, the protection resulted from applying agricultural AVE varies hugely depending on the database used. IDB database indicates that there are 7977 tariff lines, and 34 countries in 32 regions conducting specific tariff. The share of specific tariff lines of total agricultural tariff lines in the world is about 20%. The revenues of specific tariff are high in the EU, Korea and Japan, and its global value is estimated at US\$ 10 billion, according to the UNCTAD. Furthermore, the share of quantitative and mixed tariffs is 89% in Switzerland, 45.8% in the EU, and 42.5 in the US.

Table 1: Volumes, percentages, and types of specific tariff in some WTO member countries.

Country	Total Tariff lines	Quantitative tariff lines	%	Quantitative tariff	Compound tariff	Mixed tariff	Other tariffs
Australia	725	14	1.9	14	-	-	-
Brunei	893	29	3.2	19	-	-	-
Bulgaria	2204	550	25.0	44	175	205	126
Canada	1431	404	28.2	187	43	161	13
Croatia	1163	229	19.7	7	36	186	-
Fiji	696	24	3.4	14	-	2	8
Macedonia	2179	305	14.0	-	-	305	-
Georgia	781	26	3.3	15	-	-	11
Haiti	763	91	11.9	37	-	54	-
Island	1604	363	22.6	-	363	-	-
India	697	2	0.3	2	-	-	-
Jamaica	1197	2	0.2	1	-	-	-
Japan	1344	247	18.4	155	46	44	2
Korea	1500	68	4.5	-	-	68	-
Kyrgyz	921	47	5.1	5	-	42	-
Malaysia	1320	346	26.2	117	187	42	-
Mexico	1093	83	7.6	-	-	83	-
Moldova	783	62	7.9	24	11	27	-
Denmark	822	9	1.1	9	-	-	-
New Zealand	1004	10	1.0	10	-	-	-
Norway	1060	722	68.1	202	-	520	-
New Guinea	702	44	6.3	44	-	-	-
Singapore	846	55	6.5	37	-	-	18
Solomon Islands	678	24	3.5	24	-	-	-
Sri lanka	844	23	2.7	1	-	22	-
Switzerland	2179	1940	89.0	1938	-	2	-
Taiwan	1379	112	8.1	91	-	21	-
Thailand	774	339	43.8	4	-	335	-
USA	1777	755	42.5	597	111	-	47
Zimbabwe	690	19	2.8	19	-	-	-
EU	2205	1010	45.8	589	262	54	105

Source: ESCWA, 2005.

Furthermore, for additional clarification about types of specific or quantitative tariffs, here is a table that presents examples about these tariffs for raw and processed agricultural commodities.

Table 2: examples of specific tariffs for agricultural commodities (raw and processed)

Specific tariffs	Examples about specific tariffs			
Quantitative	Product: Maize Country: Switzerland Tariff: 35 Franc per I KG	Product: Cashew Country: India Tariff: 55 Ruppe per I KG	Product: manufactured tobacco Country: Australia Tariff: 2.44 Au. Dollar per I KG	Product: Tulip onions Country: USA Tariff: US\$ 1.34 per I000 onions
Mixed	Product: peas Country: Norway Tariff: 7.36 NOK per I KG or 125% of the value (the higher)	Product: Sherry wine Country: Japan Tariff: 280 Yen per I bottle or 55% (the lesser)	Product: coffee Country: Mexico Tariff: 360 Dollar per I ton, but not less than 125% of the value	Product: Tomato Country: Iceland Tariff: 1.92 special unit for tariff lines per I KG or 204% of the value (the higher)
Compound	Product: mutton Country: EU Tariff: 12.8% + 1713 € per I ton	Product: livestock Country: Croatia Tariff: 10% + 125 € per I KG	Product: watermelon Country: Malaysia Tariff: 5% + US\$ 661.4 per I ton	Product: yoghurt's plasma Country: Japan Tariff: 29.8% + 400 Yen0 per I KG
Other types	Product: Sugar Country: USA Tariff: 3.67 Cent per I KG. - 0.0207 Cent for each lost bond of sweetness, but not more than 3.14 Cent per 1 KG	Product: Biscuit Country: EU Tariff: 13% + Maximum of 7.2% + bound tariff for agricultural products	Product: Fremont wine Country: Boland Tariff: 48 € per bottle + 1.3% per bottle.	Product: sweet orange Country: EU Tariff: 10.4% + 71 € + specific fee that can be zeroed if entry price is not less than 373 €

Source: ESCWA, 2005.

In addition, quantitative tariff represents 53% of total specific tariffs, compound is 16%, mixed is 27%, and the rest comes from other types. Specific tariff reach 43.8% of total tariff lines in developed countries, while in developing countries they reach only 10.5%. For instance, the share on specific tariff in total tariff lines in the US is 42.5%, and 45.8% in the EU. While in Egypt and Jordan, the only two Arab countries that their custom systems include specific tariffs, it is 1.7% and 0.8% respectively. It worth mentioning that quantitative tariff is common in developed countries, compared to other specific tariffs' types, whereas mixed tariffs are common in developing countries. Also, it is important to mention that raw and processed fruits and vegetables, animal products (meat and milk), and wines are the sectors where specific tariffs are widely common. Table 3 shows some details about specific tariffs and their shares.

Table 3: specific tariffs: their percentages and their types' percentages by sectors.

product	Countries' number	Total tariff lines	Specific tariff lines	%	Quantitative type	Compound type	Mixed type	Other types
Live animals	12	1004	179	2.2	101	44	34	-
Meat and eatable residuals	16	2956	988	12.4	408	204	376	-
Yogurts	20	2207	763	9.6	409	111	206	37
Other animal products	4	802	21	0.3	16	-	5	-
trees and other plants	5	794	104	1.3	65	31	8	-
Eatable vegetables	18	3166	843	10.6	494	118	225	6
Eatable fruits and nuts	16	2815	520	6.5	234	139	147	-
Coffee, tea and spices	10	1337	101	1.3	75	-	26	-
Cereals	12	906	202	2.5	170	-	32	-
milling industry's products	12	1656	404	5.1	310	14	80	-
Oil seeds	9	2226	264	3.3	210	5	49	-
Gum	3	542	6	0.1	6	-	-	-
Coloring inputs	3	41	12	0.2	4	-	8	-
Plant or animal fats	15	2510	374	4.7	246	18	110	-
Prepared Meats or fishes	13	787	215	2.7	71	40	104	-
Sugar and refined sugar	15	998	338	4.2	153	36	88	61
Cacao and its products	14	650	181	2.3	47	36	48	50
Cereals products	17	1298	340	4.3	131	91	99	19
Vegetables' products	15	3444	615	7.7	263	121	210	21
Other eatable products	20	1167	231	2.9	83	60	77	11
Drinks and alcoholic beverages	21	1974	752	9.4	423	113	97	119
Residuals	10	1182	132	1.7	89	4	35	4
Cigarettes	17	583	200	2.5	118	24	58	-
Bio-chemicals	3	112	9	0.1	3	5	1	-
Alkaline oils	13	793	60	0.8	34	4	20	2
Albumen or protein	7	515	52	0.7	26	10	16	-
Other chemical products	6	291	30	0.4	13	7	10	-
Leather and raw materials	-	477	-	-	-	-	-	-
Underlaid leather	-	327	-	-	-	-	-	-
Silk	2	149	10	0.1	2	-	8	-
Wool	2	411	19	0.2	12	7	-	-
Cotton	1	205	11	0.1	11	-	-	-
Textiles	1	212	1	0	1	-	-	-
Total		38897	7977	100	1442	1442	2177	330

Source: WTO, 2004.

Quantitative tariffs mixed with tariff converted through AVE, or mixed with ad valorem tariffs are very prevalent in developed countries. However, they can not be calculated directly, or summed up or averaged, as if they were pure ad valorem tariff. The wide presence of quantitative and compound tariffs in custom systems of WTO member countries results in rising protection's level when international prices decrease. This nullifies comparative advantages that upspring from lowering import prices, as illustrated in the following example:

If international price for X product is 400 \$ per ton, and if we apply ad valorem tariff (let's say 20%), the exporter would pay 80\$, and if quantitative tariff is to be applied, the exporter also would pay 80\$. Therefore, the AVE is 0.2.

Let's suppose that the international price fell to 200 \$ per ton. Hence, if ad valorem tariff is applied, the exporter would pay 20% (40 \$). However, if quantitative tariff is applied, the exporter would continue paying 80\$, and the AVE in this case would be 0.4. This would be an increasing in the protection's level due to prices' reduction. Yet, it would be harmful to the exporter country.

Relying on unite value in calculating AVE (which doesn't reflect qualitative differences in agricultural imports) implies incorrect evaluation of protection's level. AVE calculated basing on unite value will neither mirror the special obligations regarding building Euro-tariff, as agreed in the AoA of Uruguay Round, nor do they reflect special preferences of European consumers.

In addition, there is another difficulty in utilizing specific tariff, which is using it in terms of compound products, such as sugar and alcohol, where there will be complex composition of tariffs, and very difficult mathematical methods to calculate the targeted tariff. This would hinder the required transparency and the predictability about fees should paid by the exporter, which formulates a kind of tariff and none tariff barrier at the same time.

10. Case study (Ukraine)

The "Revising Customs Tariffs Law", issued in 2005, reduced tariff rates for beef and pork. However, after converting them through AVEs, the new rates remained prohibitive (very high to the extent that they prohibit importation) for all meats, except for offal. Additionally, import duty rates for poultry products remained high. The Ukrainian government committed in WTO accession's negotiations to reduce poultry tariffs significantly upon the accession. However, the agricultural lobby was able to include a sentence in the law (revising custom tariff instead of reducing it) that would maintain high fixed tariff rates for poultry even after accession, contradicting Ukrainian WTO commitment. At this point, the crucial role of AVE can be clearly seen, where its values can vary largely due to various factors that were shown in the paper. If fixed binding rates are implemented on the basis of high AVE, tariff rates for red meat would stay at over 100%, and the AVE for poultry would exceed 100%. Nevertheless, the situation would be different if small AVEs were conducted. Currently, the issue is in the hand of Ukrainian parliament, considering that Ukraine recently became a WTO member and started implementing its obligations⁴.

11. Case study (Egypt)

The textile and clothes industry has historically been one of the most protected and supported sectors in Egypt. Even when it was forced to abandon quantitative restrictions (quotas), the government imposed quantitative tariffs rather than ad valorem tariffs. The EU and the US challenged these tariffs, claiming that they were not in line with Egypt's commitments in the WTO. In some cases, the tariff exceeded 100% when it should not have been more than 40%, where AVE is estimated between 100% and 150%. The US, particularly, claimed that AVE is

⁴ FAS/Kyiv Staff, 2008.

being estimated between 141% and 51296%, and the quantitative tariffs placed on garments translated into an AVE equaled to 627% despite Egyptian commitments to significantly reduce bound tariffs in 2005. In 2004, Egypt replaced the quantitative tariffs with appropriate AVEs, after the US and EU had asked for consultation under the WTO dispute settlement body, as a primary step to initiate a case against Egypt⁵.

12. Case study (EU)

During the year, and due to the seasonality of protection and the different calendars of preferences, the calculation of AVE becomes problematic in the EU fruits and vegetables sector. The reason is the so called entry price system, which is applicable to some sensitive products, such as tomatoes, cucumbers or citrus. This system implies that the level of tariff or protection depends on the level of the import price. Thus, if the import price is greater than a given level (the trigger price), the exporter only pays the ad valorem tariff. Nevertheless, if the price is below the trigger price, the exporter has to pay additionally a quantitative tariff. This tariff reaches the highest level when the price falls to a specific level; 92% of the trigger price⁶. Consequently, calculating the AVE necessitates choosing an import price. Therefore, what's the price that should be used in this measurement? This question has to be tackled in WTO negotiations about AVE, considering that the EU situation is one of the most complicated cases in terms of AVE. Nonetheless, one of the suggested solutions in regard to special and preferential goods that the EU allows importing them is to set special exemption or reduction from ad valorem tariff; a way where specific tariff can be maintained at its current level. In this sense, Morocco has been negotiating the EU to get a reduction in the entry price for some products (tomato and orange). Indeed, Morocco gained special preferences in these two sectors in the context of its partnership agreement with the EU. Yet, this caused a new problem in terms of tackling EU AVE fruits and vegetables, where some parties propose to calculate the AVE according to the prices endowed to Morocco, and not according to the prices offered to others.

13. Mac method

Mac method or AVE for special tariff, according to "Market Access Map's Database" method can be summarized as follows:

Experiments on agricultural trade liberalization have shown that using unit values that are agreed bilaterally (a way has been used in the past) leads to high variability in AVE values in a given sector. In particular, small flows repeatedly produce values that broadly differ from world levels. This is due to many circumstances, such as measurement errors, errors in the reported physical units, or reporting errors. The filter ways (currently used in Market Access Map's Database) couldn't eliminate all problems relate to this area. Therefore, a new methodology for handling unit values has been developed. AVE calculations are now based on the median unit value of world-wide exports originating from the reference group that the exporter belongs to. More specifically, this unit value can be calculated counting on "weighted" medians. This can be achieved by assuming that each unit value is repeated as many times as the underlying trade flow contains dollars. Additionally, a data set including three-year-average trade flows (based on the 2000-2002 period) instead of counting on one year is in use. Moreover, a sequential procedure is used to fill missing values for reference groups: any blank is substituted by the value of the closer reference group. In other words, for a given product, if the value of the group A is missing, the value of the group B is used instead; if it is missing too, the value of the group C is used; and so on. This way offers three advantages:

⁵ / Pigato & Ghoneim, 2006.

⁶ EMLINGER Et al, 2006.

- the differences in unit values across countries, linked in particular to different products quality, is accounted for
- the endogeneity bias is lessened compared to a bilateral unit value, since the value is calculated based on worldwide exports (there is an incentive to alter product quality in response to a specific tariff)
- using a median value limits the influence of extreme values
- the value is more robust to measurement errors, where outliers do not influence strongly the result, since the calculation is based on the averages

Note that using a value derived from all world markets means that we are not talking about domestic markets any more. However, we will lose some special information related to some bilateral flows.

Lastly, a filter rule is used, based on the assumption that the ratio of the value to the world median unit value should fall outside the range (3-0.3). Any unit value outside this bracket is truncated to the top or bottom limit. This is different from the method of filtering unit values used in previous releases⁷.

Risks of economic analysis that relies on AVE

All economists simplify specific tariffs in order to make economic analysis possible by estimating AVEs for such tariffs. For the same purpose, they also estimate AVEs for all state's interventions. Nevertheless, it is clear that the results would not be accurate, and maybe not true. Consequently, in a study about risks of using AVE in economic analysis⁸, three numerical models on cases that allow comparing AVEs and real policies were presented. The study shows that huge and substantial differences in estimating the change's volume have existed. This calls for more caution when using AVE, particularly when agricultural liberalization and other types of liberalizations are studied.

14. The importance of AVE for Syria

According to the Syrian custom law issued in 2006, there is no specific tariffs. However, considering that Syria is an agricultural country, and in light of the fact that many developed countries are still applying specific tariff system, particularly on agricultural products, it is important for Syrian agricultural trade to have these tariffs converted into AVEs. This would allow Syria to avoid problems like those mentioned in the case study of the EU. Specifically, if the fact that the main trading partner for Syria in the world is the EU was taken into account.

Followingly, a table shows Syrian agricultural trade with some countries that are still widely applying specific or quantitative tariffs by million SP.

Table 4: Syrian agricultural trade with some countries that are characterized with specific tariffs, million SP and %.

Syrian agricultural trade	EU		Korea		US		Japan		Singapore		Switzerland	
	2001	2006	2001	2006	2001	2006	2001	2006	2001	2006	2001	2006
Exports' volume	7722.6	8549.4	351.8	323.7	321.7	230.8	168.6	305.2	0.0	106.2	320.6	36.1
% of total exports	14.9	16.5	0.7	0.6	0.6	0.4	0.3	0.6	0.0	0.2	0.6	0.1

⁷ Bouët Et al, 2007.

⁸ Whalley, 2005.

Source: NAPC database.

Moreover, if a mechanism for applying AVE is agreed on, Syria would gain the following advantages:

- facilitating agricultural trade flows with these countries
- estimating tariff reduction accurately, and requesting higher cut if the reduction is not sufficient
- transparency in calculating custom tariffs, and the simplicity in verifying imported country's calculations
- AVE doesn't result in higher protection when international prices change, which allows for continuous and easy exporting of Syrian agricultural products
- maintaining specific tariffs would allow for more alternatives and much more flexibility in terms of tariff reduction obliged in Doha
- the conversion into AVE would ease largely studying economic impacts of trade liberalization, particularly agricultural trade liberalization, and would allow for more accurate results

Conclusion

Although the conversion into AVE is crucial subject, as mentioned above, it is also necessary to leave a margin for countries apply custom systems with none tariff price. This should be done in a way that accommodates the economic situation for each country. In addition, the transitional period should be reasonable and logical, noting that at the end of the day, converting specific tariff into ad valorem tariff is a basic condition for applying real reductions have been agreed. The conversion would guarantee executing these reductions, and would offer developing countries' exports real opportunities to access developed countries' markets. Furthermore, the conversion would prevent repeating what happened after Uruguay Round, where many countries fixed their tariffs when none trade barriers (NTBs) were converted into tariffs.

Main findings

- AVE is tariff based on the value of imported commodities
- according to the WTO, AVE can be calculated by two ways: the income method and the unit value method
- the issue of AVE is an old standing subject for deep disagreement among WTO member countries due to the divergence on which database should be used in calculating the AVE
- in 4-5-2004, an initial agreement about the AVE problem was reached. Yet, it has not been adopted formally
- according to the above agreement, prices of each database will be weighted to obtain the average prices. However, the coefficients will vary according to the product's type
- no agreement has been reached in terms of sugar, which is one of the most complex cases
- the share of specific tariff lines is about 20% of total agricultural tariff lines in the world
- there are 34 countries in the world conducting specific tariff, including the EU, the US, Egypt and Jordan
- raw and processed fruits and vegetables, animal products (meat and milk), and wines are the sectors where specific tariffs are widely common

- during the year, and due to the seasonality of protection and the different calendars of preferences, the calculation of AVE becomes problematic in the EU fruits and vegetables sector
- considering that Syria is an agricultural country, and in light of that many developed countries are still applying specific tariff system, particularly on agricultural products, it is important for Syrian agricultural trade to have these tariffs converted into AVEs

References

- EC (2005): AVE - Ad Valorem Equivalents, Directorate-General for Agriculture and Rural Development, Brussels.
- ESCWA (2005): Achieved Advancement in Doha Round Agricultural Negotiations, and Expected Impacts on Market Access for Arab Agricultural Exports, ESCWA, New York.
- WTO (2004): Calculation of Ad valorem Equivalents (AVEs) - Data Requirements and Availability, Committee on Agriculture, Geneva.
- FAS/Kyiv Staff (2008): Ukraine Trade Policy Monitoring Annual Report 2008, Russian Biofuel Association, Russia.
- Pigato M. & Ghoneim A. (2006): Egypt after the End Of The Multi-Fiber Agreement: A Comparative Regional Analysis, the Egyptian centre for economic studies, Egypt.
- EMLINGER. C LOZZA. EC JACQUET. F (2006): EU Market Access for Mediterranean fruit and vegetables: A gravity model assessment, EMLINGER. C LOZZA. EC JACQUET. F, Chania.
- Bouët. A Decreux. Y Fontagné. L et al (2004): Computing an exhaustive and consistent, ad-valorem equivalent measure of applied protection: a detailed description of MACMap-HS6 methodology, ITC (UNCTAD-WTO) and CEPII, Paris.
- Whalley. J (2005): Pitfalls in the Use of Ad valorem Equivalent Representations of the Trade Impacts of Domestic Policies, Centre for International Governance and Innovation, Ontario.