

Use of Preferential Import Tariffs to Decrease Costs

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By Dr Jorge A. HUERTA GOLDMAN

1. TARIFFS IN A NUTSHELL

Tariffs are customs duties charged at the border on the importation of goods. They protect locally-produced goods by increasing the costs related to imported goods, while providing revenue to the importing government. Tariff reductions are negotiated multilaterally at the World Trade Organization (161 Members), through regional trade agreements (RTAs) among a group of countries, or implemented unilaterally through domestic laws.

- The **bound tariff** is a commitment not to increase the import duty beyond an agreed level under WTO Law.
- The **applied tariff** is the actual import duty charged by the importing country based on its domestic laws. It cannot be higher than the bound tariff under WTO Law.¹
- Regional agreements provide **preferential tariffs** in the form of lower tariffs (e.g., zero duty) for goods that originate in a Party to the RTA (such as a free trade agreement). Goods that do not meet the rule of origin of the RTA are non-originating goods and do not benefit from the preferential duty.

2. THE NETWORK OF REGIONAL TRADE AGREEMENTS

WTO Members have notified or identified nearly 400 RTAs. But we estimate that the number is larger considering those not notified, partial agreements and other similar instruments. Nearly all WTO Members are involved in RTAs. For

¹ Few exceptions exist under WTO Law.

example the US has FTAs with 20 countries, Chile has 16 FTAs with several countries, and the EU has several RTAs in various forms.² Currently, there are significant negotiations on RTAs addressing market access, such as the Trans-Pacific Partnership (TPP) with twelve countries including the US, or the Transatlantic Trade and Investment Partnership (T-TIP) between the US and the EU. Further challenges include the Trade in Services Agreement (TISA)—for services—or the Environmental Goods Agreement (EGA) following the path of the WTO Information Technology Agreement (ITA). The network of RTAs is complex, combining international law and domestic laws, but opportunities on import tariffs and market access are large.

3. OPPORTUNITIES FOR COMPANIES

We have been supporting companies of all sizes (micro, SMEs and Multinationals):

- Ensuring that a WTO Member does not apply a tariff over the bound ceiling
- Searching for preferential tariffs on inputs
- Searching for preferential tariffs on final products
- Supporting tariff negotiations
- Setting up in-house teams administering tariff issues

Please contact us for further discussion (Dr Jorge A. HUERTA-GOLDMAN- jahg@tilpa.ch).

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² Websites consulted: www.wto.org; www.ustr.gov; www.aduana.cl; and <http://ec.europa.eu/>.