Working paper

International Growth Centre

Preparing for the ECOWAS CET

Options for Liberia

Jaime de Melo
Anne Laski
Armela Mancellari

June 2014

When citing this paper, please use the title and the following reference number:
F-51115-LIB-2

DIRECTED BY LSE UNIVERSITY OF OXFORD

FUNDED BY UKaid from the British people

Preparing for the ECOWAS CET: Options for Liberia

Jaime de Melo[†]
With
Anne Laski
And
Armela Mancellari

June 5, 2014

† FERDI and International Growth Centre

This rapid response note was prepared by the International Growth Centre at the request of the Government of Liberia. We thank John Spray for detailed comments and Eric Werker for guidance and support.

Table of Contents

Tables

Figures

Executive Summary

On January 1, 2015 a 5-band Common External Tariff (CET) will be adopted by ECOWAS members. A regulation of October 2013 allows countries to apply for supplementary protection measures (SPMs) for a period of up to 5 years from the implementation of the CET. The CET is defined for 5899 HS-10 product lines. Liberia has 5915 HS-10 level products in its statutory tariff (of which 110 lines have a specific tariff, the other lines with ad-valorem tariffs). According to Customs which collects revenues at the HS-8 level, Liberia had 3529 HS-8 lines with positive imports in 2013.

The move away from a statutory schedule of 13 bands and the replacement of specific tariffs by ad-valorem equivalent tariffs should be welcome, notwithstanding revenue considerations. But moving to the ECOWAS 5-band CET would raise the average applied tariff from its current 6.3 percent level (inclusive of temporary waivers that might be allowed during a transition period).Once the waivers were removed, moving to the 5-band CET will raise average applied tariffs to 14.7 percent. This move could increase tariff revenues by up to 42 percent (provided there would be no revenue evasion) but it would result in a welfare loss equivalent to 2.1 percent of 2013 imports. This loss is attributable to some cheaply-sourced imports from non-ECOWAS members being replaced by more costly-to-produce ECOWAS partner imports. It is a reflection that Liberia's current tariff structure is better suited to its development needs than the proposed CET.

During the five-year transition period outlined in the SPM, ECOWAS members can apply an Import Adjustment Tax (IAT) for up to 3 percent of the tariff lines in the CET schedule (that is for 177 tariff lines). This IAT is to be applied only on MFN imports and the IAT must satisfy the condition that the temporary tariff must not depart from the corresponding CET rate by more than 20 percentage points. While the IAT was primarily designed for tariffs above the CET, it applies as well for tariffs below the CET level. According to 2013 Customs data, Liberia has 82 tariffs above the20 percentage threshold and 252 lines below it (these are products in the 35 percent CET threshold with current tariffs below 10 percent).

Liberia will have to realign its statutory tariff schedule to the CET schedule. Currently, the distribution of statutory and applied rates (statutory percentages followed by applied percentages in brackets) is:

- 45 percent of rates are below the CET rate[48 percent],
- 30 percent of rates are equal to the CET rate [25 percent], and
- 25 percent of rates are above the CET rate [27 percent].

In spite of an increase in tariff revenues, this move is politically costly for at least two reasons: (i) two-thirds to three-quarters of the tariff rates will have to be altered, a politically costly measure to carry out; (ii) for the 45 percent of tariff lines for which an increase in rate is necessary, it will be politically difficult to lower them in the future should Liberia leave ECOWAS (unless the reduction is for some important item in households' consumption basket). In addition, for the 25 percent of tariff lines requiring reductions, those producers who compete with imports will oppose the reduction in rates.

As this adjustment is huge and should be carried out on very short notice, it is likely there will be requests for postponing the move to the CET on January 1, 2015. Since several other ECOWAS members will be facing similar deep changes in their tariff structures, MOCI should be in contact with its counterparts in these countries to develop a common position.

Our recommendations for selecting the tariff lines for a temporary IAT proceed in two steps.
Step 1. This is a relatively 'non-controversial' elimination of tariff lines. It proposes that:

(i) Tariff lines in the Statutory schedule with no registered imports in 2013 (a normal year) should not be considered for an IAT;
(ii) tariff lines with cif import values less than $10,000 [1755 lines] or more exclusively, tariff lines with import values less than $100,000 [2751 lines] not be considered;
(iii) on the grounds that there are administrative and uncertainty costs associated with implementing a temporary tax, all tariffs that are 5 percentage points above or below the CET value should be set to the CET value (the criterion could be raised to 10 percentage points) should be excluded from consideration.

Applying these 'transparent' criteria with a 5 percentage point absolute deviation for exclusion) leaves 633 eligible lines with the $10,000 minimal import flow criterion and 317 with the $100,000 criterion.

Step 2. Choosing 177 tariff lines as beneficiaries from the remaining tariff lines is more difficult. We propose choosing between two approaches

(i) *'symmetric treatment'*: In the absence of better information, and on grounds of transparency, efficiency, and equity, the GoL could then split access to the temporary IAT equally between tariffs below and tariffs above the CET bands, starting first with applying an IAT to those that are outside the 20 percentage points range (there is no choice there according to the regulation). Then, from the remaining lines, GoL could take those that are furthest away from their respective CET rate, again splitting the adjustments equally between those above and those below the CET rate.

The assumption in this approach is that all tariff lines are equally 'meritorious' of temporary adjustment which should be given first to those requiring the greatest adjustment (i.e. those that are furthest from the CET rate in their respective band) to give more time to adjust. A list resulting from this approach is given in the paper.

(ii) The *'development approach'*:[1] Products that currently benefit from tariff waivers and 'promising' sectors of domestic production that compete with imports would get temporary relief by being selected for an IAT. This means that other tariff lines with rates outside of the 20 percentage band on either side would not necessarily benefit from an IAT. Adjusting these tariffs to comply with the ECOWAS rules would require a very large adjustment—one of over 20 percentage points by January 2015. Drawing up such a list would need input from MOCI. MOCI's selections will be scrutinized since the beneficiaries would be viewed as being 'hand-picked' while the huge required adjustment will certainly meet with some strong opposition.

Liberia will probably choose a mix of both approaches. In any case, the GoL should be clear about the timing of the IAT's application (e.g. moving halfway to the CET band in year 3 out of the 5-year window or keeping most adjustment for the end). This note recommends that, in its choice, the GoL should try to minimize the extent of arbitrariness in its selection, hence the suggestion of taking inspiration from the "symmetric approach". In any case, picking the 'happy few' will be difficult and it will not go unnoticed. The government is facing a hard choice. We would recommend taking most inspiration from the 'symmetric' approach on grounds of greater transparency, efficiency, and equity.

[1] Or more literally, but also more controversially: *the 'picking winners' approach.*

1 Background

At a council meeting held in Abidjan, on September 25, 2013, Liberia and other ECOWAS members agreed to apply temporary protection measures to ease the transition to the 5-band CET which is to be effective January 1, 2015.[2] To this effect, the ministers also signed a document describing temporary provisions allowing countries to adjust to the Common External Tariff (CET) by applying an Import Adjustment Tax (IAT) and a Special Protection Tax (SPT). The SPT would be contingent on the behaviour of imports and import prices subsequent to the CET's entry into force. The Regulation on Supplementary Protection Measures (SPMs) (Regulation C/REG.1/09/13—see annex 1) was designed to help countries having to adjust to a lower tariff structure. [3]

At the September meeting, the members also discussed the position West African States should take when they finalize their negotiating position for the Interim Economic Partnership Agreement (IEPA) signed with the European Union in 2007. As agreed with and requested by the Ministry of Commerce and industry (MOCI), this rapid response note does not cover temporary protection measures that could be applied according to the SPT, since their application is contingent on the potential surge of imports following the January 2015 implementation of the CET.

This note has four objectives: (i) to update an earlier report based on 2011 customs data (Melo and Mancellari, 2013) to estimates based with recently released 2013 customs data[4]; (ii) to raise issues of clarification that were not addressed in the hastily prepared regulation allowing for SPMs (See annex 2); (iii) to give an exhaustive description of Liberia's Statutory and applied tariff structure in relation to the adopted CET; (iv) to outline two approaches for the GoL to choose from when applying for temporary adjustment measures, should transit to the ECOWAS CET take place as planned. The GoL will probably want to choose a set of adjustment measures that are a hybrid of the two approaches here.

[2] The agreement to adopt a 5 band CET was finally adopted in March 2013 following 10 years of negotiations. The 5-band tariff structure is 0 percent for social goods; 5 percent for raw materials and capital goods;-10 percent for intermediate goods; 20 percent for consumer goods; 35 percent for specific goods for regional development. The 2012 HS-10 classification covers 5899 tariff lines.

[3] One of the conditions stated in the SPM regulation is that the temporary protection afforded by the SPM should not exceed the agreed CET rate by more than 20 percentage points. For Liberia, however, the adjustment is towards a higher tariff structure.

[4] That report was based on Liberia's statutory tariffs of 2012 and customs data for 2011, data that was classified at the HS-8 level according to the HS nomenclature of 1996. The ECOWAS CET is defined at the HS-10 level. Rather than work with the 2011 Customs data (as we did in our previous work), we decided to wait until customs data for 2013 was available. Because the 2013 customs data is still registered according to the HS 1996 classification system, we reclassified the flows into the new HS-2012 classification which is used to define the ECOWAS CET. Estimates are therefore based on the most recently available data using the HS-2012 classification (annex 2 explains the adjustments that had to be made to the customs data to insure compatibility with the ECOWAS CET).

Section 2 updates the estimates in the earlier report.[5] Section 3 discusses our interpretation of the regulation describing conditions that must be met to qualify for SPMs (annex 1 gives further comments next to passages from the text describing the regulation). Section 4 compares the distribution of Liberia's applied tariff schedule with the distribution of the 5-band ECOWAS CET. Section 5 deals with the move to the CET and covers three points. First, it comments on issues and general principles to consider when drawing a list of products for the IAT. Next, it discusses the ad-valorem estimates of the 110 current specific tariffs, since moving to the CET will imply replacing these specific tariffs by their ad-valorem equivalents. Finally, it suggests two approaches to selecting the 177 tariff lines for an IAT.

2 The Benefits and Costs of ECOWAS membership: An update

In our previous report, we said that Liberia's current statutory tariff and its waivers is appropriate for a country at its level of development wishing to industrialize while at the same time protecting the poor by tariff waivers. The current waivers are for key intermediates (e.g. agricultural equipment) and for goods weighing heavily in the consumption basket of the poor (e.g. rice). We also noted that the average collected tariff rate of 5.3 percent (based on 2011 data) is slightly below the median of 7.5 percent for the low-income quartile in a sample of 102 countries, so that moving to the CET average of 11 percent will place Liberia at the top of the interquartile range in the same sample of countries (Melo and Mancellari, figure 4). This observation and supporting analysis (summary highlights in annex 5) led us to conclude that Liberia, with its very limited domestic market and low income, has to expand the market through international trade. Regardless of the sizable increase in government revenues CET adoption will spur, CET adoption will be both costly and counterproductive to policies seeking to improve Liberia's participation in international trade, especially if the unfinished business of trade liberalization and market integration in ECOWAS now ongoing for 20 years (the ETLS was signed in 1994) is not completed. For these reasons, we previously recommended---and continue to recommend-- that Liberia should pursue a two-pronged trade strategy

- Completing WTO membership requirements. This will bring many benefits (increased awareness of gains from trade, better visibility with trading partners, access to WTO dispute settlement and adoption of rules of non-discrimination and national treatment)

- Become member of the ECOWAS CU. Provided that the ETLS (signed in 1994 but not yet completed as some tariff and non-tariff barriers (NTBs) still remain) is fully implemented, membership will contribute to market integration in the region. If not, the efficiency cost to Liberia of moving to the CET will result in a tariff structure that is too high for a small low-income country like Liberia.

[5] The report "Regional and Global Trade Integration Strategies for Liberia" by Jaime de Melo and Armela Mancellari is available on the MOCI website at http://www.moci.gov.lr/doc/Regional%20and%20Global%20Trade%20Strategies%20for%20Liberia.pdf

Updating these estimates to 2013 customs data indicates a higher average applied tariff by 1 percentage point and greater costs from moving to the CET, possibly because 2013 customs data registered a greater number of tariff lines with higher tariffs. The updated estimates (detailed results in annex 3) show that:

1. Moving to the CET *without* exceptions (by removing waivers) would almost double Liberia's applied tariff from its current import-weighted applied average[6] of 6.3 percent (including waivers) to 14.7 percent (removing waivers).

2. A tariff makes activities competing with imports more profitable relative to exporting activities. Hence a tariff is equivalent to an export tax (see annex 4). So adopting the CET is, in effect, more than doubling the de facto export tax.

And more specifically:

3. Admitting all ECOWAS imports duty free would result in a tariff revenue *loss* of 2.1 percent, but combining a policy of duty free ECOWAS imports with a removal of waivers would *increase* tariff revenues by 41.7 percent (and total revenues collected at the border by 22.0 percent).
4. Moving to the proposed 5-band CET is estimated to raise the average applied tariff from its current level of 6.3 percent to 14.7 percent with an increase in tariff revenues of 122.6 percent (and total revenues collected by customs by 64.1 percent) with a reduction in imports of 4.4 percent.

5. Moving to the CET will lower welfare.

    a. Moving to the CET (with waivers removed) would result in a welfare loss equal to 2.2 percent of current imports.[7]

    b. Moving to a uniform tariff of 10 percent (with no waivers), would result in a negligible estimated loss of 0.05 percent of initial imports.

Estimated costs for urban and rural households to maintain current well-being levels under Liberia's current tariff regime were high because of the removal of waivers.[8] The move to the CET without waivers is estimated to cost about:

[6] Estimated using 2013 customs data

[7] The increase in government revenue from higher tariffs is compensated by a loss in consumer welfare as consumers will have to pay a higher price for imports (see annex 3 tables and figures for the estimates). The assumption in these estimates is that a dollar's worth of revenue to the government has the same value for Liberia as an extra dollar of expenditures by consumers. This is perhaps too strong an assumption for a low income country where there are no alternatives to tax collection at the border, but it remains a good starting point for discussion, if only to remind the government to keep in mind the social value of its expenditures. If waivers were maintained, the resulting loss would be 0.3 percent percent of initial imports.

[8] The estimates were based on budget shares in the 2007 Liberia CWIQ (the most recent available), so they are unchanged. As explained in the paper, the estimates assume only a partial pass-through of tariffs to the consumer (0.3 is our preferred estimate, i.e. an increase in price of 10 percent due to a rise in tariff would only

6. 3 percent for urban households and 6 percent for rural households, the difference reflecting a higher share of non-traded expenditures (e.g. health expenses, entertainment, etc.) that would not be affected by moving to the CET for urban households.
7. If households are, in effect, quite insulated from the transmission of tariff changes to the prices with which they are confronted in their purchasing decisions, the estimated cost increase would be reduced by between 1 and 2 percentage points.

3 Conditions for applying for Supplementary Protection Measures (SPMs)

As defined in the signed regulation (see annex 1), a member can apply an Import Adjustment Tax (IAT) for any product imported from non-ECOWAS members. [9]

The CET is defined at the HS-10 level and includes 5899 products (Liberia has 5915 products in its 2012 statutory tariff). The maximum rate that can be applied (this includes the IAT and later on the SPT[10]) is 70 percent of the MFN cif import price, i.e. a 70 percent ad-valorem import tariff which includes the CET tariff, the IAT (if already in place), and the SPT. Both the IAT and the SPT can only be used for a period lasting up to 5 years after the adoption of the CET (details on how to apply in the regulation reproduced in annex 2).

Let δ be the necessary tariff adjustment to be applied to the current MFN tariff, TAR_{MFN}, when it differs from the CET MFN rate, MFN_{CET}. Let MFN_{IAT} be the IAT adjusted MFN tariff during the 5-year transition period. For most countries, the issue will only be one of postponing the reduction in their MFN tariff, TAR_{MFN}, to the CET rate, MFN_{CET}. In the case of Liberia, 49 percent of TAR_{MFN} lines are below the MFN_{CET} with many coming from waivers for foodstuffs that weigh heavily in the consumption basket of the poor (e.g. rice) or intermediate goods for construction (e.g. cement).

Two conditions must be met when applying for the IAT:

1. Maximum number of lines. Not more than 3 percent of tariff lines (0.03*5898=177 lines) can obtain an IAT. Since Liberia had positive imports for 3529 lines, and presumably no application for an IAT would be envisaged for tariff lines with zero imports in 2013, Liberia could file for an IAT for what are effectively 5 percent of its tariff lines. Since 49 percent of tariff lines already correspond to be CET, this leaves room to file for an IAT for 20 percent of the tariff lines that are not equal to the CET.

---

result in a 3 percent increase to the consumer). The estimates also assumed that auto-consumption purchases would not be affected by the move to the CET.

[9] The regulation says that the IAT can be applied to any product including those from a list of 336 in an annex to the regulation. MOCI informed us that this it was their impression that this list was left in from an earlier draft of the regulation when eligibility to SPMs would only be open to products on that list and that it need not be taken into account so long as the 3 percent cap on the number of lines is respected.

[10] This is because the condition for applying an SPT is based on an import surge once the CET has been adopted (i.e. after January 1, 2015).

2. Temporary tariffs under the IAT, MFN_{IAT}, should be within 20 percentage points of its value in the CET schedule. The temporary MFN tariff, MFN_{IAT}, cannot exceed the CET rate by more than 20 percentage points. This case is illustrated in figure 1.Nothing is said in the regulation for MFN tariffs that are below the CET rate so we presume that the same rule applies for adjustment for those MFN tariffs that are more than 20 percentage points below the CET rate. This case is illustrated in figure 2.

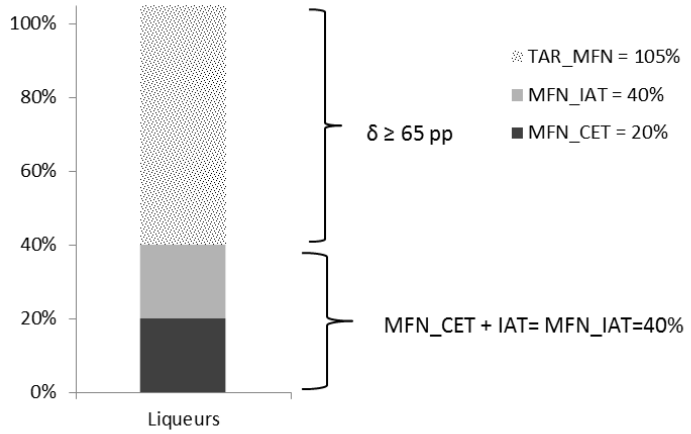
These requirements do not mean that an IAT would be necessarily applied for tariff lines that are outside the bands, since Liberia could choose to adjust these tariff lines directly to the CET rate.

For MFN tariffs above the CET, the minimum permissible adjustment, δ, away from the MFN must ensure that the temporary tariff, TAR_{IAT}, does not exceed the CET tariff by more than 20 percentage points, i.e.:

$$TAR_{IAT} = TAR_{MFN} - \delta \leq TAR_{CET} + 20$$

For example, liquors and cordials (HS22087000) have a specific tariff with ad-valorem equivalent of 105 percent while the CET band rate is 20 percent. Applying the formula, the minimum reduction is δ *=65 percent* so the MFN tariff must be reduced by 65 percentage points to TAR_{IAT}*= 105 percent-65 percent= 40 percent*. This case is illustrated in figure 1

Figure 1: Minimum Reduction for MFN tariffs above the CET band



For MFN tariffs below the CET, the minimum increase in the MFN tariff, δ, must ensure that the temporary tariff, TAR_{IAT}, does not fall short of the CET tariff by more than 20 percentage points, i.e.:

$$TAR_{IAT} = TAR_{MFN} + \delta \leq TAR_{CET} - 20$$

For example, zinc (steel corrugated) (HS72104100) has an ad-valorem tariff of 5 percent, while the CET band rate is 35 percent. Applying the formula, the maximum allowable adjustment is δ *=10*

percent, so the MFN tariff must be augmented by 10 percentage points to TAR_{IAT}= *5 percent+10 percent= 15 percent.* This case is illustrated in figure 2.

Figure 2: Minimum Increase for MFN tariffs below the CET band

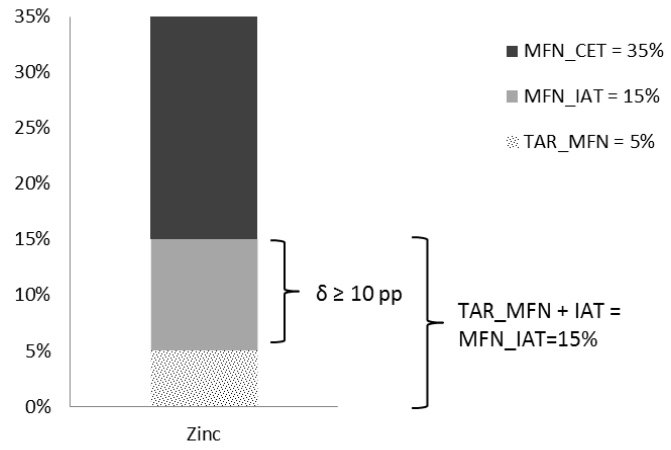


Table 2 shows that currently there are 82 statutory tariff lines that are more than 20 percentage points above their respective CET bands and 255 lines that are more than 20 percentage points below the their respective bands. It is clear that if the GoL were to decide on SPMs on the basis of the Statutory Schedule, giving priority to those lines that beyond the 20 percentage band, condition 1 (3% limit i.e. 177 lines) would not be sufficient to cover those lines that fall outside the permissible range. The remaining sections describe the statutory tariff schedule (which has to be eventually adjusted to the 5-band CET), the applied tariffs, those tariff lines with no imports, and the valued of imports for those tariff lines that depart from the CET schedule. This description leads to the two proposed approaches for selecting tariff lines that would benefit from an IAT.

4 Liberia's Statutory Schedule and the CET

4.1 Liberia's tariff schedule by broad sector classification

Liberia's border tariffs are guided by two instruments: (i) the statutory tariffs established by the Revenue Code of Liberia Act of 2000, amended in 2011, and recently updated in the Customs Tariff of Liberia of 2012; (ii) a list of products subject to periodically announced waivers declared through Executive Orders. Imports under waivers in excess of $ 1million are listed in table 6 (the full list is in annex 6, table 7). The average statutory tariff on these products was 6.3 percent (Melo and Mancellari, 2013). Among the more important ones are:

a) since 2008, and recently renewed, the tariff of $0.044 per kg of rice has been waived;

b) since 2008, a waiver on key inputs in a variety of agricultural activities first covering about 100 HS-6 tariff lines. Starting in 2009, 212 lines were issued waivers as industrial activities were added.

Liberia's tariff schedule at the HS-10 level corresponding to the level at which the CET is defined is described in table 1, aggregated by broad sector classification along with the corresponding import shares from the 2013 customs data.

Table 1: Description of Liberia's tariff Schedule

Col		1	2	3	4	5	6	7
Chapters	**Description**	**Total HS-10 lines**	**Avg. Statu-tory tariff**	**Max Statu-tory Tariff***	**Max statu-tuory including AVE equiv.**	**Avg. w/ waive rs**	**Propos ed ECOWA S CET**	**Import share (2013 Customs)**
01-05	Animal and Animal Products	363	7.6	25.0%	25.0%	7.3	19.9	7.9%
06-15	Vegetable Products	439	9.6	25.0%	38.9%	9.4	15.4	19.2%
16-24	Foodstuffs	281	20.3	25.0%	112.1%	20.3	21.4	8.4%
25-26	Minerals	112	8.3	25.0%	25.0%	8.1	6.6	3.1%
27	Mineral Fuels	60	9.3	15.0%	15.0%	2.2	5.8	14.4%
28-38	Chemicals & Allied Industries	850	9.5	25.0%	76.1%	9.5	8.1	4.5%
39-40	Plastics / Rubbers	237	8.9	25.0%	25.0%	8.9	11.8	3.7%
41-43	Raw Hides, Skins, Leat. & Furs	86	16.2	25.0%	25.0%	16.2	13.0	0.1%
44-49	Wood & Wood Products	271	14.6	45.0%	45.0%	14.6	11.3	1.4%
50-63	Textiles	821	13.8	20.0%	20.0%	13.8	18.2	2.5%
64-67	Footwear / Headgear	73	15.1	25.0%	25.0%	15.1	19.3	0.7%
68-71	Stone / Glass	214	11.7	25.0%	25.0%	11.7	15.2	1.2%
72-83	Metals	639	6.5	20.0%	52.4%	6.5	13.5	7.1%
84-85	Machinery / Electrical	837	8.5	25.0%	25.0%	8.2	8.6	14.9%
86-89	Transportation	224	8.9	50.0%	50.0%	7.6	9.5	8.9%
90-97	Miscellaneous	408	19.3	50.0%	50.0%	19.3	19.9	1.9%
Total average		**5915**	**11.1%**			**10.9%**	**13.3%**	

*ignoring ad-valorem equivalents

Source : Liberia's Statutory tariffs, 2013, Adopted ECOWAS CET and ASYCUDA data from Customs for 2013

Average statutory tariffs in column 2 can be contrasted with the corresponding applied rates in column 4 (resulting from the waivers). The (simple) average tariff including waivers (column 5) is10.9 percent which is quite close to the average tariff that would be obtained without waivers (11.1% in column 2). Moving to the maximum statutory rates in column 3, while excluding specific tariffs, yields a range from 15 percent to 50 percent. Adopting the ECOWAS CET without waivers, (that is, without applying for an IAT) would result in an average tariff of 13.3 percent on the imports that are not exempt from tariffs (those goods in transit and other exemptions).

Liberia's statutory schedule has about 13 bands ranging from 0 percent to 50 percent, and 100 product lines have a specific tariff. (The number of specific tariffs by the same sector classification are given in table 2, column 3.) Including the ad-valorem equivalents (AVEs) for the specific tariff computed from customs revenues results in higher maximum tariffs (column 4). As mentioned in our previous report, this is a large number of bands which is costly in terms of efficiency. First, the greater the distortionary costs of a given average level of protection, the greater is the variance in tariffs. Hence, fewer tariff bands, as under the proposed CET, is a move in the right direction.

Table 2 continues the description of Liberia's tariff schedule relative to the CET by broad sector classification. Specific tariffs are concentrated foodstuffs and vegetable products, chemicals, stone and glass, and metals. These are sectors in which Liberia has some domestic production. Typically, unless there is an increase in the import price which erodes the protective effect of the tariff, specific tariffs obscure the amount of protection accorded to an activity. Comparing columns 3 and 4 in table 1 shows that in those sectors where the specific tariffs are concentrated, the maximum statutory tariffs are the highest. Columns 3, 4, and 6 show that the distribution of tariffs exceeding the permissible rate of IAT (i.e., those that are 20 percentage points above the ECOWAS CET in the corresponding band). For example, in column 6 in foodstuffs, there are 93 tariff lines that exceed their corresponding ECOWAS rate; these tariff lines are also in the sectors where specific tariffs are concentrated.

Table 2: Distribution of Statutory Tariffs relative to the CET Specific Tariffs

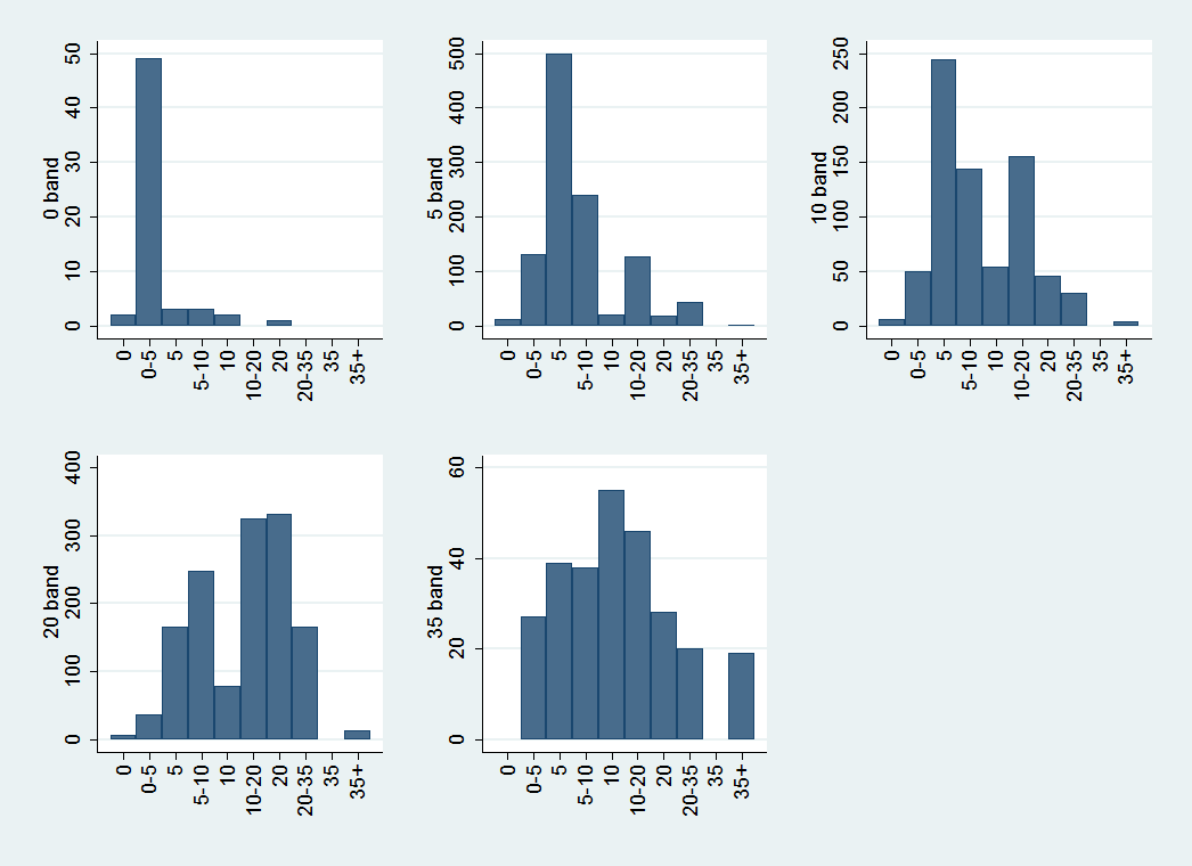
Chapters	Description	Total HS-10 lines	Max CET tariff	No of specific lines	No of lines > CET	No of lines < CET	No of lines for which delta > 20	No of lines for which delta < -20
01-05	Animal an	363	35.0	0	25	338	0	78
06-15	Vegetable	439	35.0	7	114	285	1	31
16-24	Foodstuffs	281	35.0	35	93	168	14	29
25-26	Minerals	112	35.0	2	34	12	0	4
27	Mineral Fu	60	10.0	0	34	0	0	0
28-38	Chemicals	850	35.0	32	180	139	7	6
39-40	Plastics / F	237	35.0	0	33	128	0	5
41-43	Raw Hides	86	20.0	0	52	32	0	0
44-49	Wood & W	271	35.0	0	271	61	0	0
50-63	Textiles	821	35.0	4	58	364	0	60
64-67	Footwear	73	35.0	0	21	52	0	0
68-71	Stone / Gl	214	35.0	11	63	151	1	1
72-83	Metals	639	35.0	19	22	390	1	37
84-85	Machinery	837	35.0	0	330	243	0	3
86-89	Transporta	224	20.0	0	60	120	1	0
90-97	Miscellane	408	35.0	0	192	160	57	1
Total		**5915**		**110**	**1582**	**2643**	**82**	**255**

Under the SPM regulation, Liberia can choose up to 177 lines for an IAT. If Liberia were to qualify first those tariff lines that are furthest from the CET, the temporary MFN would have to be lowered for 82 tariff lines, and it would have to be increased for255 lines. However, Liberia only has positive imports for 3529 tariff lines. While it might be worth considering asking for an IAT for some lines that are not currently imported, on the grounds that a very high tariff on these lines might be prohibitive, it is more pragmatic to discuss the possibility of an IAT for tariff lines with positive imports. Hence the discussion that follows is restricted to the distribution of tariff lines with positive imports under the assumption that tariff lines with no imports will be set to the CET rate (also see figures 3 and 4).

4.2 Distribution of applied tariffs by CET band

Liberia's statutory schedule has 5915 tariff lines, with positive imports in 2013 for 3529 lines. Below is a description of the tariff rates by CET band for tariff lines with positive imports.

Figure 3:Distribution of imported tariff lines by CET band



Notes: Number of tariffs in each band on the vertical axis. Intervals on the horizontal axis
Ad-valorem equivalent of Specific tariffs included.

Figure 3 data:Distribution of imported tariff lines by CET band

CET band	Total lines	% < CET	%= CET	%> CET
0	60	0	0.056673	1.643525
5	1093	4.023803	14.13998	12.80816
10	733	12.58147	1.530179	6.65911
20	1371	24.39785	9.407764	5.043922
35	272	7.16917	0	0.538396
	3529	48.17229	25.1346	26.69311

Figure 3 shows the distribution of applied tariffs (including the AVEs of specific tariffs) for each CET tariff band. The bottom of the figure gives the distribution of the tariff lines along with the distribution of these percentages across CET band [corresponding percentages for the statutory schedule in brackets]:

- 48 percent of tariff lines are below the CET rate[44 percent],
- 35 percent are equal to the CET rate [30 percent], and
- 27 percent are above the CET rate [25 percent]. (Figure A.3 in annex 6 gives the same information for all the tariff lines in Liberia's statutory tariff schedule).[11]

Note the following:

- For the zero band (60 lines), all of Liberia's tariffs are above the CET rate, but they are concentrated in the 0-5 percent range. Since the zero band is supposed to cover "social goods", setting at least all the 49 tariff lines in 0-5 percent range to the zero CET rate would be sensible; it would be pragmatic to set the remaining lines (9) to zero as well.

- For the 5 percent band (1093 lines), which has the second largest number of tariff lines, most applied tariffs are currently equal to 5 percent. It is the band which is most in conformity with the CET, as it accounts for close to two-thirds of the tariffs that can remain unchanged. A pragmatic stance would be to convert both a) those tariff lines in the 5-10% band (240) and b) those tariff lines currently set below the band (142) to the 5 percent CET rate. This leaves open the possibility/desirability of asking for an IAT for those tariffs in excess of 20 percent (43).

- For the 10 percent band (733 lines), 12 percent of Liberia's tariff lines are below the CET, and only 54 are on the CET schedule. Moving up to the CET implies an increase in protection (for which the stimulus for efficient production is unclear). Recalling that Liberia does not trade much with its ECOWAS partners, raising the tariffs of these goods could result in trade

[11] Of the 3529 lines with positive imports, there are 1755 [2751] lines with imports of less than $10,000 [$100,000]. Since low import volumes are often due to tariffs, it is preferable to describe applied tariffs for all tariff lines

diversion (replacing rest-of-the-world imports with more-costly-to-produce imports from ECOWAS partners).

- The greatest disparity between Liberia's applied tariffs and the CET is in the 20 percent band which contains 39 percent of the tariff lines with positive imports. Adjusting to the 20 percent rate would imply reducing tariffs for 178 lines, but also increasing tariffs on 24% of the tariff lines. Since these lines contain mostly products that are not produced in Liberia and that are used as intermediate inputs, this means that the industries using these inputs will be taxed. If the increase in the tariff is sufficiently high and the tariff on the final good is low, the result might a negative effective rate of protection for the downstream industry (see the example of resin and varnish in box 1).

- For the 35 percent tariff band, there are 104 tariffs that will have to be increased to at least the 10 percent band. Given the large number of lines this represents, applying for an IAT to ease the increase deserves careful scrutiny.

Table 3: Distribution of Applied Tariff Lines Customs data 2013

Table3: Distribution of Applied Tariff Lines Customs data 2013

CET	Number of imported lines by tariff range for each tariff band										Total
	0	0-5	5	5-10	10	10-20	20	20-35	35	>35	
0	**2**	49	3	3	2	0	1	0	0	0	**60**
5	11	131	**499**	240	21	127	19	43	0	2	**1093**
10	6	50	244	144	**54**	155	46	30	0	4	**733**
20	7	36	166	248	79	325	**332**	165	0	13	**1371**
35	0	27	39	38	55	46	28	20	**0**	19	**272**
total							421	248	0	36	**3529**

Box1: The Effective Rate of Protection

Urea resin (39091000) is an input used in producing varnishes. Liberia can import urea and varnishes at a fixed price on the world market. Liberia produces varnishes (32089010) (see table 7). Suppose that producers of varnishes need a fixed amount of urea per unit of varnish regardless of the price of urea (i.e. they cannot substitute urea by other inputs when the price of urea increases. Letting the unit price of varnishes be 10, then the price of urea per unit of resin is 8. Ignore other inputs. Then the per-unit value added at world market prices in varnishes (or the opportunity cost of obtaining varnishes) is the price of the final good, less the costs of the input good:

$$v_0 = 10 - 8 = 2.$$

Adding in tariff protection: Under Liberia's current tariff regime, urea resin and varnish have statutory tariffs of 5% and 20%, respectively. The 20% tariff on varnish allows Liberian producers of varnish to raise the market price of that good to 12 = (10+0.2(10)). At the same time, Liberian varnish producers will pay the tariff-inclusive price of resin: 8.40=(8+0.05(8)). Taking into account both tariffs, the value-added at domestic prices in varnishes is now:

$$v_1 = 12 - 8.4 = 3.6$$

And the effective rate of protection (ERP), g_1, for the varnish industry is:

$$g_1 = (v_1 - v_0)/v_0 = (3.6 - 2)/2 = 80\%.$$

Moving to the CET (1), an increase in the tariff protection on urea resin: Moving to the CET will raise the tariff on resin from 5% to 10%. This will raise the input costs to varnish producers to 8.80=(8+0.10(8)). If there is no change to the tariff on varnish (tariff stays at 20%), the value-added is now:

$$v_2 = 12 - 8.8 = 3.2$$

and, comparing to the original value-added when no tariff was applied, v_0, the corresponding effective rate of protection is lower at 60%:

$$g_2 = (v_2 - v_0)/v_0 = (3.2 - 2)/2 = 60\%.$$

The tariff structure still protects the varnish industry, since the ERP is positive, but protection has been reduced by an increase in the tariff on urea.

Moving to the CET (2), an increase in the tariff protection on varnish: Moving to the CET will also involve a change in the tariff on varnishes. In this example, the tariff on varnish increases from 20% to 35%. The domestic price on the final good increases to 13.50=(10+0.35(10)) per unit and value-added in the varnish industry at domestic prices will be:

$$v_3 = 13.5 - 8.8 = 4.7$$

And the effective rate of protection will be 135%, since:

$$g_3 = (v_3 - v_0)/v_0 = (4.7 - 2)/2 = 135\%.$$

The change in tariff structure resulting from the move to the CET is complex and it could be that in some cases the producers of the final good will get a negative ERP, i.e. they will be taxed. This would occur for industries where value-added is low and the tariff on intermediate inputs is raised substantially while the tariff on the final good is either reduced, or not raised sufficiently to compensate for the rise in costs of imported inputs.

5 Selecting tariff lines for an import adjustment tax

5.1 Economics and political economy considerations

The economics As argued in our previous report, in spite of many tariff bands, Liberia's current tariff structure serves its development objectives better than the CET, even though the move to the CET would lead to a substantial increase in tariff revenues. According to Customs data for 2013 that cover around three quarters of imports (see USAID 2012), with waivers removed, tariff revenues are estimated to increase by $84 million. [12] Dispensing (i.e. alleviating temporarily 177 product lines from this adjustment will not make any significant difference on the estimated revenue effects of moving to the CET.[13] Neither will the temporary adjustment make much difference in terms of overall efficiency in the long-run. This does not mean that the selection of product lines for an IAT should not be guided by the four elements that determine the magnitude of the distortionary costs of tariffs (see annex 4):

- **Portion of imports affected.** For a given tariff rate, the distortionary cost is greater, the larger the import volume affected by the tariff (hence a justification for ignoring small import flows).

- **The height of the tariff.** The costs of protection increase *more* than linearly with the tariff; that is the marginal cost of a tariff increases with how high it is. The increasing costs of tariff protection are one justification for reducing high tariffs.

- **Price elasticity of demand.** For a given tariff rate, the welfare cost is higher, the more elastic is the demand curve. For Liberia, many imports have a low price elasticity of demand. Still, the cost of raising revenue is less, the less elastic import demand is.

- **Variance of tariff rates.** For a given average rate of protection, the cost is less with a uniform tariff, again because the marginal cost of protection increases more than proportionately with the height of the tariff. Hence the rationale for using the IAT to reduce dispersion by treating high and low tariff rates symmetrically.

The Political economy. As with other tariff agreements, the recently agreed-upon CET is not etched in stone, and the move will face opposition that will raise doubts about its viability.

- It is a safe bet that the current CET will be up for revision probably within a five year period—as in the case of the EAC which is currently revising its CET in response to pressures by producers, mostly in the large member countries. Hence, delaying the move to the CET as much as possible in view of the possibility of a change in the CET is good tactics (if the CET

[12] If waivers were kept while moving to the CET, revenues would be estimated to go up by $20 million.

[13] Revenues will go up temporarily for those lines that postpone the reduction in rates and they will go down for those tariff rates that are not brought up to the CET band rate.

were to raise tariff protection still further, Liberia should seriously consider dropping out of the Common Market).

- Moving to the CET will face opposition and a "political cost", but not applying for SPMs would meet with more opposition, as other members are most likely to apply for SPMs.

The move to the CET will face challenges from several fronts:

- Importers of intermediate products and final products—who will have to pay a higher price because of an increase in price—will contest an increase in price of imports. Producers who will receive less protection for the tariff lines that are reduced will protest, as they will face competition from lower import prices on the goods that compete with their products. The poor are unlikely to lobby but might go to the streets if the price of rice or any other item weighing heavily in their consumption basket increases substantially.

- For production activities that benefit from higher tariff protection under the current tariff regime than under the CET, the affected marginal producers, whose activities only make 'a normal profit', will lack a cushion to adapt to any reduction in protection.

- Price uncertainty will go up, especially if there is perception that an IAT may be obtained or be "up for sale". Uncertainty is detrimental to business activity and could be politically costly. To reduce uncertainty and lobbying activity, it is recommended that Liberia be ready to submit a full list of 177 products for the IAT to be effective January 1, 2015.

- Pressures down the road should not be ruled out. If the past is a good predictor of future behaviour, it is quite likely that Nigeria will once more succumb to lobbying pressures from business and ask for more exceptions, either now or soon after the CET comes into effect. (This has been the case with the last stages of negotiations in the EPA last month.[14]) If this is to occur, this will put pressure on Liberia and all other ECOWAS partners to resist both Nigeria's requests and, later on, internal pressures for a 'made-to-measure' tariff structure.

- The large increase in tariffs combined with limited time to adjust is likely to lead to under-invoicing, tariff reclassification, and incentives for collusive behaviour between customs officials and importers.

5.2 Conversion of specific tariffs to ad-valorem equivalents and meeting the IAT adjustment thresholds

In the 2013 Customs data, Liberia shows 110 product lines with specific tariffs. These are listed in table 4 below with the ad-valorem equivalent (AVE) computed from the 2013 collected customs data. These specific tariffs will have to be converted to the CET ad-valorem tariff. In general, a

[14] Most recently in April, Nigeria objected to the list of products that would enter duty-free from the EU as part of the final EPA.

conversion from a specific to an ad-valorem tariff is desirable regardless of Liberia joining the ECOWAS CET. This because the conversion brings transparency into the tariff structure by making these tariffs directly comparable with all the other tariffs in the statutory schedule. Because of increased transparency, the conversion of specific tariffs to ad-valorem tariffs should then be welcome. However, in some cases where the intent is to apply a high tax—e.g. on alcohol—to avoid under-invoicing, a specific tax would be preferred as it eliminates, or at least, reduces the possibilities for under-invoicing. Furthermore, in the case of alcohols and some other "luxury" products, the price elasticity of demand is low, making these products a good target for raising revenue since the revenue intake is high while the distortion cost for the consumer is low (see annex 4). Furthermore with little (or non-existent) domestic production, stimulation of inefficient production is avoided so no distortions are incurred on the production side.

Table 4 gives the list of the 110 products with specific tariffs (column 2), the ad-valorem equivalents (AVEs) in column 3, and the corresponding CET rate in column 4. These AVEs are computed from 2013 customs data on tariffs paid on these products. If world prices have risen (fallen) since the decision to apply the specific tariff, the AVE equivalent will be lower (higher) than it was at the time the specific tariff was adopted.

Column 5 gives the difference between the AVE estimate from the 2013 data and the corresponding CET tariff band. Conversion to an AVE would lead to 20 tariffs beyond the 20 percentage point permissible gap with the CET. These products are mostly alcohols. Column 6 shows the estimated change in government revenue from moving from the current AVE. Summing the changes in column 6 gives an overall estimated increase in revenue of $24.7 million.

Table 4: Ad-valorem equivalents (AVEs) of Liberia's Specific tariffs

HS Code	Product	Specific Duty	Ad-valorem equivalent	CET Rate	Difference from CET	Change in Tariff Revenue (collected) after CET (thous. US$)	Comments
0903000000	Maté.	US$0.20/kg	38.9	20	18.9	-0.05	For 09030000
1006301010	Semi milled or wholly milled rice in packing of not more than 10 kg						
1006301020	Semi milled or wholly milled rice in packing of 25kg						
1006301030	Semi milled or wholly milled rice in packing of 100 lbs	US0.044/kg	16.7	10*	6.7	23326.32	Liberia has subdivisions for rice that do not in the ECOWAS list. For 10063000
1006301040	Semi milled or wholly milled rice in packing of 50 kg						
1006301090	Semi milled or wholly milled rice, Other						
1006400000	Broken rice	US0.044/kg	31.5	10	21.5	2000.26	For 10064000
1604310000	Caviar	US$0.25/lb	31.5	20	11.5	-0.08	For 16043000
1604320000	Caviar Substitutes						
1704100000	Chewing gum, whether or not sugar-coated	US$0.75/kg	29.2	35	-5.8	25.71	For 17041000
1704900000	Other sugar confectionery (including white chocolate), not containing cocoa	US$0.75/kg	41.2	35	6.2	-190.72	For 17049000
1806901000	Confectionery containing cocoa and chocolate	US$0.30/lb	33.7	35	-1.3	7.93	For 18069010
2201101000	Mineral waters	US$0.10/l	26.5	35	-8.5	92.73	For 22011000
2201102000	Aerated waters						
2201900000	Other water not containing sugar or other sweetening matter	US$0.10/l	15.1	35	-19.9	0.49	For 22019000
2202100000	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured	US$0.20/l	57	35	22	71.21	For 22021000
2202901000	Energy drinks						
2202909000	Other Waters containing added sugar or other sweetening matter or flavoured, excluding alcohol, fruit and vegetable juices	US$0.25/l	26	35	-9	193.76	For 22029000
2203001000	Beer made from malt in containers of 50 centilitres or less	US$0.90/l	87.9	35	52.9	-1713.75	For 22030010
2203009010	Stout and porter beers	US$0.90/l	43.4	35*	8.4	-8.51	Liberia has subdivision for beer that ECOWAS doesn't have.
2203009090	Other beer made from malt						For 22030090
2204100000	Sparkling wine	US$0.65/l	21.2	35	-13.8	12.85	For 22041000
2204210000	Wine in containers holding 2l or less	US$0.65/l	28.1	35	-6.9	-35.15	For 22042100
2204290000	Other wine	US$0.65/l	23.5	20*	3.5	18.48	ECOWAS has a subdivision that Liberia does not have.
2205100000	Vermouth in containers holding 21 or less	US$1.10/l	62.9	35	27.9	-13.47	For 22051000
2205900000	Other vermouth and flavored wine	US$1.10/l	35.8	35	0.8	-0.03	For 22059000
2206001000	Other beer not made from malt	US$0.25/l	34.2	35	-0.8	0.83	For 22060010
2206009100	Palm wine	US$0.55/l	59.6	20	39.6	-111.08	For 22060090
2206009900	Other fermented beverages		59.6	35	24.6		
2207101000	Undenatured ethyl alcohol of an alcohol strength by volume 80% vol or higher for medical	US$0.10/l	0	10	-10	0.00	For 22071010
2207109000	Other Undenatured ethyl alcohol of an alcohol strength by volume 80% vol or higher	US$2.50/l	58.8	35	23.8	162.38	For 22071090
2207200000	Ethyl alcohol and other spirits, denatured, of any strength	US$0.10/l	13.8	20	-6.2	148.93	For 22072000
2208201000	Brandy						
2208209000	Other undenatured ethyl alcohol and other spirituous beverages of an alcoholic strength by volume of less than 80% vol	US$5.00/l	65.5	35	30.5	-22.92	For 22082000

2208300000	Whiskies	US$5.00/l	75.3	35	40.3	-126.10	For 2208300
2208400000	Rum arid tafia	US$5.00/l	105.2	35	70.2	-23.05	For 22084000
2208500000	Gin and Geneva	US$5.00/l	67.9	35	32.9	-70.56	For 22085000
2208600000	Vodka	US$5.00/l	111.6	35	76.6	-61.11	For 22086000
2208700000	Liqueurs and cordials	US$5.00/l	105.1	35	70.1	-54.98	For 22087000
2208900000	Other Undenatured ethyl alcohol of an alcohol strength by volume less than 80% vol	US$6.00/l	112.1	35	77.1	-23.11	For 22089000
2209001000	Vinegar containing alcohol	US$0.15/l	9.1	20	-10.9	0.85	For 22090010
2523900000	Other hydraulic cements	;$2.00/50kg b	2.6	35	-32.4	0.49	For 25239000
2922421000	Glutamic acid and its salts	US$0.40/kg	5	5	0	0	For 29224200
3208100000	Paints and vanishes based on polyesters dissolved in a non aqueous medium	US$0.50/l	21.7	35	-13.3	1.50	For 32081000
3208202000	Paints (including enamels) based on acrylic or vinyl polymers dissolved in a non aqueous	US$0.50/l	40.2	35	5.2	-1.42	For 32082020
3208209000	Solution based on acrylic or vinyl polymers dissolved in a non aqueous medium as defined	US$0.50/l	8.6	35	-26.4	-0.03	For 32082090
3208902100	Dry powder paint dispersed or dissolved in non-aqueous medium	US$0.50/l	33.4	35	-1.6	37.34	For 32089020
3208902900	Other paints and varnishes dispersed or dissolved in non-aqueous medium	US$0.50/l	33.4	35			
3208909000	Solutions dissolved in a non aqueous medium as defined in note 4 to this chapter	US$0.50/l	54.6	35	19.6	6.51	For 32089090
3209102000	Paints on acrylic or vinyl polymers dissolved in an aqueous medium	US$0.50/l	17.3	35	-17.7	6.16	For 32091020
3209902000	Other Paints dissolved in an aqueous medium	US$0.50/l	32.7	35	-2.3	20.03	For 32099020
3210002000	Paints of a kind used for finishing leather	US$0.50/l	15	35	-20	5.41	For 32100020
3401111000	Medicated soaps	US$0.40/kg	26.7	10	16.7	-109.43	For 34011110
3401119000	Other soap for toilet use	US$0.40/kg	27.4	35	-7.6	231.20	For 34011190
3401191000	Household soaps	US$0.40/kg	32	35	-3	0.00	For 34011910
3401192000	Surface-active products and preparations (soap)	US$0.40/kg	49.9	35	14.9	-0.35	For 34011920
3401199000	Other organic surface -active products and preparations for use as soap	US$0.40/kg	27.7	35	-7.3	11.28	For 34011990
3401200000	Soap in other forms	US$0.40/kg	37.5	35	2.5	-3.77	For 34012000
3402111000	Surface agents other than soap put up for retail sale	US$0.50/kg	30.1	20	10.1	-0.99	For 34021100
3402119000	Other surface agents other than soap						
3402121000	Surface agents other than soap, put up for retail sale	US$0.50/kg	3	20	-17	0.00	For 34021200
3402129000	Other surface agents other than soap						
3402131000	Surface agents other than soap, put up for retail sale	US$0.50/kg	69.7	20	49.7	0.00	For 34021300
3402139000	Other surface agents other than soap	US$0.50/kg	41.1	20	21.1		
3402191000	Surface agents other than soap, put up for retail sale	US$0.50/kg	46.3	20	26.3	0.80	For 34021900
3402199000	Other surface agents other than soap						
3402200000	Surface agents other than soap, preparations put up for retail sale	US$0.50/kg	40.9	35	5.9	63.74	For 34022000
3402900000	Other surface agents other than soap	US$0.50/kg	39.5	35	4.5	49.83	For 34029000
3403110000	Lubricating preparations for the treatment of textile materials, leather, furskins or other materials	US$0.50/kg	76.1	10	66.1	-0.04	For 34031100
3403190000	Other lubricating preparations	US$0.50kg	36.5	10	26.5	0.89	For 34031900
3403990000	Other lubricating preparations	US$0.50/kg	9.3	10	-0.7	-0.44	For 34039900
3406000000	Candles, tapers and the like	US$0.75/kg	75.6	35	40.6	-5.52	For 34060000
5802110000	Unbleached tufted textile fabrics	US$0.20/yd2	2.5	20	-17.5	0.00	For 58021100

6812910000	Fabricated asbestos fibre clothing, clothing accessories, footwear and headgear						
6812920000	Fabricated asbestos fibre paper, millboard and felt	US$0.10/kg	14.2	20	-5.8	0.01	For 68129000
6812930000	Fabricated asbestos fibres compressed asbestos fibre jointing, in sheets or rolls						
6812990000	Other articles made with fabricated asbestos fibres						
7317001000	Nails and corrugated nails						
7317009000	Other articles of iron or steel, excluding articles with heads of copper	US$0.10/kg	25	35	-10	498.27	For 73170000
7415100000	Nails and tacks, drawing pins, staples and similar articles of copper	US$0.10/kg	7.5	20	-12.5	0.04	For 74151000
7606119000	Other aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	US$0.25/kg	2.8	5	-2.2	1.52	For 76061190
7606121000	Corrugated aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	US$0.25/kg	8.6	35	-26.4	9.72	For 76061210
7606129000	Other aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	US$0.25/kg	12.7	5	7.7	66.14	For 76061290
7606911000	Corrugated aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	US$0.25/kg	22.9	20	2.9		
7606919100	Painted, coated or varnished aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	US$0.25/kg	12.6	5	7.6	50.14	For 76069190
7606919900	Other aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	US$0.25/kg	12.6	5			
7606921000	Corrugated aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	US$0.25/kg	52.4	20	32.4	-0.05	For 76069210
7606929100	Painted, coated or varnished aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm	US$0.25/kg	22.9	5	17.9	39.15	For 76069290
7606929900	Other aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm						
7608200000	Aluminium tubes and pipes of aluminium alloys	US$0.25/kg	18.6	20	-1.4	-0.846568903	For 76082000
7609000000	Aluminium tube or pipe fittings (for example, couplings, elbows, sleeves).	US$0.25/kg	22.9	20	2.9	2.56	For 76090000
7610100000	Aluminium doors, windows and their frames and thresholds for doors	US$0.25/kg	20.8	20	0.8	31.08	For 76101000
7610900000	Other aluminium plates, rods, profiles, tubes and the like, prepared for use in structures	US$0.25/kg	5.8	20	-14.2	36.14	For 76109000
					TOTAL:	US$24.66 Million	

5.3 Options for the selection of products to qualify for an Import Adjustment Tax (IAT)

Any selection of product lines for the IAT will benefit some and hurt others and hence meet with opposition. Two approaches are outlined: call them the 'symmetry approach' (rather than 'equitable') and the 'development' (rather than 'picking winners'). Both have some arbitrariness, as cut-off levels could be viewed as set out arbitrarily, and the GoL will probably want to use a mix of the two. For the sake of clarity, the two are presented separately here. Independently of their relative merits, the formula-based 'symmetric' approach is more transparent. It could meet with less opposition. It might also help project an image of 'efficiency' and transparency in important governmental decisions. The two approaches are outlined in figures 4 and 5.

Under the 'symmetry' approach, in the absence of better information, and on grounds of transparency, efficiency, and equity, the GoL would split access to the temporary IAT equally between tariffs below and tariffs above the CET bands, starting first with applying an IAT to those that are outside the 20 percentage points range. (There is no choice there according to the regulation: either the tariff is set to the CET rate or at least it has to be moved to the 20 percentage limit from the CET rate.) Then, from the remaining lines, GoL could take those that are furthest away from their respective CET rate, again splitting the adjustments equally between those above and those below the CET rate. The assumption in this approach is that all tariff lines are equally 'meritorious' of temporary adjustment which should be given first to those requiring the greatest adjustment (i.e. those that are furthest from the CET rate in their respective band) to give more time to adjust. A list resulting from this approach is given in the paper. Under the 'development' approach, eligibility for an IAT would be taken from products in the waiver list (see table 6) and products that compete with domestic production (table 7).

The symmetry approach would present at least two advantages. First, it would narrow the variance in tariffs, helping to reduce distortions. Second, it would contribute towards 'levelling the playing field', (i.e. introduce some sort of impartiality in the burden of adjustment) as it would give equal access to temporary adjustment for both products on the waiver list and for those receiving high protection.

Both approaches eliminate a number of lines based on two preliminary exclusion criteria: volume of import flows and closeness of the tariff to the CET band rate. These common preliminary criteria are described at the top of the decision tree in figures 4 and 5: Here they are:

1. Exclude from the IAT tariff lines with no imports. The (plausible) assumption here is that 2013 is a normal year for the near future. One could add that there would be no opposition to fear here.

2. Apply the rule that all tariffs that are 5 percentage points above and 5 percentage points below to the CET rate; these products should be moved to the value on the CET band. This reduces the number of lines to be considered for a CET to 1188. Since there are more lines

below than above the CET, this will increase protection and government revenues. Three reasons to justify this exclusion: (i) adjustment costs will be relatively low for those close to their respective band; (ii) administrative costs are avoided; (iii) this exclusion enables GoL to avoid changing the tariff twice (once during the adjustment period, and a second time, at the end of the adjustment period).

3. Steps 1 and 2, but now applied to a band of 10 percentage points (reduces to 821 lines).

4. Exclude all tariff lines with imports flows less than $10,000. This reduces further the eligible list to 472 tariff lines. Justifications are: (i) distortion costs are proportional to the volume of trade; (ii) exclusion is less likely to be contested.

5. As above but exclude lines with less than $100,000. This is more problematic and likely to meet with more opposition, as the perception of arbitrariness will probably be greater. Also powerful interest might be at stake.

6. For the tariff lines that get an IAT: choose the adjustment factor, δ[15]. Either the CET will have been modified by then---which is quite likely—in which case some adjustments could have been avoided, or the CET will be maintained and the adjustment will be carried out in two steps. An alternative formula of a linear adjustment to the CET rate in a yearly stepwise fashion could be envisaged, but the feasibility would have to be discussed by the stakeholders (MOCI and customs). [16]

[15] The adjustment factor needed to bring the temporary tariffs within 20 percentage points from the CET band. For the other tariffs that are on in the 5-20 percentage band, the adjustment factor would bring the tariff halfway to the CET-band rate during the transition. The remaining adjustment is to be carried out at the end of the period.

[16] Other non-linear formulas could be envisaged. In the multilateral negotiations, the formula-based reductions are according to a so-called "Swiss" formula that gives deeper cuts to higher tariffs that create more distortions.- This flexible approach that accommodates exceptions could be applied here, but we would not recommend it for a temporary adjustment in rates. See http://www.wto.org/english/tratop_e/dda_e/status_e/nama_e.htm

Figure 4: "Symmetric" approach to selection of tariff lines for IAT

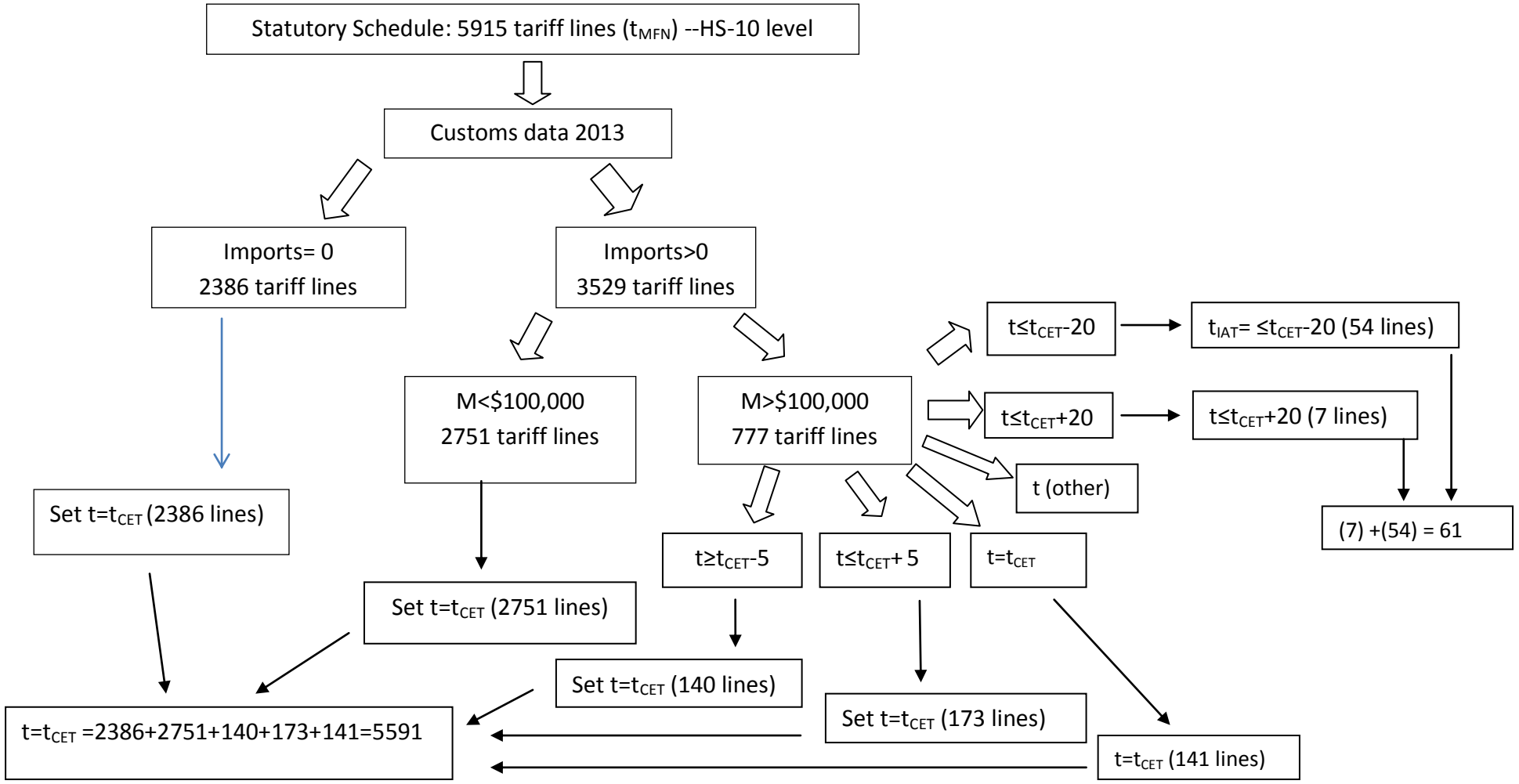
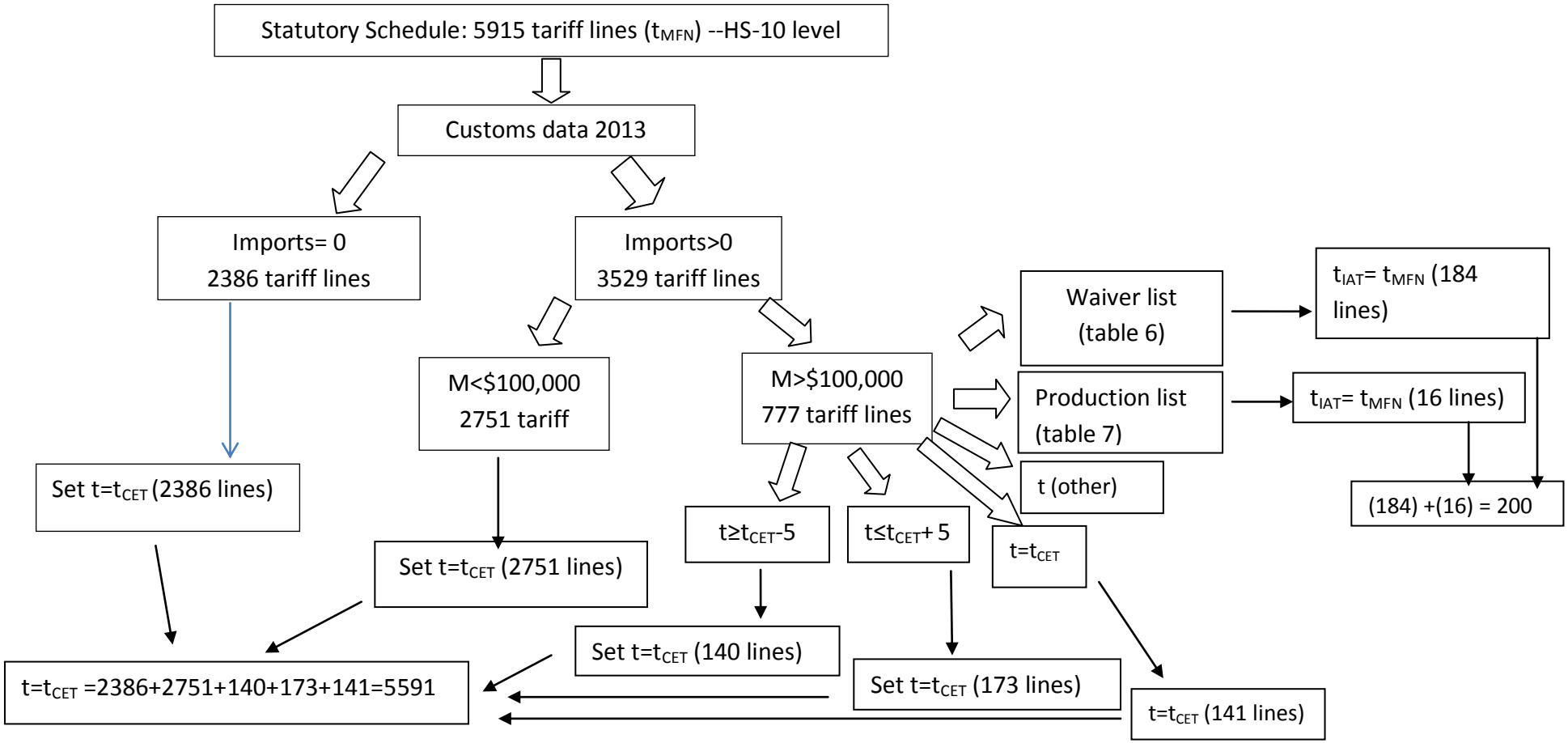


Figure 5:"Development" approach to Selection of tariff lines for IAT



'Symmetric' Approach. This case is described in figure 4-(for the case with the $100,000 cut-off). It starts by selecting for an IAT those tariff lines that fall outside the 20 percentage bands (61 lines with the $100, 000 cut-off and 110 with the $10,000 cut-off), the remaining recipients are selected by symmetrical treatment. Take the case of 777 lines corresponding to an exclusion for tariff lines with less than $100,000 import value. In other words, there are 777 tariff lines left after excluding all tariff lines with less than $100,000 in imports. Selecting the 61 tariff lines that fall outside of the 20 percentage point band leaves 716 that meet the $100,000 criterion. For this pool of 716, the selection then proceeds as follows:

- Under the current regulation, Liberia can apply for 116 more tariffs for IAT (because we already used 61 in the step above).
- Start with tariff lines that are 5-20 pp below the CET, and rank them in descending order by the difference between the CET and the current MFN tariff. Then choose the top 58 that are furthest away. For those, apply for an IAT. Importantly, also choose a δ that results in the temporary tariff being set halfway to the CET. For example, if the current tariff is 5 percent, and the CET is 20 percent, set the temporary tariff halfway at 12.5 percent (which is [5 + (20-5)/2][17]). The remaining tariffs on the low side are set to their respective CET rates.
- Apply the same procedure for the tariff lines that are 5-20 percentage points above their respective rates. Rank them in ascending order by the difference between the CET and the MFN tariff (all be negative differences). Choose the top 58 that are furthest away. Follow the same procedure as above by going halfway to the CET. The remaining tariffs are set at their CET rates.

The resulting list from this symmetric approach gives the 177 products is given in tables 5a and 5b, ordered by their respective differences between the CET and the MFN tariff. Table 5a lists the tariff lines that are beyond the 20 percentage point band permissible range. Table 5b gives the remaining tariffs that would be selected for an IAT. [18]

Both tables follow the same format. Column 3 gives the tariff lines' import values in US$ millions. Column 4 shows the value of each product that is produced domestically. Column 5 lists the total tariff revenue that Customs reported as collected for each tariff line in 2013. Column 6 includes tax revenue the revenues for each tariff line. Column 7 shows the share of total tariff revenue attributed to that tariff line. Colum 8 shows the current Statutory tariff which has to be adjusted to the CET which is given in column 9. Column 10 gives the difference between the statutory tariff and the CET.

[17] *20-5=15* is the upward adjustment needed to comply with the 20 percent CET rate. Next, *(20-5)/2=7.5* is the total adjustment divided to take the existing tariff halfway to the CET. *5+(20-5)/2=12.5* is the existing tariff of 5 percent added to the 'halfway' adjustment of 7.5 percent.

[18] Note that there are 179 lines with current statutory tariff within 5 percentage point above the CET. Six of these also qualify for IAT selection, because they meet the criteria of 1) $100,000 for import value, and 2) sufficient difference from the CET.

Column 11 gives the adjustment (in percentage points) to the current MFN tariff that would have to be applied for the temporary MFN rate to meet the selected IAT. In table 5a which deals with tariff lines outside the range, the assumption is that the GoL would just make the minimum adjustment to satisfy the 20 percentage limit. The GoL might then stipulate that these lines would be adjusted halfway to the CET rate at the end of the third year, the remaining adjustment taking place at the end of the 5-year period. For the tariff lines in table 5b which are within the 20 percentage band, the assumption is that adjustment would be in two steps, the first step setting the tariff halfway to the CET rate on January 1, 2015, the second adjustment bringing the tariff to the CET rate at the end of the 5-year adjustment period.

The timing and extents of these adjustments are to be discussed and settled by the GoL. For example, one could envisage that tariffs outside the band go further along in their adjustment than just meeting the 20 percentage band limit. One could also envisage that tariffs within the band might be adjusted to less than halfway to the CET rate.

Three examples illustrate the adjustments. Take first table5a. Start with a tariff line requiring a reduction in the MFN tariff: 'beer made of malt' (row 1 in table 5a) has a statutory tariff of 87.9% (column 8) and a CET of 20% (column 9) requiring and adjustment of -67.9% (column 10). Column 11 gives the necessary reduction (47.9 percentage points) by January 1, 2015 to meet the maximum allowable deviation from the CET. Take next a tariff line requiring an increase: 'onions and shallots (row 30 in table 5a) has a statutory tariff of 7.5% (column 8) and a CET of 35% (column 9) requiring and adjustment of 27.5% (column 10). Column 11 gives the necessary increase in tariff (7.5 percentage points) by January 1, 2015 to meet the maximum allowable deviation from the CET. Finally take an example from table 5b: 'wood' (row 137) has a statutory tariff of 20% (column 8) and a CET of 10% (column 9). Here the adjustment is going halfway to the CET. Column 11 gives the increase in tariff (5 percentage points) by January 1, 2015 to be halfway to the CET.

Table 5a: Tariff lines with a *temporary tariff set at 20 percentage points from the CET rate*

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
No	Hscode	Description	Import value ($ mn)	Domestic production ($ mn)	Total tariff revenue collected by Customs ($ mn)	Total revenues (including taxes, $ mn)	Share of total revenue (%)	Current statutory tariff as reported by customs (%, including ECOWAS 0 tariffs)	CET (%)	Difference between CET and statutory de jure (pp)	Minimum permissible adjustment to statutory tariff, necessary by January 1, 2015	Recommended IAT *(20 pp deviation)*	Change in revenue after CET scenario ($ mn)
1	22030010	Beer made from	2.666	0.415	2.343	2.774	3.39	87.9	20	-67.9	-47.9	40	-1.714
2	22083000	Whiskies	0.348	0.000	0.262	0.315	0.38	75.3	35	-40.3	-20.3	55	-0.126
3	22085000	Gin and Geneva	0.236	0.000	0.161	0.196	0.23	67.9	35	-32.9	-12.9	55	-0.071
4	02064900	Other of swine, f	6.101	0.000	0.153	0.623	0.22	2.5	35	+32.5	+12.5	15	1.644
5	02062900	Other edible offa	3.207	0.000	0.080	0.327	0.12	2.5	35	+32.5	+12.5	15	0.864
6	33061000	Dentifrices	1.617	0.000	0.040	0.165	0.06	2.5	35	+32.5	+12.5	15	0.429
7	02100000	Meat and edible	1.313	0.000	0.033	0.134	0.05	2.5	35	+32.5	+12.5	15	0.354
8	02062200	Livers of bovine a	0.587	0.000	0.015	0.060	0.02	2.5	35	+32.5	+12.5	15	0.158
9	02069000	Other of swine, f	0.131	0.000	0.000	0.001	0.00	2.5	35	+32.5	+12.5	15	0.038
10	02042200	Other cuts with b	0.131	0.000	0.000	0.001	0.00	2.5	35	+32.5	+12.5	15	0.038
11	72142000	Other Bars and r	10.540	0.000	0.495	1.287	0.72	4.8	35	+30	+10	15	2.419
12	24022000	Cigarettes contai	8.599	0.000	0.430	1.283	0.62	5.0	35	+30	+10	15	-0.020
13	72104100	Corrugated Flat r	4.821	2.016	0.240	0.620	0.35	5.0	35	+30	+10	15	1.206
14	20029020	Tomato Paste or	1.880	0.000	0.094	0.242	0.14	5.0	35	+30	+10	15	0.470
15	63053300	Other sacks and	1.375	0.000	0.004	0.036	0.01	5.0	35	+30	+10	15	0.394

16	72286000	Other bars and r	1.258	0.000	0.061	0.158	0.09	5.0	35	+30	+10	15	0.316
17	72149900	Other Other Bars	0.897	0.000	0.045	0.115	0.06	5	35	+30	+10	15	0.224
18	28289010	Sodium hypochlc	0.443	0.000	0.021	0.054	0.03	4.7	35	+30	+10	15	-0.019
19	15179090	Other edible mix	0.411	0.000	0.015	0.042	0.02	5.0	35	+30	+10	15	0.107
20	85442000	Co-axial cable ar	0.313	0.000	0.009	0.024	0.01	5.0	35	+30	+10	15	0.083
21	96081000	Ball-point pens	0.309	0.000	0.014	0.041	0.02	5.0	35	+30	+10	15	0.078
22	72155000	Other Bars and r	0.258	0.000	0.009	0.024	0.01	5.0	35	+30	+10	15	0.067
23	72149100	Other Bars and r	0.185	0.000	0.005	0.014	0.01	5.0	35	+30	+10	15	0.050
24	25232100	White cement, w	0.144	0.000	0.006	0.015	0.01	5.0	35	+30	+10	15	0.037
25	33069000	Other preparatio	0.125	0.000	0.006	0.016	0.01	5.0	35	+30	+10	15	0.031
26	72141000	Other Bars and r	0.121	0.000	0.000	0.000	0.00	5.0	35	+30	+10	15	0.035
27	73181600	Nuts	0.116	0.000	0.002	0.005	0.00	5.0	35	+30	+10	15	0.032
28	85061011	Manganese dioxi	8.316	0.000	0.620	1.288	0.90	7.5	35	+27.5	+7.5	15	1.918
29	16010090	Other sausgaes c	4.063	0.000	0.305	0.633	0.44	7.5	35	+27.5	+7.5	15	0.935
30	07031000	Onions and shall	2.842	0.000	0.213	0.442	0.31	7.5	35	+27.5	+7.5	15	0.654
31	15171000	Margarine, exclu	2.280	0.000	0.171	0.355	0.25	7.5	35	+27.5	+7.5	15	0.520
32	07019000	Other potatoes, '	0.628	0.000	0.043	0.090	0.06	7.5	35	+27.5	+7.5	15	0.148
33	85061019	Other Manganes	0.587	0.000	0.044	0.092	0.06	7.5	35	+27.5	+7.5	15	0.135
34	16025000	Other prepared c	0.526	0.000	0.039	0.082	0.06	7.5	35	+27.5	+7.5	15	0.121
35	16023200	Other prepared c	0.391	0.000	0.029	0.061	0.04	7.5	35	+27.5	+7.5	15	0.090
36	73239400	Tables, kitchen o	0.235	0.000	0.018	0.037	0.03	7.5	35	+27.5	+7.5	15	0.054
37	16024900	Ofiier, including r	0.230	0.000	0.017	0.036	0.02	7.5	35	+27.5	+7.5	15	0.053
38	73239300	Tables, kitchen o	0.224	0.000	0.013	0.029	0.02	7.5	35	+27.5	+7.5	15	0.054
39	73239990	Other Tables, kit	0.210	0.000	0.012	0.027	0.02	7.5	35	+27.5	+7.5	15	0.051
40	02071400	Cuts and offal of	23.501	0.302	2.068	3.771	2.99	10.0	35	+25	+5	15	5.167
41	25232900	Other portland c	19.757	11.200	1.427	2.602	2.07	7.2	35	+25	+5	15	4.592
42	15119090	Other palm oil	18.203	0.000	0.956	1.693	1.38	10.0	35	+25	+5	15	2.969
43	19053000	Sweet biscutts: v	4.641	0.000	0.462	0.843	0.67	10.0	35	+25	+5	15	0.862
44	19059000	Other bakers wa	4.085	0.000	0.187	0.342	0.27	10.0	35	+25	+5	15	1.034
45	02071200	Meat and edible	3.230	0.302	0.308	0.562	0.45	10.0	35	+25	+5	15	0.691
46	02032900	Other frozen me	2.903	0.000	0.288	0.525	0.42	10.0	35	+25	+5	15	0.612
47	02072700	Cut and offal of t	2.507	0.302	0.251	0.457	0.36	10.0	35	+25	+5	15	0.527
48	02023000	Boneless meat o	2.003	0.000	0.185	0.339	0.27	10.0	35	+25	+5	15	0.433
49	02031900	Other meat of sv	1.547	0.000	0.000	0.000	0.00	10.0	35	+25	+5	15	0.447
50	52085290	Other printing pr	0.819	0.000	0.082	0.149	0.12	10	35	+25	+5	15	0.107
51	21032000	Tomato ketchup	0.397	0.000	0.040	0.072	0.06	10.0	35	+25	+5	15	0.083
52	02073600	Other meat and c	0.394	0.302	0.039	0.072	0.06	10.0	35	+25	+5	15	0.083
53	52085210	Plain weave Wax	0.371	0.000	0.037	0.068	0.05	10.0	35	+25	+5	15	0.078
54	02071100	Meat and edible	0.181	0.302	0.000	0.000	0.00	10.0	35	+25	+5	15	0.052
55	54075200	Dyed woven fabr	0.127	0.000	0.013	0.023	0.02	10.0	35	+25	+5	15	0.027
56	22060090	Other fermented	0.508	0.000	0.303	0.374	0.44	59.6	35	-24.6	-4.6	55	-0.111
57	40139000	Other Inner tube	0.232	0.000	0.017	0.030	0.02	11.0	35	+24	+4	15	0.047
58	22071090	Other Undenatur	0.563	0.000	0.000	0.001	0.00	58.8	35	-23.8	-3.8	55	0.162
59	76061290	Other rectangula	0.231	0.000	0.001	0.005	0.00	12.7	35	+22.3	+2.3	15	0.066
60	22021000	Waters, including	1.102	12.114	0.142	0.235	0.21	57.0	35	-22	-2.0	55	0.071
61	34021400	Powder deterger	0.678	0.000	0.228	0.286	0.33	41.1	20	-21.1	-1.1	40	-0.096

*imports under $100,000

†Statutory tariff is 69.7%.

Table 6b: Tariff lines with a *temporary tariff set halfway to the CET rate*

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(!3)
No	Hscode	Description	Import value ($ mn)	Domestic production ($ mn)	Total tariff revenue collected by Customs ($mn)	Total revenues (including taxes, $mn)	Share of total revenue (%)	Current statutory tariff as reported by customs (%, including ECOWAS 0 tariffs)	CET (%)	Difference between CET and statutory de jure (pp)	Recommended adjustment to statutory tariff, necessary by January 1, 2015	Recommended IAT *(halfway to CET)*	Change in revenue after CET scenario ($ mn)
62	33049900	Other beauty anc	0.8703	0.00	0.0741	0.1426	0.11	11.6	35	+20	+11.7	23.3	0.031
63	33059000	Other preparatio	0.6498	0.02	0.0809	0.2031	0.12	13.6	35	+20	+10.7	24.3	-0.036
64	32099020	Other Paints diss	0.103	0.64	0.0123	0.0198	0.02	13.9	35	+20	+10.55	24.45	0.020
65	33049100	Powders, whethe	0.2189	0.00	0.0284	0.0466	0.04	14.1	35	+20	+10.45	24.55	0.012
66	39249090	Other household	0.4802	0.00	0.0628	0.1017	0.09	14.2	35	+20	+10.4	24.6	0.072
67	39232900	Sacks and bags (i	1.1837	1.06	0.1280	0.2093	0.19	14.4	35	+20	+10.3	24.7	0.184
68	39249010	Wash basins and	0.1572	0.00	0.0137	0.0232	0.02	14.4	35	+20	+10.3	24.7	0.022
69	39232100	Sacks and bags (i	1.8407	1.06	0.2306	0.3677	0.33	14.8	35	+20	+10.1	24.9	0.257
70	33072000	Personal deodor	0.4862	0.00	0.0710	0.1126	0.10	14.8	35	+20	+10.1	24.9	0.076

71	39233000	Carboys, bottles,	0.9238	0.00	0.1275	0.1344	0.18	14.9	35	+20	+10.05	24.95	0.012
72	39241000	Tableware and ki	0.64	0.00	0.0892	0.1420	0.13	14.9	35	+20	+10.05	24.95	0.100
73	90278000	Other instrument	0.2667	0.00	0.0072	0.0142	0.01	25	5	-20	-10	15	0.006
74	90091200	Electrostatic pho	0.2621	0.00	0.0655	0.0909	0.09	25	5	-20	-10	15	-0.051
75	19021900	Other uncooked	1.4413	0.00	0.2107	0.3307	0.30	15	35	+20	+10	25	0.207
76	48181000	Toilet paper	0.7324	0.00	0.0984	0.2956	0.14	15	35	+20	+10	25	0.133
77	04069000	Other cheese	0.4306	0.00	0.0335	0.0526	0.05	15	35	+20	+10	25	0.098
78	39235000	Stoppers, lids cap	0.3319	0.00	0.0338	0.0384	0.05	15	35	+20	+10	25	0.056
79	18061000	Cocoa powder, c	0.3201	0.00	0.0480	0.0752	0.07	15	35	+20	+10	25	0.032
80	04063000	Processed chees	0.2398	0.00	0.0357	0.0563	0.05	15	35	+20	+10	25	0.041
81	48182000	Handkerchiefs, cl	0.2287	0.00	0.0340	0.0545	0.05	15	35	+20	+10	25	0.036
82	33074900	Other preparatio	0.1789	0.00	0.0268	0.0422	0.04	15	35	+20	+10	25	0.027
83	04051000	Butter	0.1755	0.00	0.0253	0.0399	0.04	15	35	+20	+10	25	0.031
84	04061000	Fresh (unripened	0.1467	0.00	0.0220	0.0346	0.03	15	35	+20	+10	25	0.025
85	18063100	Other Filled choc	0.1089	0.00	0.0163	0.0257	0.02	15	35	+20	+10	25	0.018
86	19023000	Other pasta	0.1055	0.00	0.0152	0.0239	0.02	15	35	+20	+10	25	0.018
87	94060000	Prefabricated bu	3.6039	0.00	0.1995	0.2913	0.29	24.7	5	-20	-9.85	14.85	-0.027
88	21041090	Other soups and	0.6539	0.00	0.2476	0.3842	0.36	37.9	20	-17.9	-8.95	28.95	-0.108
89	04029900	Other milk	1.155	0.00	0.0282	0.1154	0.04	2.5	20	+17.5	+8.75	11.25	0.183
90	38084000	Disinsfectants	0.7896	0.00	0.0158	0.0675	0.02	2.5	20	+17.5	+8.75	11.25	0.128
91	38220000	Diagnostic or lab	0.1743	0.00	0.0018	0.0091	0.00	2.5	20	+17.5	+8.75	11.25	0.030
92	34011110	Medicated soaps	0.7294	0.00	0.1869	0.2528	0.27	26.7	10	-16.7	-8.35	18.35	-0.109
93	73143900	Other grill, nettin	0.2973	0.00	0.0038	0.0126	0.01	3.8	20	+15	+8.1	11.9	0.028
94	39172310	Tubes, pipes and	0.3651	0.00	0.0079	0.0243	0.01	4.5	20	+15	+7.75	12.25	0.045
95	84151000	Window or wall t	2.3754	0.00	0.3631	0.5353	0.53	20	5	-15	-7.5	12.5	-0.239
96	84183000	Freezers of the c	0.9766	0.00	0.1942	0.2813	0.28	20	5	-15	-7.5	12.5	-0.142
97	42021200	Trunks, suitcases	0.5396	0.00	0.1335	0.1834	0.19	25	10	-15	-7.5	17.5	-0.076
98	84182100	Compression- typ	0.4161	0.00	0.0820	0.1191	0.12	20	5	-15	-7.5	12.5	-0.060
99	84159000	Parts of air condi	0.1946	0.00	0.0372	0.0542	0.05	20	5	-15	-7.5	12.5	-0.027
100	05040000	Guts, bladders ar	0.1698	0.00	0.0340	0.0491	0.05	20	5	-15	-7.5	12.5	-0.025
101	21042000	Homogenized co	4.4939	0.00	0.2246	0.5788	0.33	5	20	+15	+7.5	12.5	0.610
102	73049000	Other Tubes, pipe	3.2929	0.00	0.0004	0.0176	0.00	5	20	+15	+7.5	12.5	0.592
103	48202000	Exercise books	2.3339	0.00	0.1165	0.3004	0.17	5	20	+15	+7.5	12.5	0.317
104	85445900	Other electric co	2.0733	0.00	0.0491	0.1412	0.07	5	20	+15	+7.5	12.5	0.329
105	73181500	Other screws and	1.6055	0.00	0.0291	0.0476	0.04	5	20	+15	+7.5	12.5	0.261
106	73066000	Other tubes, pipe	1.0382	0.00	0.0363	0.0950	0.05	5	20	+15	+7.5	12.5	0.155
107	84145100	Table, floor, wall	1.0109	0.00	0.0454	0.1195	0.07	5	20	+15	+7.5	12.5	0.142
108	20099000	Mixtures of juice	0.7052	0.00	0.1338	0.1939	0.19	20	35	+15	+7.5	27.5	0.087
109	84148000	Other air or vacc	0.6847	0.00	0.0178	0.0396	0.03	5	20	+15	+7.5	12.5	0.107
110	73063090	Other welded tul	0.6606	0.00	0.0286	0.0752	0.04	5	20	+15	+7.5	12.5	0.094
111	72162100	L section of iron	0.607	0.00	0.0231	0.0604	0.03	5	20	+15	+7.5	12.5	0.089
112	20091900	Other orange juic	0.5378	0.00	0.0991	0.1435	0.14	20	35	+15	+7.5	27.5	0.059
113	39172190	Other Tubes, pipe	0.5082	0.00	0.0013	0.0084	0.00	5	20	+15	+7.5	12.5	0.090
114	85444900	Other electric co	0.489	0.00	0.0100	0.0295	0.01	5	20	+15	+7.5	12.5	0.079
115	39231000	Boxes, cases, cra	0.4041	1.06	0.0118	0.0310	0.02	5	20	+15	+7.5	12.5	0.029
116	48191000	Carbon, boxes ar	0.395	0.00	0.0090	0.0187	0.01	5	20	+15	+7.5	12.5	0.063
117	85445100	Other electric co	0.3888	0.00	0.0168	0.0451	0.02	5	20	+15	+7.5	12.5	0.055
118	20098030	Mangoes juice	0.3528	0.00	0.0706	0.1020	0.10	20	35	+15	+7.5	27.5	0.033
119	21069010	Syrups containig	0.3483	0.00	0.0159	0.0751	0.02	5	20	+15	+7.5	12.5	0.049
120	20098090	Other juice of a s	0.3408	0.00	0.0575	0.0833	0.08	20	35	+15	+7.5	27.5	0.051
121	85365000	Other switches	0.3317	0.00	0.0115	0.0305	0.02	5	20	+15	+7.5	12.5	0.049
122	25222000	Slake lime	0.3303	0.00	0.0141	0.0361	0.02	5	20	+15	+7.5	12.5	0.047
123	73072900	Other tubes or pi	0.3215	0.00	0.0017	0.0059	0.00	5	20	+15	+7.5	12.5	0.056
124	73079900	Other tubes and	0.3163	0.00	0.0035	0.0105	0.01	5	20	+15	+7.5	12.5	0.054
125	82055900	Other hand tools	0.3034	0.00	0.0073	0.0173	0.01	5	20	+15	+7.5	12.5	0.043
126	73083000	Doors, windows	0.3026	0.00	0.0083	0.0237	0.01	5	20	+15	+7.5	12.5	0.047
127	85369000	Other apparatus	0.3013	0.00	0.0078	0.0204	0.01	5	20	+15	+7.5	12.5	0.047
128	72163200	I sections of iron	0.2756	0.00	0.0062	0.0177	0.01	5	20	+15	+7.5	12.5	0.044
129	94039000	Parts of other fu	0.1056	0.03	0.0242	0.0333	0.03	24.8	10	-15	-7.4	17.4	-0.013
130	87032312	Complete Statio	0.4512	0.00	0.0208	0.0385	0.03	5.2	20	+15	+7.4	12.6	0.063
131	10063000	Semi milled or wl	135.16	22.38	0.0126	0.0154	0.02	5.5	20	+15	+7.25	12.75	23.326
132	84181000	Combined refrige	0.6242	0.00	0.1079	0.1571	0.16	19.3	5	-15	-7.15	12.15	-0.075
133	48025200	Other paper and	1.4076	0.00	0.2108	0.3316	0.31	15	5	-10	-5	10	-0.138
134	85251000	Transmission app	1.2578	0.00	0.0290	0.0564	0.04	15	5	-10	-5	10	0.032
135	84186900	Other refrigeratio	0.7525	0.00	0.0359	0.0582	0.05	15	5	-10	-5	10	0.002
136	36020010	Dynamite	0.7372	0.00	0.0000	0.0037	0.00	15	5	-10	-5	10	0.036
137	44121300	Wood with at lea	0.6615	0.00	0.1277	0.1854	0.18	20	10	-10	-5	15	-0.059
138	85291000	Aerials and aeria	0.6278	0.00	0.0628	0.0996	0.09	15	5	-10	-5	10	-0.032
139	84185000	Other refrigeratio	0.4394	0.00	0.0531	0.0653	0.08	15	5	-10	-5	10	-0.030
140	85311000	Burglar or fire ala	0.283	0.00	0.0010	0.0032	0.00	15	5	-10	-5	10	0.013
141	85254000	Still image -video	0.2766	0.00	0.0107	0.0209	0.02	15	5	-10	-5	10	0.003
142	84189900	Other parts for re	0.2557	0.00	0.0384	0.0603	0.06	15	5	-10	-5	10	-0.025
143	85309000	Parts of electrica	0.1725	0.00	0.0000	0.0009	0.00	15	5	-10	-5	10	0.008
144	85281211	Colour reception	0.1535	0.00	0.0224	0.0360	0.03	15	5	-10	-5	10	-0.014
145	27100010	Petroleum oils ar	0.1419	0.00	0.0002	0.0014	0.00	10	0	-10	-5	5	0.000
146	44121900	Other plywood, v	0.1018	0.00	0.0188	0.0272	0.03	20	10	-10	-5	15	-0.008
147	21061000	Protein concentr	0.6754	0.00	0.0067	0.0200	0.01	14.9	5	-10	-4.95	9.95	0.026
148	87120000	Bicyles and other	0.3881	0.00	0.0564	0.0893	0.08	14.8	5	-10	-4.9	9.9	-0.036
149	48201000	Registers, accour	0.1846	0.00	0.0745	0.0925	0.11	44.8	35	-10	-4.9	39.9	-0.009
150	21011100	Extracts, essence	0.9436	0.00	0.1723	0.2536	0.25	19.7	10	-10	-4.85	14.85	-0.108

151	87112010	Motorcyles and c	4.7757	0.00	0.6809	1.0725	0.99	14.5	5	-10	-4.75	9.75	-0.432
152	21069090	Other Food prep	0.8875	0.00	0.1186	0.2669	0.17	14.5	5	-10	-4.75	9.75	-0.073
153	87112090	Other Motorcyle	0.4963	0.00	0.0682	0.1075	0.10	14.4	5	-10	-4.7	9.7	-0.042
154	22030090	Other beer incluc	0.1152	32.20	0.0500	0.0651	0.07	43.4	35	-8.4	-4.2	39.2	-0.009
155	22042100	Other wine, grap	0.469	0.00	0.1319	0.1882	0.19	28.1	20	-8.1	-4.05	24.05	-0.035
156	22022000	Other water Con	4.8602	0.00	1.3599	1.8566	1.97	28	20	-8	-4	24	-0.359
157	85414000	Photosensitive se	0.2675	0.00	0.0121	0.0271	0.02	7.5	0	-7.5	-3.75	3.75	-0.012
158	17049000	Other sugar conf	3.2632	0.00	1.3436	1.6840	1.94	41.2	35	-6.2	-3.1	38.1	-0.191
159	84212100	Machinery and a	1.4497	0.00	0.0409	0.0578	0.06	11	5	-6	-3	8	0.031
160	84213100	Intake air filters f	0.8665	0.00	0.0138	0.0289	0.02	11	5	-6	-3	8	0.029
161	84212300	Machinery and a	0.7229	0.00	0.0527	0.0960	0.08	11	5	-6	-3	8	-0.016
162	84212900	Other filtering or	0.5511	0.00	0.0097	0.0176	0.01	11	5	-6	-3	8	0.017
163	84229000	Parts of dish was	0.5446	0.00	0.0136	0.0203	0.02	11	5	-6	-3	8	0.013
164	84224000	Other packing or	0.5305	0.00	0.0111	0.0265	0.02	11	5	-6	-3	8	0.015
165	84219900	Other parts for fi	0.2828	0.00	0.0151	0.0264	0.02	11	5	-6	-3	8	-0.001
166	84195000	Heat exchange u	0.2788	0.00	0.0027	0.0059	0.00	11	5	-6	-3	8	0.011
167	84213900	Other filtering or	0.2756	0.00	0.0143	0.0257	0.02	11	5	-6	-3	8	-0.001
168	84199000	Parts of machine	0.1481	0.00	0.0005	0.0035	0.00	11	5	-6	-3	8	0.007
169	84223000	Machinery for fil	0.1459	0.00	0.0089	0.0154	0.01	11	5	-6	-3	8	-0.002
170	84193100	Dryers for agricu	0.1424	0.00	0.0000	0.0028	0.00	11	5	-6	-3	8	0.007
171	34022000	Other organic su	1.2147	0.00	0.3441	0.4384	0.50	40.9	35	-5.9	-2.95	37.95	0.064
172	04071010	Eggs in shell, oth	9.3493	0.00	0.9229	1.6829	1.34	10	5	-5	-2.5	7.5	-0.447
173	64029900	Other footwear v	4.3706	0.00	0.6535	1.0291	0.95	15	10	-5	-2.5	12.5	-0.208
174	85252000	Transmission app	3.4227	0.00	0.4726	0.7437	0.68	15	10	-5	-2.5	12.5	-0.132
175	87032411	Complete Four w	0.7377	0.00	0.0575	0.1090	0.08	10	5	-5	-2.5	7.5	-0.020
176	87033311	Complete Four w	1.6844	0.00	0.1114	0.2110	0.16	9.2	5	-5	-2.1	7.1	-0.027
177	21041010	Soups and broths	7.1512	0.00	1.6535	2.3079	2.39	23.1	20	-5	-1.55	21.55	-0.302

Table 6 lists the tariff lines that receive waivers and have imports of at least US $1 million as well as their corresponding CET rates. An empty CET field reflects multiple CET rates at the HS-8 level. Of the products listed, only two products, rice (10063000) and disinfectants (38084000), are in Table 5b, which recommends applying an IAT that moves the tariff halfway to the CET level. Rice had imports of $135.2 million in 2013 and is clearly a key commodity. In comparison, disinfectants (38084000), the element in 3808 that could be recommended for an IAT only has a value of imports of $66,535 but has a 20% tariff under CET (see annex 6, table 7).

Importantly, several imports on the waiver list are intermediate goods used in domestic agricultural production. So raising the tariff on these imports is in effect taxing the activities that use these imports as inputs. However, per CET guidelines, these goods will move to a relatively small tariff of 5%, so they are not considered for an IAT.

Table 7 shows tariff lines domestically produced that might face higher competition from imports after the CET is adopted. Liqueurs and cordials by far lead in terms of tariff protection (105% applied), the corresponding value of local production (about US$31 million), and the low rate of imports compared to local production (0.003). For goods with similar levels of protection and relatively low imports, local producers will bear a burden of higher competition. Depending on the costs of production, these sectors accustomed to high protection might struggle to adapt, cut costs, and survive; meanwhile, consumers will benefit from a lower market price.

Waters (22021000) and beer (22030010) are included in the table 5a, with products recommended to receive the maximum protection under the IAT (20pp deviation from CET), while parts of other furniture (94039000) is included in 5b, with the recommendation to move the tariff halfway to the CET.

Table 7: List of products with tariff waivers with a minimum of US$1 million in imports (see annex 6 for full list of products with tariff waivers)

No	HS Code	Description	Executive Order	Total Import value (thous USD)	CET
1	10063000*	Semi milled or wholly milled rice in packings of more than 5kg or in bulk	61	135156.1	20
2	10064000	Broken Rice	61	21057.6	10
3	1207	All types of agricultural seeds for sowing	64	2100.4	5
4	3105	Mineral or chemical fertilizer containing two or three of the fertilizing elements nitrogen, phosphorous and potassium; other fertilizers; goods of this	64	6768.3	5
5	3808*	Insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant-growth regulators, disinfectangs similar products put in forms or	64	3514.9	
6	8429	Self-propelled bulldozers, angle dozers, graders, levers, scrapersr, mechanical shovels, excavators,	64	21633.0	5
7	8430	Other moving, grading, leveling, scraping, excavating, tamping, compacting, extracting or boring machinary, for earth minerals or	64	3255.1	5
8	8474	Machinery for sorting, screening, separting, crushing, grinding, mixing or kneading earth, stone, ores or other mineral substances in sold (including powder or paste) form; machinery of agglomerating shaping or	64	8565.6	5
9	8479	appliances having individual	64	1277.6	5
10	8701	Tractors (other than tractors of heading 8709)	64	2115.7	5
11	87021011	New passenger motor vehicle with 10-22 seats (restricted to new commercial public transport buses)	54†	2719.0	10
12	8704	Motor vehicles for the transport of goods	64	28969.7	10
13	8705	Motor vehicles for the transport of goods	64	3038.5	5
14	8716	Trailers and semi-trailers; other vehicles, not mechanically	64	2198.7	

*In Table 5b

Total Imports: US$ 248.5 Million

†Importers shall pay only the Customs User Fee (CUF) of 1.5% and the ECOWAS Trade Levy (ETL) of 0.5% where applicable.

On the other end, most locally produced furniture is already close to complying with the CET and already faces competition from imports. For example, for every US$1 of metal furniture produced in Liberia, approximately US$11 is being imported. These producers are also likely to face higher competition from increased imports, though they have the advantage of already being accustomed to it.

Table 8 Main Production Activities and Competing Imports

HS Code	HS Description	Current Tariff Band	Applied	CET	Difference	Value of imports (thous. US$)	Value of production (thous. US$)	Imports/ Production
22021000*	Waters, including mineral waters and aerated waters, containing added sugar or other swe	US$0.20/liter	57%	35%	22.00%	1102.39	12113.63	0.091
22030010*	Beer made from malt in containers of 50 centiliters or less	US$0.90/liter	88%	20%	67.90%	2665.52	415.27	6.419
22030090	Other beer including stout and porter	US$0.90/liter	43%	35%	8.40%	115.24	32199.09	0.004
22087000	Liqueurs and cordials	US$5/liter	105%	35%	70.10%	85.72	31842.94	0.003
32082020	Paints (including enamels) based on acrylic or vinyl polymers dissolved in a non aqueous solution	US$0.50/liter	40.2%	0.35	5.2%	32.15	640.43	0.050
34060000	Candles, tapers and the like.	US$0.75/kg	75.6%	0.2	55.6%	11.92	676.12	0.018
94031000	Metal furniture of a kind used in offices	25%	25%	20%	5%	292.73	26.26	11.145
94032000	Other metal furniture	25%	25%	20%	5%	486.33	26.26	18.516
94033000	Wooden furniture of a kind used in offices	25%	25%	20%	5%	248.86	26.26	9.475
94034000	Wooden furniture of a kind used in the kitchen	25%	25%	20%	5%	51.37	26.26	1.956
94035000	Wooden furniture of a kind used in the bedroom	25%	25%	20%	5%	452.76	26.26	17.238
94036000	Other wooden furniture	25%	25%	20%	5%	931.83	26.26	35.478
94037000	Furniture of plastics	25%	25%	20%	5%	72.42	26.26	2.757
94038000	Furniture of other materials, including cane, osier, bamboo or similar materials	25%	25%	20%	5%	348.48	26.26	13.268
94039000†	Parts of other furniture	25%	25%	20%	5%	105.58	26.26	4.020
94043000	Sleeping bags	25%	25%	20%	5%	4.75	951.91	0.005
Source: 2012 Monrovia Manufacturers Census, Ministry of Commerce and Industry					**TOTAL**	**7008.04**	**79075.77**	

*In Table 5a

† In Table 5b

Conclusions

On January 1, 2015, Liberia's Statutory schedule defined at the HS-10 level should migrate to the 5-band CET adopted by ECOWAS in March 2013. Of the estimated 5915 HS-10 lines, only 31% have rates that correspond to those in the CET schedule: 44% of the lines will have to raise their tariffs and 25% will have to be lowered. Taking into account the response of imports to the change in tariff structure, we estimate that the current (2013) import-weighted average tariff would increase from 6.3% to 14.7% (including the removal of waivers which will have to be removed as well). Since, as explained in the text, an import tariff is equivalent to an export tax, the move to the CET is, in effect, more than doubling the de facto export tax.

Combining duty-free imports from ECOWAS under the CET (currently, besides petroleum, not all ECOWAS imports enter duty-free) with the move to the CET could increase tariff revenues by 41.7% and total revenues collected at the border by 22%. These estimates take into account the lower tax base, as imports from the rest-of-the- world will be reduced, while imports from ECOWAS partners will increase. Because most imports sourced from ECOWAS are high-cost, in spite of the increase in tariff revenues, it is estimated that welfare would be reduced by 2.1% of the value of imports in 2013. These estimates do not take into account the possibility of some tariff evasion for tariff lines with sharp rate increases.

There are currently 110 tariff lines with specific tariff lines that will have to be converted to ad-valorem equivalents (AVEs). Estimated AVEs from tariffs collected by customs shows that these conversion rates are high, implying sharp decrease in taxation for these products (mostly alcohols). Currently, the AVEs for these specific taxes are around 100%, while the CET rate is 20%, implying some loss of government revenue which, as explained in the text, is an efficient source of revenue as the price elasticity of demand for alcohol is typically low.

The paper proposes two approaches to the selection of tariff lines that would benefit from an easing into the CET, i.e. not moving directly to the CET rate by January 1, 2015. Both approaches start by excluding those tariff lines with zero imports in 2013 and those with imports below a minimum import threshold. For illustrative purposes, the selected threshold in the example developed here is a cif value of $100,000 in imports at the HS-8 tariff line level in 2013. This gives 777 eligible tariff lines. Next, under the argument that relief should be given to tariff lines that are furthest away from their respective CET rates , those tariff rates that are within 5 percentage points from the CET rate are excluded from temporary relief. With the $100,000 cut-off this excludes a further 319 lines, leaving 458 lines to choose from to meet the 177 maximum allowable lines for an IAT.

Under the ‘symmetric approach’ eligibility is treated symmetrically for tariff lines below and for tariff lines above the CET. This choice is justified on the grounds that the move to the CET is not a move in the direction of a more ‘efficient’ tariff structure than the current one, and hence that the burden of adjustment should be split equally between tariff lines that have to raise their rates and those that have to lower them. As an illustration, a formula is proposed with the resulting selection lines and a possible timing for the adjustment to the CET given in the text.

Under the ‘development approach’, the exclusions would also proceed initially along the same lines as in the symmetric approach, leading to the same 458 lines from which to choose. The choice then would be made from two lists, one giving the current waivers, the other giving the sectors where imports compete with domestic production. Here, no selection is provided, but information is given on the current MFN tariff rates, the CET rates, the import values in 2013, and the production levels from the manufacturing census for the GoL to select the tariff lines.

Under this development approach, the GoL would want to take into account that, apart from consumption goods, most imports are intermediate products that serve as inputs for downstream industries (i.e. wheat for the production of flour). For these intermediate products for which the tariff will, in some instances increase from the 0-5 range to 20 percent, the result will be a stiff penalty for the downstream final product industries (here the flour industry). One possible way to circumvent this taxation while moving to the CET would be to establish an EPZ where firms would be

exempt from paying the hefty 20 percent tariff on imported materials, provided they are re-exported. However, the evidence on the performance of EPZs is mixed, especially in low-income countries, and would deserve to be studied further before it is explored further.

References

Artuc, E. and C. Bown (2013) “Liberia’s Trade Policy: Recent Application of Tariffs and Implications for its Impending Trade Agreement Decisions”, background not for Liberia DTIS Update

Melo, J. de and A. Mancellari (2013) “Regional and Global Trade Strategies for Liberia”

USAID (2012) “Liberia’s Participation in the ECOWAS Trade Liberalization Scheme: Study of the impact on Fiscal Revenues”

The International Growth Centre (IGC) aims to promote sustainable growth in developing countries by providing demand-led policy advice based on frontier research.

Find out more about
our work on our website
www.theigc.org

For media or communications
enquiries, please contact
mail@theigc.org

Subscribe to our newsletter
and topic updates
www.theigc.org/newsletter

Follow us on Twitter
@the_igc

Contact us
International Growth Centre,
London School of Economic
and Political Science,
Houghton Street,
London WC2A 2AE

IGC
International
Growth Centre

DIRECTED BY
LSE
UNIVERSITY OF OXFORD

FUNDED BY
UKaid
from the British people

Designed by soapbox.co.uk