

## THE IMPORTANCE OF COFFEE TARIFF ESCALATION ON ADDING VALUE AT ORIGIN

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### ABSTRACT

The current structure of the coffee market and tariffs schedules observed in this study seems to support the economic theory in which tariff escalation inhibits imports of value added products. About 95% of exports from producing countries were in the form of green coffee with little value added and import tariffs were usually absent in developed countries' markets. Additionally, less than one-fifth of 1% of the coffee exported from its origin was in roast and ground forms. Instant coffee constitutes roughly another 5%; in this case, a pattern of import tariff escalation is observed. Tariff escalation for bound and applied tariffs and the industry's Effective Rate of Protection (ERP) created by such a tariff structure were evaluated for three major importing markets; EU, USA and Japan, which together account for 97% of world's green coffee imports. Two important emerging markets, China and the Russian Federation, were also included in the evaluation. Six different exporting countries/regions, Brazil, Colombia, Central America, Vietnam, Ivory Cost and Indonesia, were chosen for this exercise for two reasons: first, they represented about 77% of the world's exports on green coffee; second, due to their differences in geographical location, the coffee type produced and volume of production also differed and, therefore, they faced different market access treatment. The study concluded that although considerable reduction in importing duties has been achieved since the Uruguay Round Agreement on Agriculture, (URAA), all markets showed escalation in both bound and applied tariffs. Tariffs ranged from 0% (green coffee) to up to 30% for soluble and higher values for coffee preparations for which major markets such as USA and Japan also applied *tariff quotas* reaching Ad-valorem equivalents higher than 100%. The ERP estimates were significantly higher than nominal tariff wedges observed, reaching values in the range of 20 to 30% from green to roast in most of the markets. Green to soluble ERP on the other hand reached values between 70 to 90% for Japan and China; the EU showed values slightly higher than 30%. Although coffee tariff escalation was evident in coffee trade and the ERP caused as a result, was considerably high, a full removal of these tariffs barriers to trade does not necessarily imply that producing countries could easily add value at origin. Therefore, in order to make value added investment decisions, further Studies should be undertaken to estimate the trade effect of full tariff removal.

**Key words: Tariff Escalation, Effective Rate of Protection, Tariff Wedges.**