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SMOKE AND MIRRORS: MAKING SENSE OF THE WTO INDUSTRIAL TARIFF NEGOTIATIONS

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4. Existing levels of protection

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"NAMA Framework" in the Hong Kong, China, Ministerial Declaration). In practice the "July Package" of 2004 set the stage for the end-game in the NAMA negotiations. From that point, discussion became more focused on variations in the "Swiss" formula of the earlier Tokyo Round, by which a pre-selected coefficient would establish a maximum rate, while reducing higher rates by a greater proportion than lower rates. An alternative proposal[7] sets the coefficient at the national average (or a multiple thereof). Other proposals are based on the idea of a "Simple Swiss" formula, with one coefficient for developed countries and another, higher coefficient for developing countries. Some variations would depend on the use of other flexibilities, e.g. on binding. Consensus on participation in sectoral elimination was still lacking, awaiting a decision in the formula. The provisions for special and differential treatment for developing countries also needed further refinement. No transition period had been agreed for implementation of the Agreement. On a more detailed level, several key questions remained, such as whether trade-weighted or simplae average tariffs should be used for binding rate calculations.

4. EXISTING LEVELS OF PROTECTION

Tariffs cuts for non-agricultural products in the Uruguay Round were comparable in scope and depth to those achieved in the earlier Tokyo and Kennedy Rounds, and there was the most important agreement to phase out restrictions on trade in textiles and clothing under the Multifibre Arrangement by the end of 2004 (but where the main liberalization was "back loaded" to the end of the implementation period). The agreed approach required developed countries to reduce their bound tariffs by one third and developing countries by one fourth, and this was to be achieved by "request and offer", that is line-by-line negotiations between all possible combinations of interested trading partners. In the end, both developing and developed countries cut around 30 per cent of their tariff lines (Finger and Schuknecht, 1999). Not only did developing countries make deeper absolute cuts than developed countries because they were starting from a higher base, but also the depth of industrial tariff cuts is higher even in percentage terms.[8] Although it had been proposed that developing countries be granted recognition for the recent unilateral liberalization, it was made clear that this would have to be bound, and there is no explicit on-the-record evidence of such treatment being granted.

Emerging from the Uruguay Round the result was the continued disproportionate bias in protection against developing country exports through tariff peaks and escalation (UNCTAD, 2003). Tariff rates remained dispersed and a number of very high rates, tariff peaks, emerged especially among developed countries.[9] The importance of tariff peaks on products of interest to developing countries still remains a priority in the multilateral trade agenda. Nearly 10 per cent of developed country tariff lines are in excess of three times the national average (table 3).

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[7] Proposal by Argentina, Brazil and India, based on an earlier draft by the Swiss Chairman of the Negotiating Group on Market Access, Ambassador Pierre-Louis Girard, also known as the "Girard" proposal, TN/MA/W/35/Rev.1.

[8] The Finger and Schuknecht (1999) study shows that the depth of industrial tariff cuts (dT/(1+T)) was 1 percentage point for developed countries and 2.7 percentage points for developing countries.

[9] There is no unique definition of a high tariff or tariff peak. It is usually understood that a domestic or national tariff peak is a tariff line three times higher than the national average. International tariff peaks are the tariff lines more than 15 per cent above the international average.

Table 3. Tariff peaks as percentage of tariff lines

Scenario	Bound %	Applied %
Developed countries	8.2	9.9
Developing countries	0.4	3.5
Least developed countries	0.4	0.7

Source: derived from UNCTAD TRAINS database.

Tariff escalation is a common and significant phenomenon in respect of developing countries' exports that emerged from the Uruguay Round. Commodity-dependent developing countries face a barrier in their efforts to diversify their production to items with higher value added content. The rise in tariffs down the processing chain particularly affects the intermediate stage, as illustrated in table 4.

As noted earlier, addressing tariff peaks and escalation is one of the cornerstones of the present round of negotiations, and the failure in Cancún represents a backward step in this area.

Before modelling and analysing various scenarios of tariff-cutting formulas it is important to evaluate the existing tariff protection (table A2). The analysis covers 129 countries divided into developed countries, developing countries and least developed countries.[10]

Figure 1 shows for non-agricultural products the existing bound and applied rates.[11] The bound rates are the basis for the current negotiations, but changes in applied rates determine the economic impact. For most developed countries applied and bound tariffs are the same, although the method of weighting suggests that for large groups of countries the average applied tariff exceeds the average bound tariff. The applied rates are averaged over an incomplete set of tariff lines, only those that are bound. This does not imply that the applied rates exceed the bound rates for a particular item. Developed countries' applied tariffs at 2.9 per cent are much lower than those of developing countries (8.1 per cent). In developing countries, applied rates are much lower than bound rates, providing scope for significant reductions in bound tariffs without any direct economic impact.

Table 4. Tariff escalation: Trade-weighted applied tariffs by stage of processing

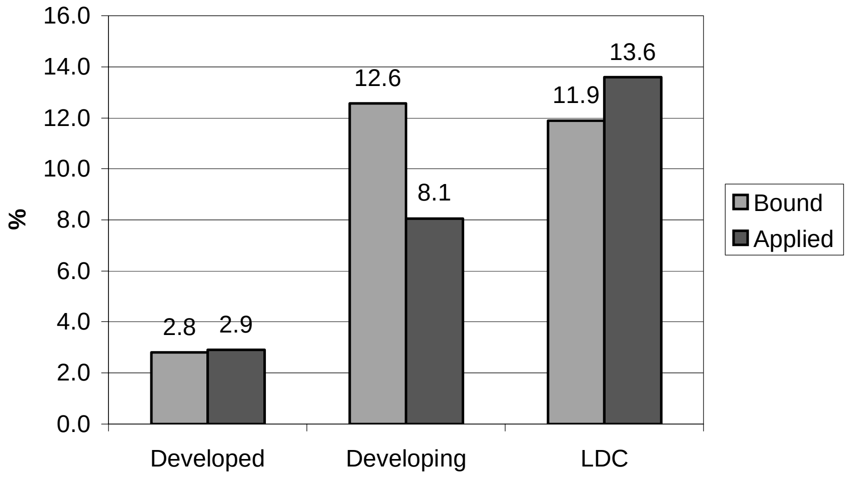
	Primary %	Intermediate %	Final %
Developed countries	0.4	3.0	3.4
Developing countries	6.0	9.1	8.0
Least developed countries	6.9	18.0	12.0

Source: derived from UNCTAD TRAINS database and UN COMTRADE database.

[10] See the Appendix for a complete list of countries analysed. The distinction between developed, developing and least developed countries is based on a UN official classification.

[11] Source of tariff data: WTO's Consolidated Tariff Schedule database (CTS) for bound tariffs and UNCTAD's TRAINS for applied rates. A total of 129 countries are covered; for 93 of these the applied rates are those for 2001 and for the rest the closest available year is used. Tariff averages are computed at HS 6 digit levels. For the trade-weighted average the source is the UN COMTRADE database.

Figure 1. Weighted average tariffs for non-agricultural products



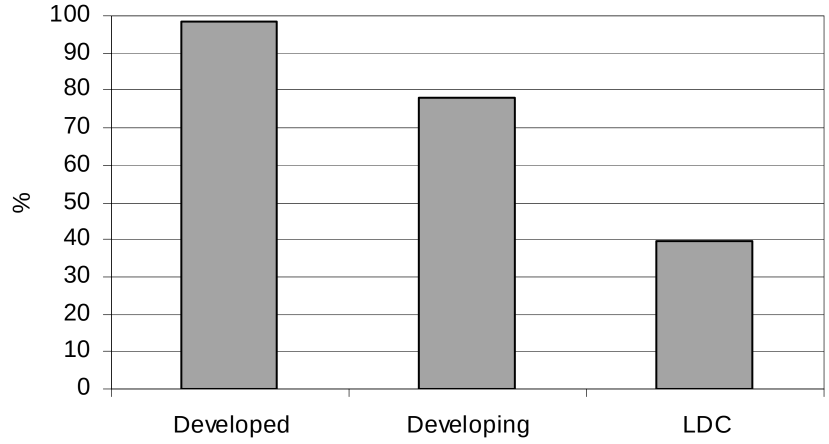
Source: derived from UN COMTRADE database, latest year available.

Binding coverage is the percentage of tariff lines that a country binds in the course of accession to the WTO or during WTO tariff negotiations. Binding tariffs means that in future the member country may not be able to raise its applied tariffs higher than the bound tariffs without entering into Article XXVIII tariff renegotiations (or under some form of contingency protection such as anti-dumping). Binding tariffs provides greater security to trading partners and may also be seen as a sign of the predictability of trade policy more generally. Most developed countries have almost all (on average 98.4 per cent) of their tariffs bound as a result of negotiations over the last 50 years. For developing countries binding coverage is much lower (78.2 per cent) and for least developed countries it is quite low (33.1 per cent), essentially because, prior to the Uruguay Round, few demands were made on them to open their markets, which were not perceived as being very important, and also because the developing countries largely lacked negotiating leverage to achieve a balanced exchange of tariff concessions (figure 2). All the non-agricultural proposals on the negotiating table increase the binding coverage of developing and least developed countries, and, legally, this is a valid commitment in the WTO negotiating process. It is also economically significant through the guarantee of additional security of market access for trading partners and investors.

The significance of the tariffs depends on the pattern (and potential pattern) of trade. Tariff revenues are the product of tariffs and imports. Implicit tariff revenues are shown by sector and region in table A4 and amount to \$248 billion.[12] Within the non-agricultural sector, that is excluding primary and processed agriculture and services, revenues amount to \$171 billion. The major sectors contributing to global distortions are textiles and wearing apparel (\$37 billion), motor vehicles (\$21 billion), manufactured metal products (\$32 billion) and chemicals, rubber and plastics (\$22 billion). About half the revenue (\$83 billion) in the non-agricultural sector is collected in developing countries. The European Union, Japan and the United States collect duties of \$28 billion, \$22 billion and \$21 billion respectively.

[12] This estimate is based on the GTAP database, and is calculated from bilateral applied tariff rates, including bilateral preferences and bilateral trade flows. Tariff revenues may be overestimated to the extent that revenues are not actually collected.

Figure 2. Binding coverage for non-agricultural products



Source: derived from UN COMTRADE database.

In spite of the preferential access enjoyed by many developing and least developed countries, average tariffs on exports from these regions to developed countries may be higher than those facing developed countries themselves. This reflects the varying composition of imports with different tariffs rather than higher tariffs on the same item. Table 5 shows non-agricultural trade-weighted applied tariffs, levied by developed and developing countries on exports from each other. These data include preferential rates. As may be observed, on average imports into developed countries are levied tariffs of 2.1 per cent on exports from other developed countries and 3.9 per cent on exports from developing countries. On the other hand, developed countries also face higher tariffs in exporting to developing countries (9.2 per cent) than do other developing countries (7.2 per cent). The most significant sectors contributing to the higher tariffs on developing country exports are petroleum and coal products, where developing countries face an average tariff in developed countries of 45 per cent, and textiles and apparel.

Table 5. Weighted average applied tariffs by group

	Developed %	**Developing** %	**Least developed** %
Source			
Developed countries	2.1	9.2	11.1
Developing countries	3.9	7.2	14.4
Least developed countries	3.1	7.2	8.3
Total	2.9	8.1	13.6

Source: derived from UN COMTRADE database.