WORLD TRADE ORGANIZATION

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Committee on Agriculture

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TARIFF IMPLEMENTATION ISSUES

COMMUNICATION FROM THE UNITED STATES OF AMERICA

The following communication, received on 3 June 2014, is being circulated at the request of the United States of America.

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1.1. Market access barriers, and namely tariffs, continue to be an important obstacle to realizing the WTO's objective of promoting trade. However, no multilateral discussions have been undertaken in this area since 2008.

1.2. Under the various WTO agreements, tariffs are the only permitted import restriction (other than WTO-consistent non-tariff measures)[1], and all agriculture tariffs are now bound. The manner in which tariffs are administered, however, can have significant effects on actual market access. In some cases, market access is facilitated, for example through the application of tariffs at levels below bound rates or through preferential access as a result of reciprocal trade agreements. In other cases, market access may be impeded, for example through the administration of complex tariff regimes or through the utilization of high tariffs and peak tariffs.

1.3. The need for an updated understanding of the current state of Members' tariff regimes is urgent if Members expect to have productive discussions on a possible market access result as part of the Post-Bali Work Program. In this regard, and as a start, we request that the Secretariat issue, in one compilation for the Membership, the most recent tariff and trade data available, including on Members' average bound and applied tariff rates in agriculture, the percentage of agricultural tariffs bound at zero by Members, as well as Members' global share of agricultural imports and exports. We also urge Members to ensure that all WTO notifications relevant to market access are up to date. This includes Integrated Data Base (IDB) notifications, as well as notifications of regional trade agreements.

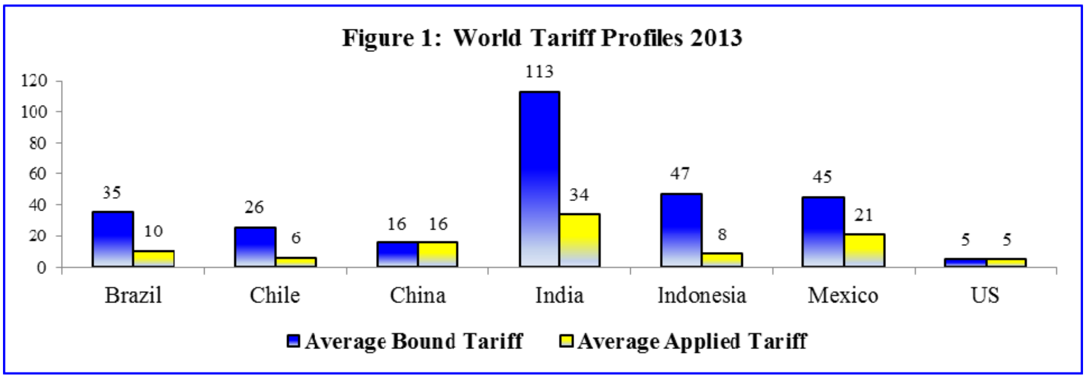
1.4. This paper identifies some of the issues associated with tariffs, supported with examples of tariff application and administration from the United States of America and other Members. The United States of America invites other Members to provide similar reports of their current administrative schemes in upcoming meetings of the Committee on Agriculture (CoA).

2 BOUND VERSUS APPLIED TARIFF RATES (CORRESPONDING WITH EXHIBIT A)

2.1. Many WTO Members maintain high bound rates in their WTO market access commitments. However, in practice, these Members oftentimes apply significantly lower tariffs allowing a government to modify its rates in response to domestic and international market conditions. As demonstrated in Figure 1, some Members have bindings substantially greater than applied rates, while others apply tariffs at the bound level. To illustrate this situation, it is useful to consider the situation of a diverse group of Members: Brazil, Chile, India, and Indonesia. These countries on average apply less than one-third of their average bound tariff, while Mexico applies on average less than one-half of its average bound commitment. However, a number of other Members, such as China and the United States of America, have lower bindings and tariffs for all agricultural products with tariffs applied at the bound level.

[1] See, e.g. Agreement on Agriculture, Article 4.2.

2.2. The U.S. simple average bound agricultural tariff rate, according WTO tariff profile data, is 5% and applied tariffs also average 5%. The United States of America applies a tariff less than its bound level for three agricultural tariff lines, all of which are wool products[2]. Exhibit A illustrates bound and applied rates for several WTO Members to demonstrate the gap between bound and applied tariffs.



3 COMPLEX TARIFFS

3.1. Another tariff issue concern the use of non-simple (*ad valorem* or specific) tariffs. These include formulaic measures (e.g. Minimum Import Prices, Price Bands, Variable Levies, Gate Price mechanisms) as well as simple discretionary tariff increases and decreases. These measures are aimed at controlling import competition and limiting competition for domestic producers. Oftentimes, this is accomplished by ensuring imports do not enter the domestic market at prices below domestic market prices. By blocking consumers' access to price competition, these measures distort trade flows by restricting imports and allowing high-priced domestic products to be competitive. Ultimately, this reduces overall quantities imported.

3.2. Approximately 30 Members choose to bind some tariffs at non-*ad valorem* (NAV) terms such as specific (a set value per quantity), compound (e.g. *ad valorem* and specific in same tariff), or mixed rates (e.g. either *ad valorem* or applied, whichever is higher). The share of NAV tariffs ranges from as low as 0.2% (Israel and Indonesia) to as high as 77% (Switzerland) of all agricultural lines. Based on the World Tariff Profiles 2013, nine countries including Canada, the European Union, Iceland, Malaysia, Norway, Russia, Switzerland, Thailand, and the United States of America bound a significant share of their agricultural goods in NAV format.

3.3. The United States of America applies specific duties for some agricultural products, as well as some compound duties. Specific duties have the virtue of predictability and are eroded over time with price inflation.

4 HIGH TARIFFS (CORRESPONDING WITH EXHIBIT B)

4.1. An additional tariff issue is the use of high tariffs. High tariffs are a particular problem for trade in agriculture, as some Members that otherwise may have low average tariffs reserve "tariff peaks" for sensitive tariff lines. Tariffs in agriculture can exceed 1,000% and some Members apply tariffs at a very high level across an entire sensitive sector. Examples include: Canadian dairy and poultry tariffs (which exceed 200%); Japanese rice tariffs (which are between 500 and 700%); and most of the India's agricultural tariff schedule (where tariffs are bound at 300%, 180%, or 100% for nearly all products).

4.2. As displayed in Figure 2, the average tariff within various categories of agriculture is low. The United States of America has bound approximately 33% of its tariffs on agriculture at zero, approximately 43% at 1-5%, approximately 20% at 6 - 25%. Only a few tariffs exceed these tariff

[2] USHTS 5101.21, 5101.29, and 5101.30. Bound rate of 6.5 cents/kg + 5%, applied tariff of zero.

categories, including peanuts and sugar (with maximum rates of over 150%); dairy (140%); and some processed products (at 100%). The highest U.S. tariff is for a tobacco line, which has an *ad valorem* equivalent of over 400%. See Exhibit B for a summary comparison of average tariff rates by sector compared to the maximum tariff for the sector. Understanding which sectors and which countries have the most protective tariffs in place will help the Committee better understand the application of trade restrictions.

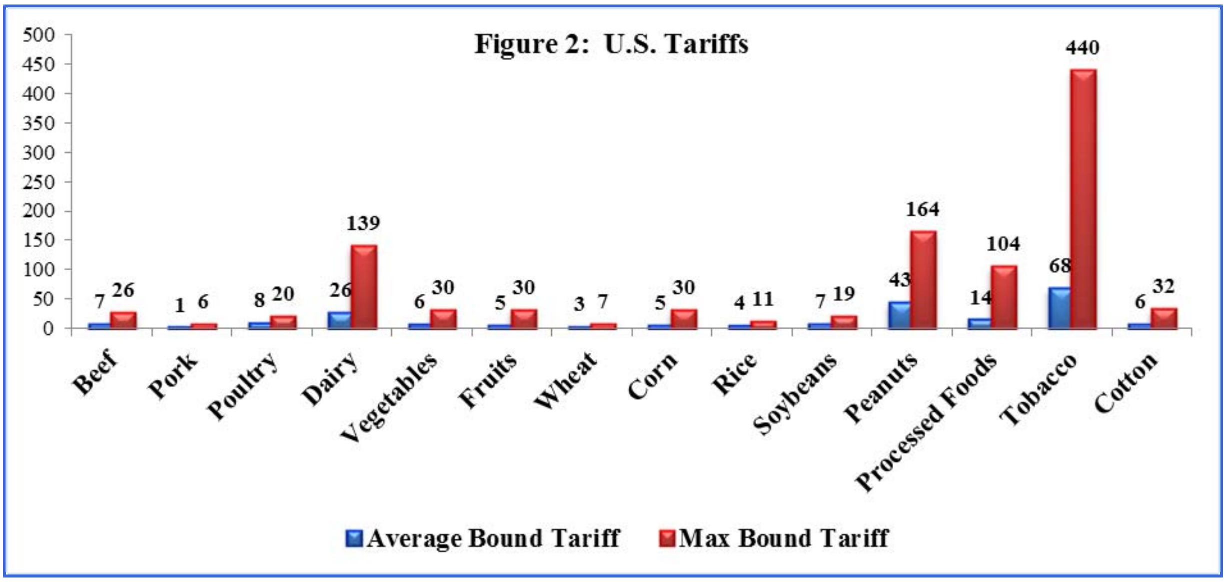
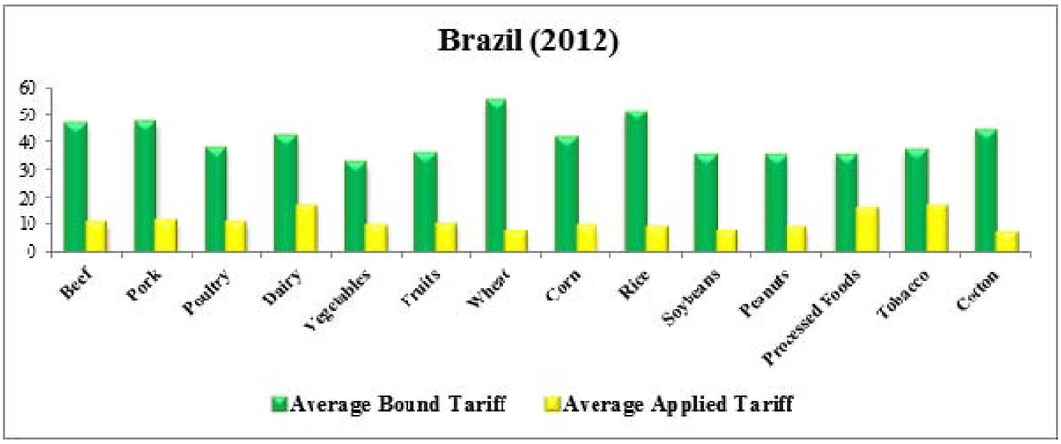


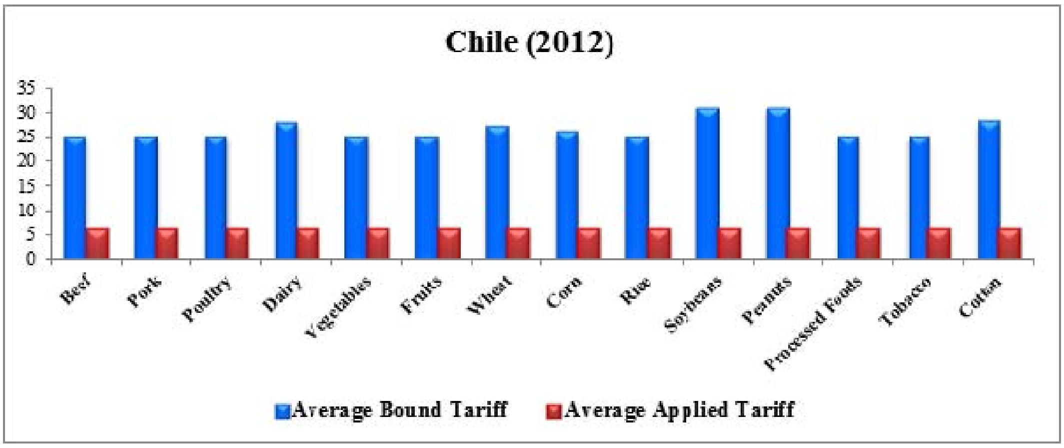
Figure 2: U.S. Tariffs

EXHIBIT A: COMPARISON OF BOUND AND APPLIED TARIFFS FOR AGRICULTURAL PRODUCTS

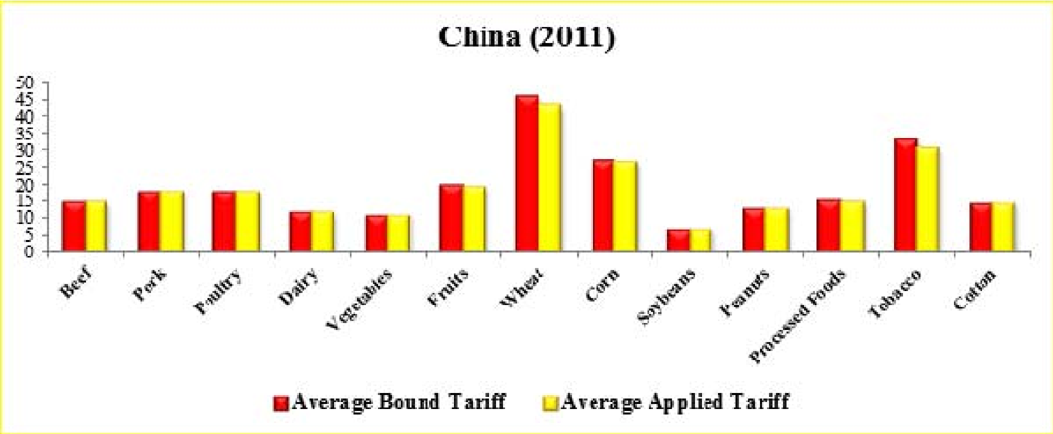
Brazil: Brazil bound its goods schedule at ad valorem tariffs for all goods. Brazil's average bound tariff for all agriculture products is 35.4%, ranging from duty-free to 55% across the product groups. Brazil slightly lowered its average applied tariffs from 10.3% in 2010 to 10.1% in 2012. Based on selected product categories, the highest gap between the average bound and the average applied tariff rates exist for beef, pork, wheat, rice and cotton.



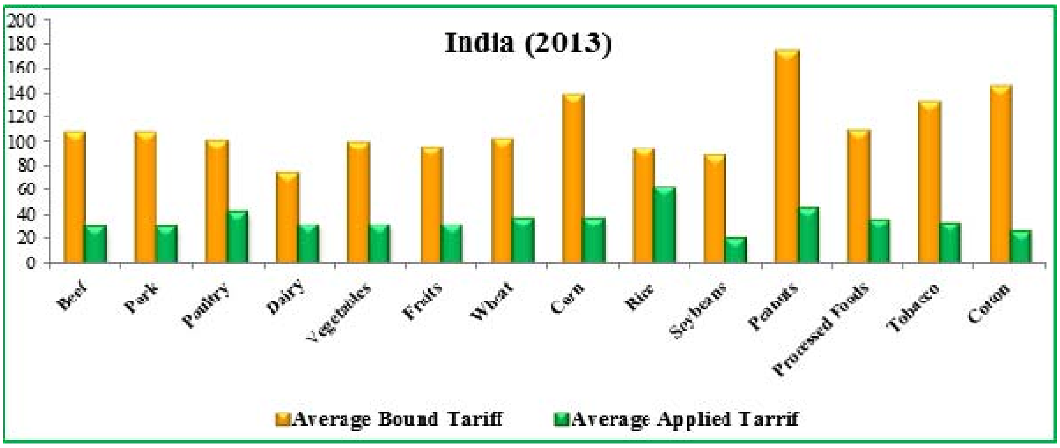
Chile: Chile bound its goods schedule at ad valorem tariffs for all goods. Chile's average bound tariff for all agriculture products is 26%, ranging from 25% to 32% in all product groups except for sugars with maximum bound tariff of 98%. Since 2010, Chile maintains its average applied tariffs of 6% for all product groups.



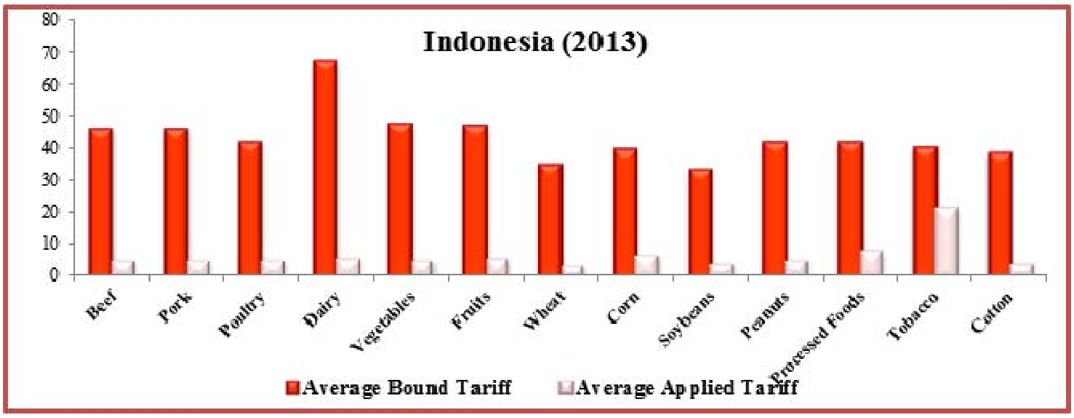
China: China bound its goods schedule at ad valorem tariffs for all goods. China's average bound tariff for all agriculture products is 15.8%, ranging from duty-free to 65% across the product groups. China's market remains predictable as it applies its bound tariffs in most product groups with the average tariff of 15.6%.



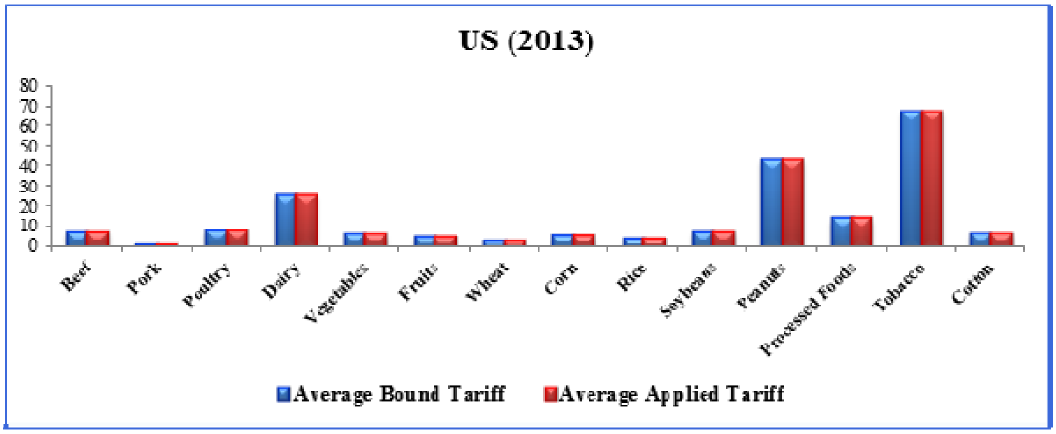
India: India bound its goods schedule at ad valorem tariffs for all goods except almonds (two lines). India's average bound tariff for all agriculture products is 113%, ranging from 10% to 300%, while India's average applied tariff in 2013 is 33.4%, ranging from duty-free to 150% and up 2% since 2010. India's WTO bound tariff levels are much higher than its applied rates, especially for beef, pork, corn, peanuts, tobacco, and cotton.



Indonesia: Indonesia bound its goods schedule at ad valorem tariffs for all goods. Indonesia's average bound tariff for all agriculture products is 47%, ranging from 9% to 210%. Its average applied tariff continues to decline from 8.4% in 2010 to 7% in 2013, ranging from duty-free to 150%. Indonesia's WTO bound tariff levels are much higher than its applied rates, especially for dairy, vegetables, beef, pork and fruits, poultry and peanuts. The lowest gap between bound and applies rates exists for tobacco since Indonesia applies its bound rates for some of its tobacco lines. Indonesia applies specific tariffs for approximately 59 national lines including rice, sugar, and beverages.



United States: The United States bound its goods schedule at ad valorem tariffs for approximately 60% of agricultural goods. The U.S. average final bound tariff is 11.7%, ranging from duty-free to 350%. The U.S. market remains predictable as it applies its bound tariffs for all product groups.



Technical Notes:

The analysis is based on the data from WTO Tariff Profiles (2010 – 2013) and WTO Tariff Database.
WTO's Tariff Database was used for WTO Member's bound tariffs and for Most-Favored-Nation (MFN) applied tariffs at HS 6-digit level.

- The Consolidated Tariff Schedules database (CTS) contains Member's bound schedules at HS 1996 nomenclature for China and Indonesia, and at HS2002 nomenclature for Brazil, Chile, India, and the United States.
- The Integrated Data Base (IDB) contains Member's applied schedules at HS2007 nomenclature for China and Brazil, and at HS2012 nomenclature for Brazil, Chile, India, Indonesia and the United States.

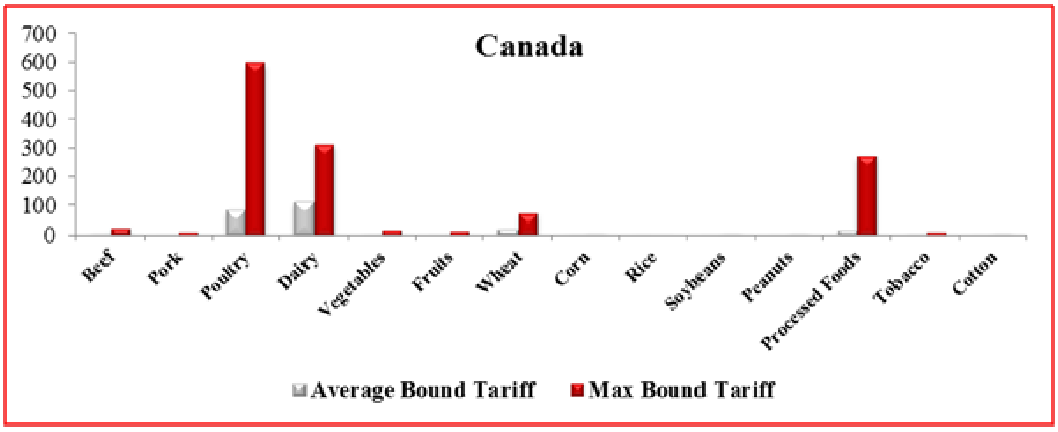
Since IDB does not contain MFN bound tariffs along with current MFN applied tariffs, the average bound tariffs were calculated based on the number of lines in the bound schedules, while the average applied tariffs were calculated based on the number of lines in the current applied schedules.

Based on the correlation tables, the average bound tariffs were also calculated for the applied schedule.
In most cases, the average bound tariffs based on the bound schedule matched closely the bound tariffs based on the applied schedule.

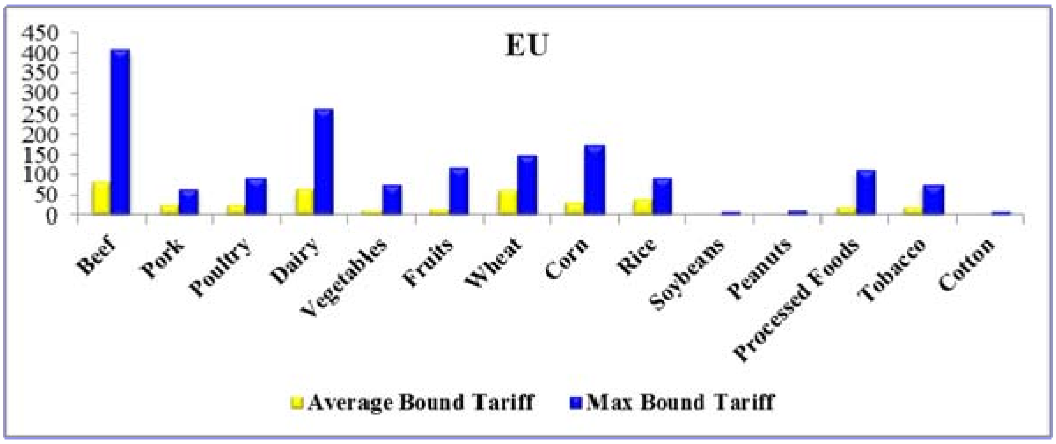
The average bound and applied (as available) tariffs based on HS 6-digit level matched the average bound tariffs based on the tariff profiles for Brazil, Chile, China, India, Indonesia.

Since the United States bound approximately 40% of its lines in at non-ad valorem (NAV), the analysis includes ad valorem equivalents based on 2008 calculations.

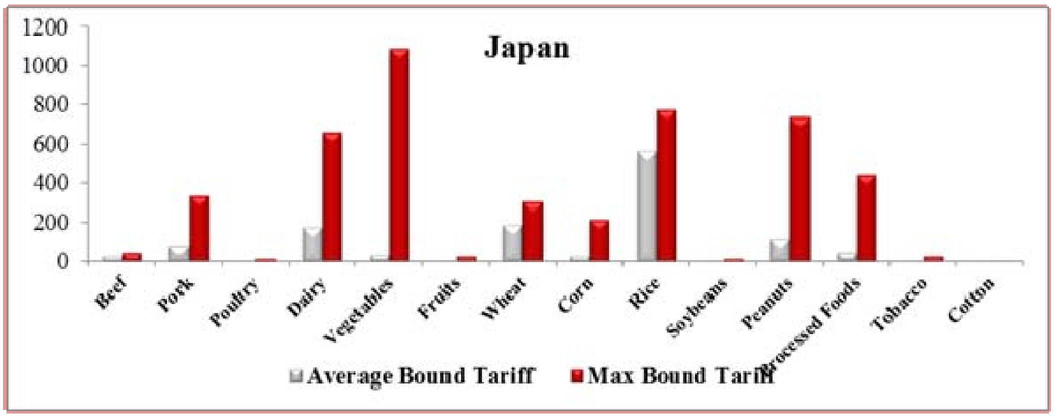
EXHIBIT B: COMPARISON OF AVERAGE AND MAXIMUM BOUND AGRICULTURAL TARIFFS



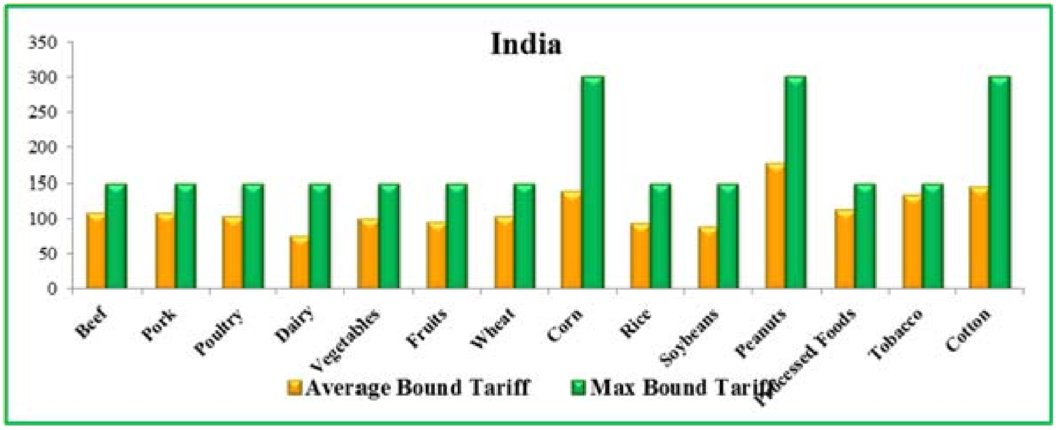
Canada bound 48% of its agricultural lines duty-free, but some very high tariffs remain in poultry (sector average of 88%, maximum of 598%), dairy (average of 114%, maximum of 314%), and processed foods (average of 19%, maximum of 275%).



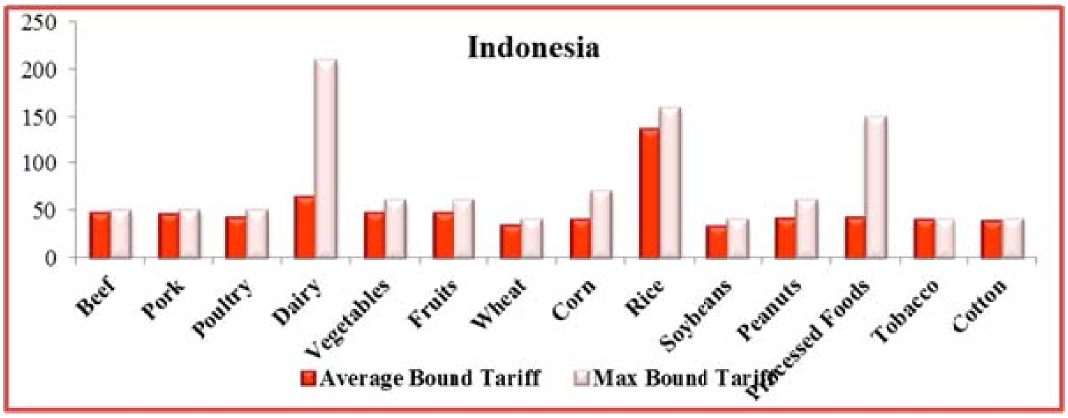
The European Union bound approximately 32% of its lines duty-free, approximately 62% at 1%-50%, and 5% at 51-100%. A number of high tariffs remain, including for beef (sector average of 82%, maximum of 408%), dairy (average of 24%, maximum of 264%), corn (average of 30%, maximum of 175%), wheat (average of 61%, maximum of 148%), fruits (average of 14%, maximum of 117%), poultry (average of 24%, maximum of 94%), and pork (average of 24%, maximum of 65%).



Japan bound approximately 34% of its lines duty-free, approximately 59% at 1%-50%, and 2% at 51-100%. A number of high tariffs remain on vegetables (average of 40%, maximum of 1,085%), rice (average of 560%, maximum of 778%), peanuts (average of 118%, maximum of 737%), dairy (average of 180%, maximum of 661%), processed food (average of 50%, maximum of 445%), pork (average of 84%, maximum of 340%), wheat (average of 188%, maximum of 306%), and corn (average of 30%, maximum of 218%).



India bound 54% of its agricultural tariffs lines at 51% -100% and approximately 35% at 100% - 300%. The tariff peaks of 150% remain for all categories noted in the graph except for corn, peanuts, and cotton, for which, India maintains a 300% rate.



Indonesia bound 88% of its agricultural lines at 26% -50%, but has very high tariff bindings for dairy (average of 64%, maximum of 210%), rice (average of 136%, maximum of 160%), and processed foods (average of 42%, maximum of 150%).

Notes:
Japan, the European Union and Canada – the data are based on HS2002 bound schedules including *ad valorem* equivalents provided during the Doha negotiations.
India and Indonesia – based on the CTS data.

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