



TARIFF IMPLEMENTATION ISSUES - JUNE 2018 UPDATE

COMMUNICATION FROM THE UNITED STATES OF AMERICA

The following communication, dated 16 July 2018, is being circulated at the request of the delegation of the United States of America.

1.1. In June 2018, the World Trade Organization Agriculture and Commodities Division and the Institute for Training and Technical Cooperation organized the Symposium on the Agriculture Policy Landscape to discuss the relationship between trade and agriculture. All of the various experts from around the world emphasized the need for more trade to improve global welfare, help producers, and address the challenges of sustainably feeding a growing world population. To achieve this, they stressed the importance of market-oriented trade as a means of advancing consumer and farmer welfare in all countries.

1.2. In the agricultural sector, tariffs remain much higher than for other sectors, but have been reduced by more than one-quarter since 2001.¹ Reducing tariffs, as was done through the Uruguay Round, contributes to the welfare gains from trade. However, it is important to have reciprocal reductions in tariffs. Indeed, it was shown that these welfare gains were greatest because of tariff reductions from both developed and developing countries. Reductions by only developed countries or only by developing countries resulted in suboptimal welfare gains.² Further, locking in tariff reductions by all countries can contribute to substantial gains to global welfare going forward.³

1.3. In June 2014, the United States of America submitted "Tariff Implementation Issues" (G/AG/W/132) to the Committee on Agriculture. In that communication, the United States of America noted that agricultural tariffs can distort global markets and make it difficult for consumers to have access to producer's products. However, 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.

1.4. In order for Members to have productive discussions to address the challenges facing agricultural trade today, an understanding of the current state of Members' tariff regimes, amongst other policy types, is needed. In 2014, the United States of America requested 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. While the United States of America is resubmitting this request to the Secretariat, the United States of America also urges 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 Bureau, Guimbard and Jean, *Agricultural Trade Liberalization*, 2018, page 20, <https://onlinelibrary.wiley.com/doi/abs/10.1111/1477-9552.12281>.

² Caliendo, *et. al.*, *Tariff Reductions, Entry, and Welfare: Theory and Evidence for the Last Two Decades*, April 2017, <http://www.nber.org/papers/w21768.pdf>.

³ Bureau *et. al.* (2018).

1.5. The United States of America has identified six areas within the area of market access that further analysis of Members' current implementation of tariffs should be considered and discussed by Members in order to better understand Members' current tariff regimes. This includes: (i) bound versus applied tariffs, (ii) complex tariffs, (iii) high tariffs (e.g., tariff peaks), (iv) issues with TRQs, (v) agricultural safeguards (SSGs), and (vi) regional/preferential trade agreements.

1.6. For this analysis, the United States of America reviewed tariff data of all WTO Members where accessible. However, more detailed analysis was also done on the top ten largest agricultural exporters and the top ten largest agricultural importers in 2017 - namely Argentina; Australia; Brazil; Canada; China; the European Union; Hong Kong, China; India; Japan; Mexico; the Russian Federation; Korea, Rep. of, and the United States of America. Most analysis is based on the WTO's World Tariff Profiles and Members' submitted data to the WTO. Data on regional/preferential trade agreements is sourced from the World Integrated Trade Solution Database.⁴

1.7. The United States of America invites other Members to provide their views and own analysis.

Bound versus Applied Tariff Rates

1.8. In 2016, the average bound rate for all WTO Members' agricultural tariff lines was 54.7% compared to an average applied rate of 14.5% (see red bar in Figure 1).⁵ While Members unilaterally apply lower tariff rates to facilitate more open trade, water in Members' bound tariffs continues to contribute to market uncertainty. Water in Members' tariffs permit Members to modify tariff rates in response to domestic and international market conditions without notice.⁶

1.9. As demonstrated in Figure 1, some Members have bindings substantially greater than applied rates, while others apply tariffs at the bound level. Approximately 35% of Members, of which nearly all are developing countries, have water in their tariffs exceeding the average for all WTO Members. While developed Members tend to have much less water in their tariffs than developing Members, a number of developing Members have very little water as well.

1.10. To illustrate this situation further, it is useful to consider the situation of the largest exporting and importing Members of agricultural products (Figure 2).⁷ These Members, on average, maintained applied tariff rates of 14.7%, which is one-half of their average bound tariff rates of 29.4%. On average, the largest traders have significantly less water in their tariffs than is the case for the average of all WTO Members. Amongst these largest traders, some Members, such as India, Indonesia, Mexico, Brazil and Argentina had significantly more water in their tariffs than others, such as Korea, Rep of; the European Union; China; Hong Kong, China; the Russian Federation; Canada and the United States of America.

⁴ WITS is a collaboration between the World Bank and the United Nations Conference on Trade and Development and in consultation with the WTO, International Trade Center, and United Nations Statistical Division.

⁵ Data is available for 122 WTO Members only. WTO, World Tariff Profiles 2017, pages 16-21, https://www.wto.org/english/res_e/booksp_e/tariff_profiles17_e.pdf.

⁶ "Water" or tariff overhang is defined as the difference between Member's bound and applied rates.

⁷ Top ten largest agricultural importers and exporters, by value, for 2017. IHS GTA (accessed 20 June 2018).

Figure 1: Bound and Applied MFN Rates, 2016

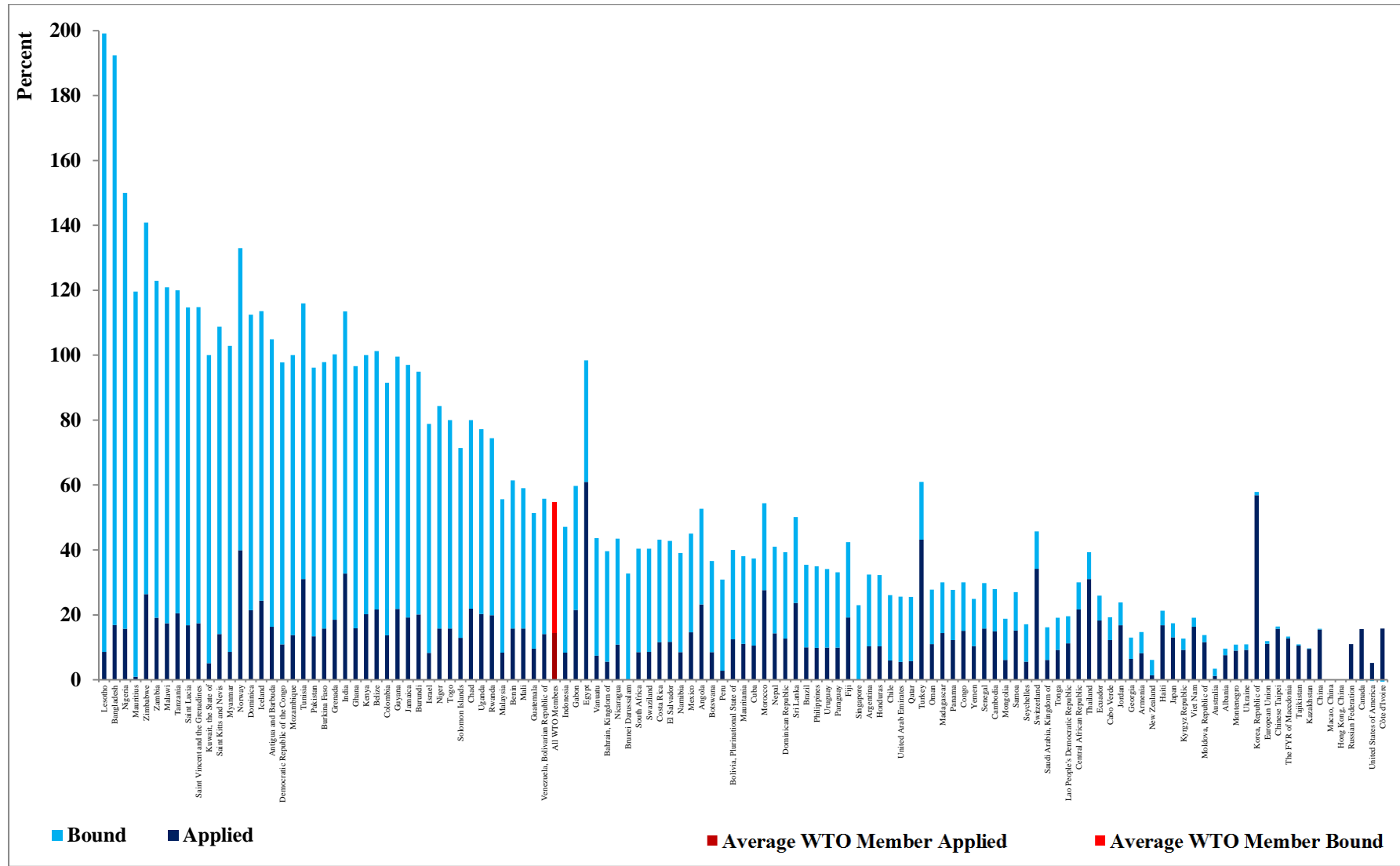
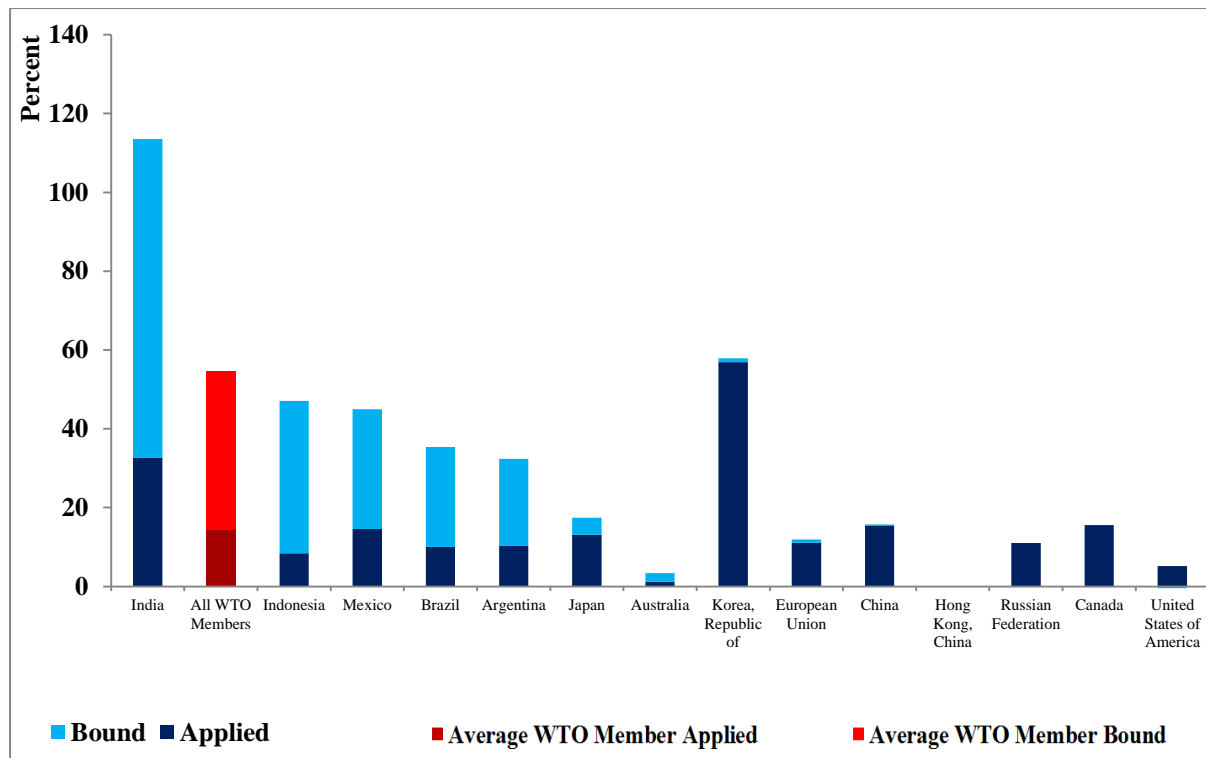


Figure 2: Bound and Applied MFN AV Rates for Largest Importers and Exporters, 2016

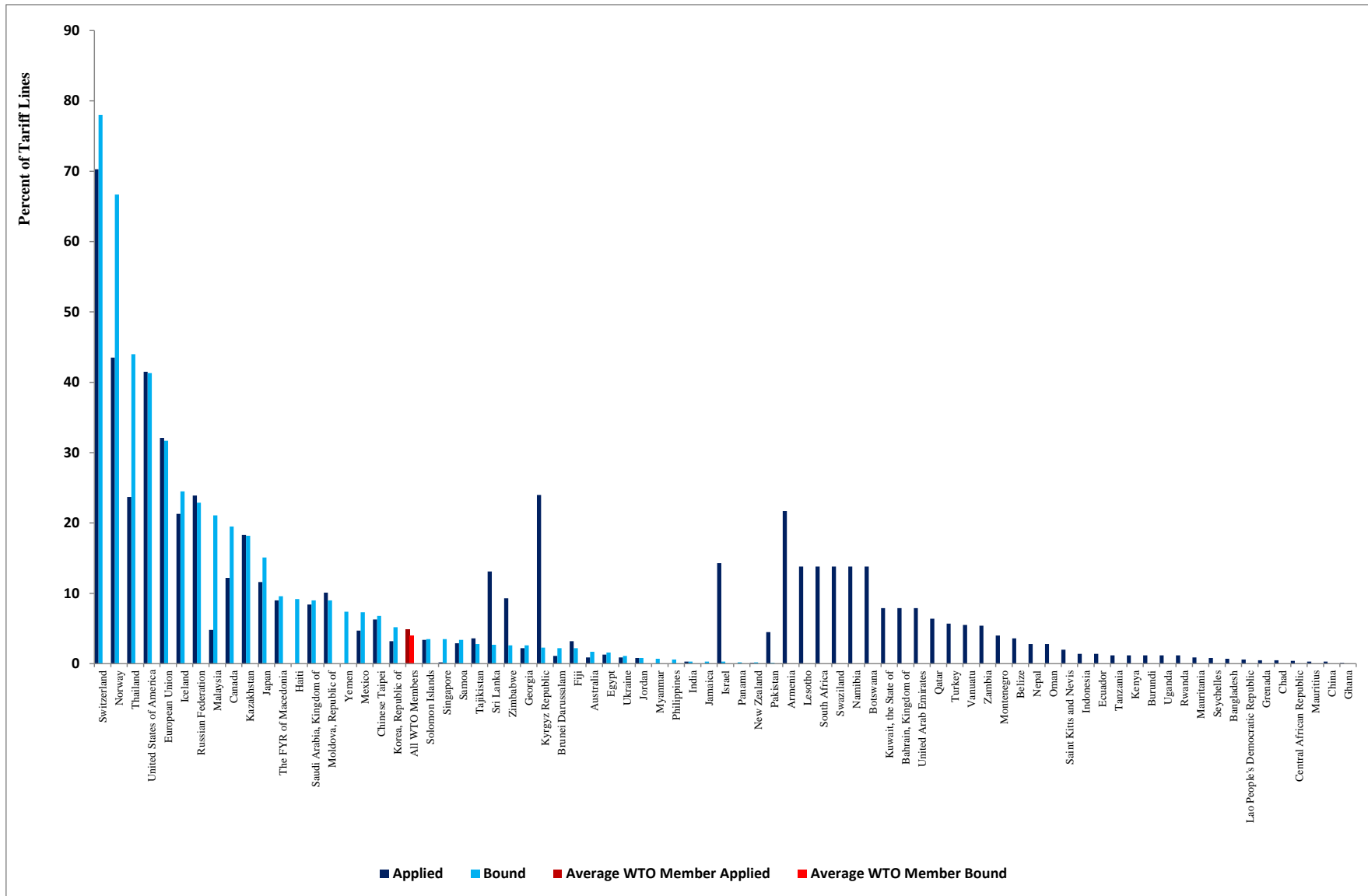
Complex Tariffs

1.11. Some Members make use of complex tariffs in their bound and applied tariff schedules. Complex tariffs include compound tariffs, mixed tariffs, and 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. Often times, 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 appear to distort trade flows by restricting imports and allowing high-priced domestic products to be competitive. Ultimately, this reduces consumers' access to competitive and often cheaper goods. Conversely, simple specific tariffs (e.g., 100 Euro/kg), have the virtue of predictability but are eroded over time with price inflation. Tariffs expressed in simple *ad valorem* terms (e.g., 5%) are the easiest for exporters to understand, but in some cases those may pose enforcement challenges for customs officials.

1.12. A total of 41 Members chose to bind some tariffs at non-*ad valorem* (NAV) terms that are either simple: such as specific (a set value per quantity) or complex: compound (e.g., *ad valorem* and specific in same tariff), mixed (e.g., either *ad valorem* or applied, whichever is higher), or other (see Figure 3).⁸ The share of NAV tariffs is as high as 78% (Switzerland) of all agricultural lines. Based on the World Tariff Profiles 2017, eight countries including the European Union, Iceland, Malaysia, Norway, the Russian Federation, Switzerland, Thailand and the United States of America bound at least 20% of their agricultural goods in NAV terms. While only 41 Members bound some of their tariffs in NAV terms, 76 Members applied some tariffs in NAV terms in 2016. Of those 76 Members, 35 Members have zero lines bound at NAV terms.

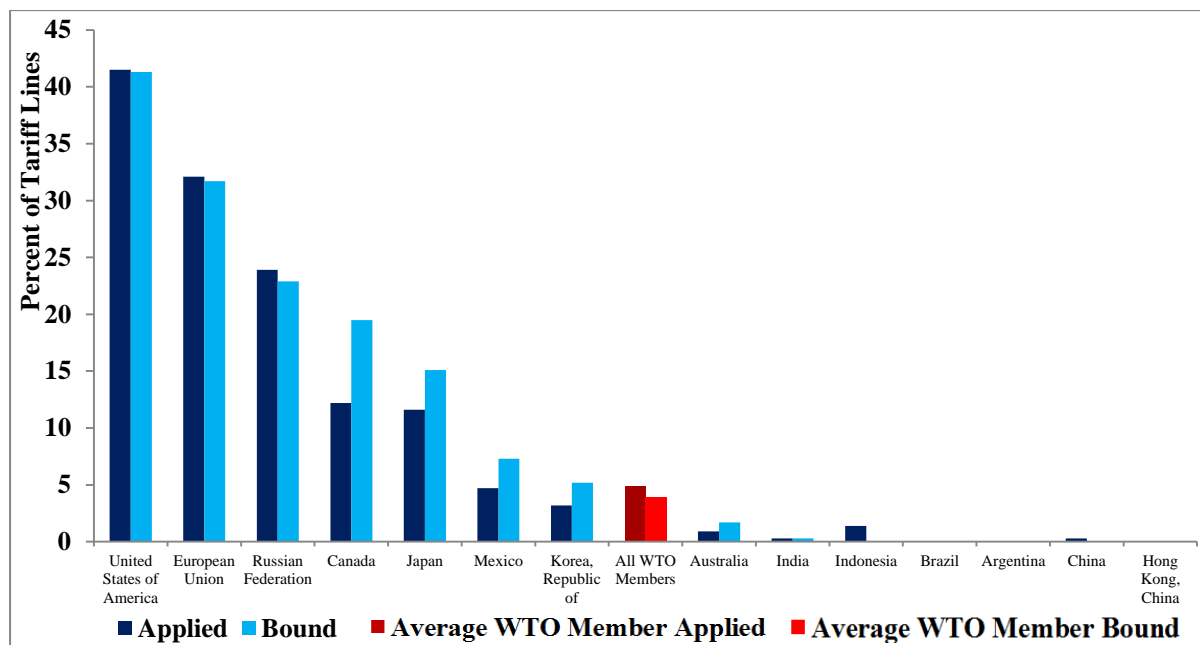
⁸ WTO, World Tariff Profiles 2017, https://www.wto.org/english/res_e/booksp_e/tariff_profiles17_e.pdf.

Figure 3: Percent of Bound and Applied Lines Expressed as Non-Ad Valorem MFN Rates, 2016



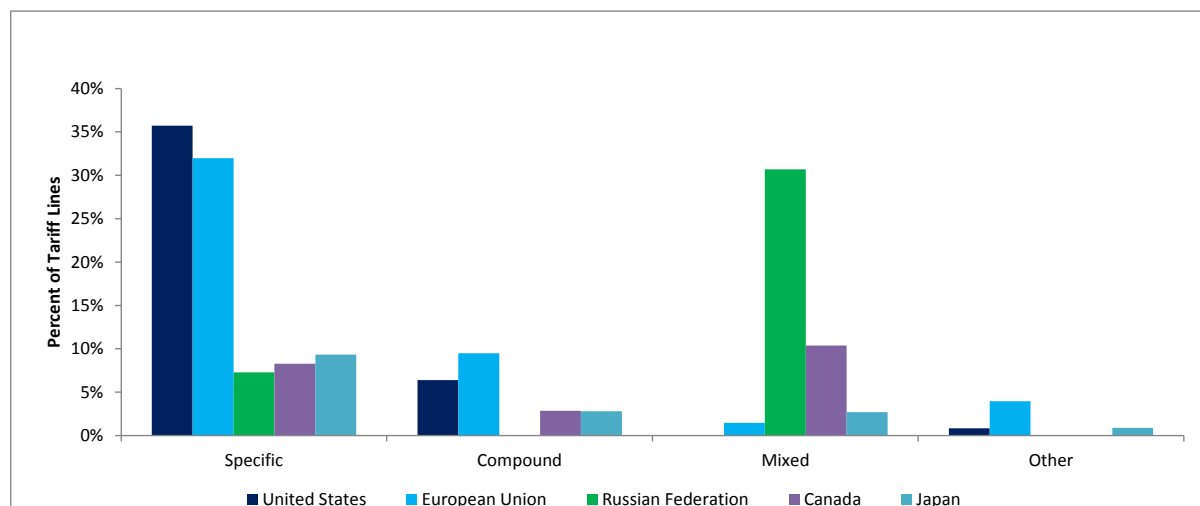
1.13. Looking at the largest exporters and importers of agricultural products, a number of these Members use NAVs well in excess of the average for all WTO Members, including the United States of America, the European Union, the Russian Federation, Canada, Japan and Mexico (see Figure 4).⁹ However, this picture over represents the number of complex tariffs given that WTO data on NAVs include simple tariffs, such as specific rates.

Figure 4: Percent of MFN Bound/Applied Lines Expressed as Non-Ad Valorem for Largest Importers and Exporters, 2016



1.14. In 2016 and amongst some of the largest importers, the majority of NAVs were specific tariffs (see Figure 5). However, complex tariffs remained an important component of these Members' overall tariff schedules, accounting for between six and 31% of total agricultural tariff lines.

Figure 5: Percent of MFN Applied Tariff Lines by Notified NAV Type, 2016



⁹ WTO, World Tariff Profiles 2017, https://www.wto.org/english/res_e/booksp_e/tariff_profiles17_e.pdf.

High Tariffs

1.15. 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. Across all Members, bound tariffs in agriculture can exceed more than 1,000% and some Members apply tariffs at a very high level across an entire sensitive sector. Amongst all WTO Members, 18 have bound tariffs that exceed 500% (see Figure 6). Of these 18 Members, eight Members also apply tariffs in excess of 500% (Malaysia; Egypt; Switzerland; Korea, Rep. of; Chinese Taipei; Norway and Japan). On average across all Members, the maximum bound tariff is 1.5 times larger than the average bound tariff (i.e., 232% versus 149%) as illustrated by the red line in Figure 6.

1.16. The largest importing and exporting Members of agricultural products generally have maximum bound rates well in excess of the average bound rates with a few exceptions such as Brazil; Argentina and Hong Kong, China (see Figure 7). Korea, Rep. of, and Japan both have maximum rates exceeding 500%. While Japan, Canada, the European Union, the United States of America and the Russian Federation all have average bound rates of less than 20%, maximum tariffs range from 233% to 613%.

1.17. In most circumstances, the highest bound tariffs are for select sectors. For example, Korean cereals and vegetable products (namely ginseng and cassava) exceed 800%, Japanese rice exceeds 600%, and Canadian dairy and animal products, US tobacco products, and EU sugar beets exceed 300%. However, while most of India's agricultural tariff schedule is bound consistently at a rate of 150%, tariffs for nearly all products with animal or vegetable fats are bound at 300%. More detailed analysis of which sectors and which countries have the most protective tariffs in place will help the Committee better understand the application of trade restrictions.

Figure 6: Max Bound and Average Bound MFN Rates

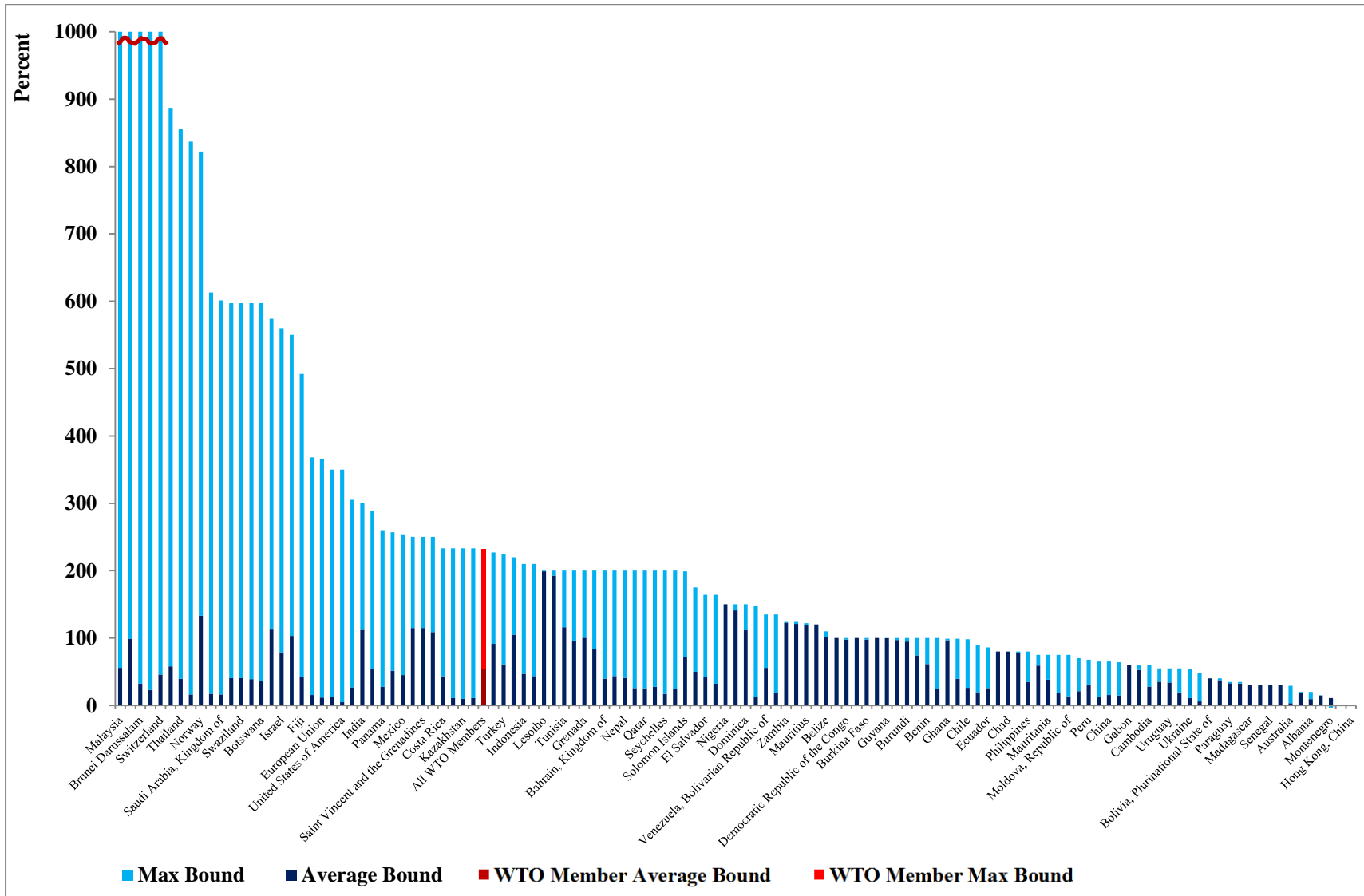
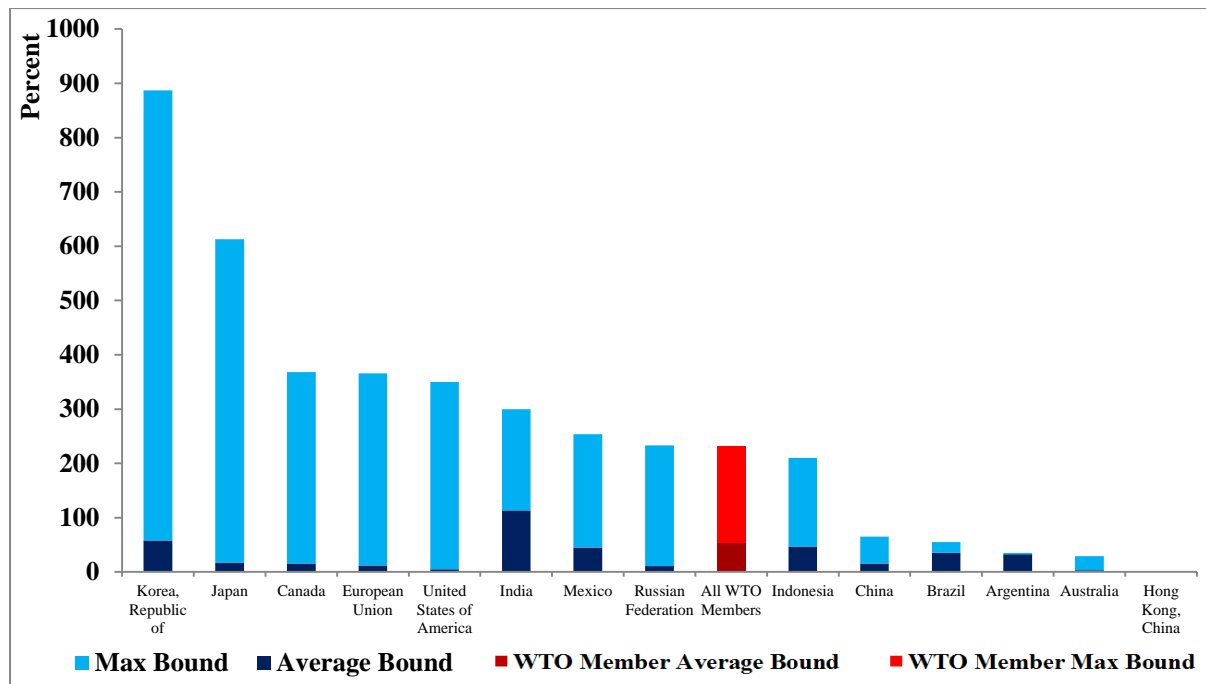


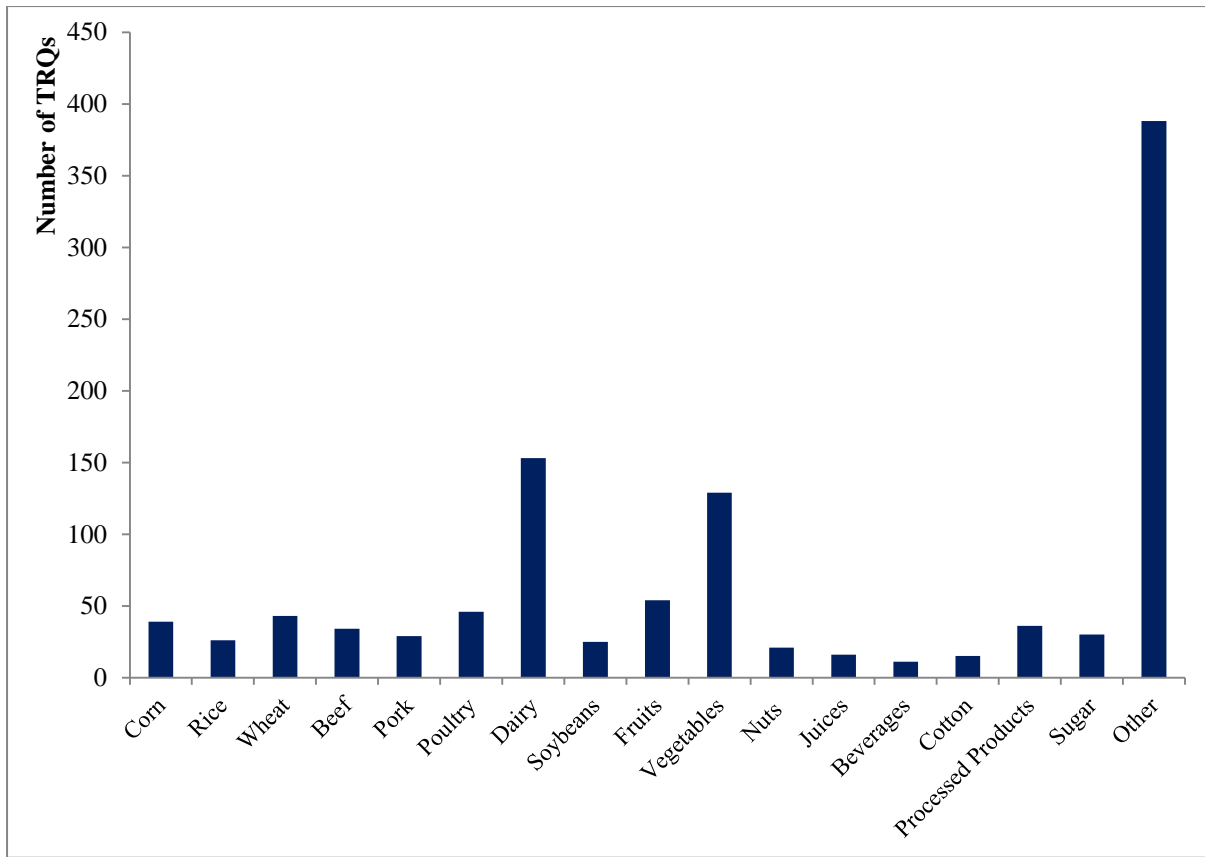
Figure 7: Max Bound and Average Bound MFN Rates for Largest Importers and Exporters

Issues with TRQs

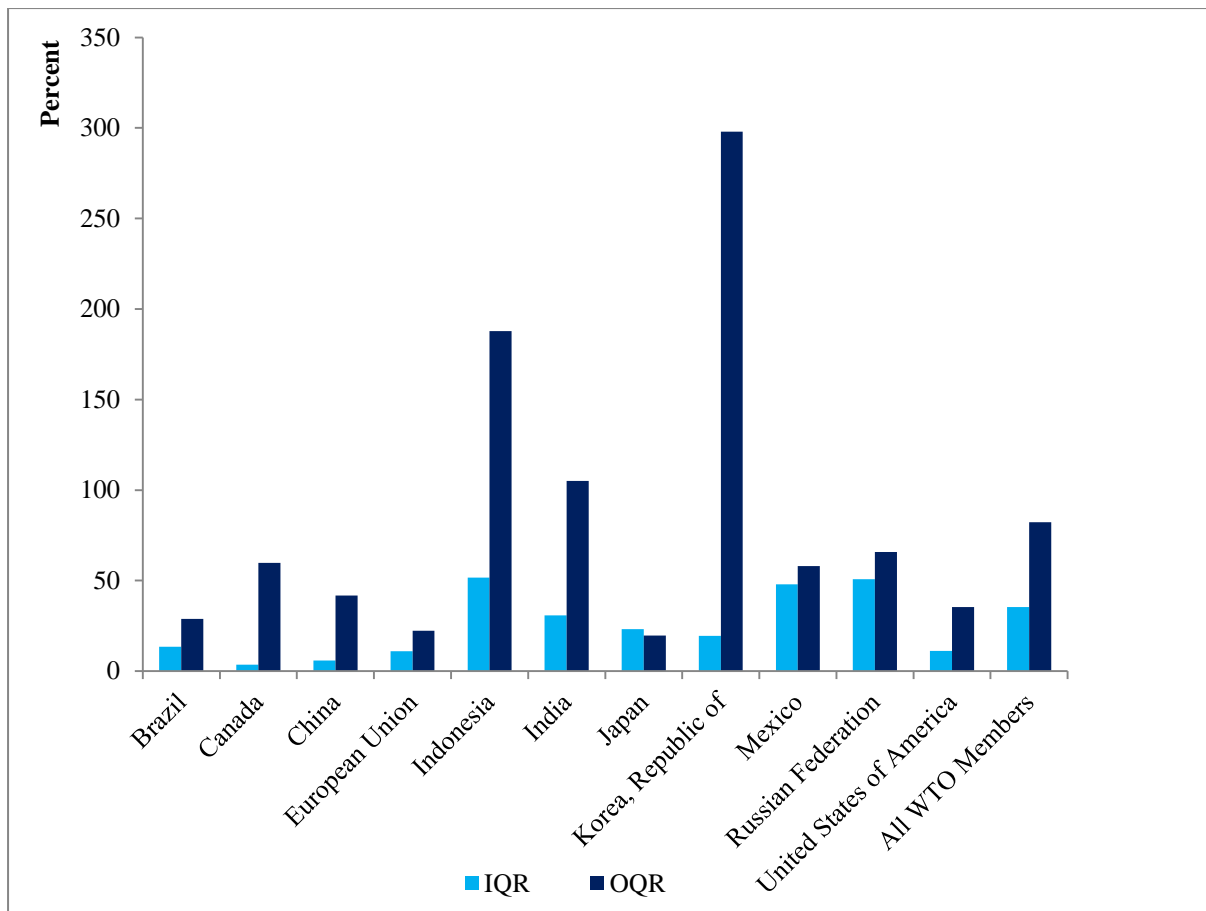
1.18. Tariff-rate quotas (TRQs) were a compromise policy instrument that arose during the Uruguay Round to replace non-tariff barriers. The proliferation of TRQs ensured some level of trade even with the imposition of high tariff equivalents. The use of TRQs has resulted in rationing by importing countries while protecting certain commodities from import competition. However, although TRQs were designed as a tool of access, very high over quota and in-quota tariffs, low fill rates, and conflicting administration of TRQs together with the global increasing dependence on trade can make TRQs a tool of protection. The 2013 Bali Decision on TRQ Administration was agreed to help improve transparency and quota under-fill related to TRQ administrative processes. Further TRQ reform, can increase market access and reduce the risk of trade bias.

1.19. Currently, 40 WTO Members have more than 1,000 TRQs in their bound schedules. While most Members continue to apply their TRQs with the high out-of-quota duty rate, several Members have effectively eliminated their TRQs and liberalized trade by not applying an out-of-quota duty, including three Members who have done so for all of their WTO TRQs.¹⁰ Members have scheduled TRQs for a wide variety of products with dairy, fruits and vegetables, meats, and grains being the most common (see Figure 8).

¹⁰ Brazil, Colombia and New Zealand do not operate WTO TRQs, G/AG/W/169.

Figure 8: Tariff Rate Quotas by Commodity Groupings

1.20. Amongst the largest importers and exporters of agricultural products, several Members had relatively low in-quota and out-of-quota rates (e.g., Brazil, the European Union, Japan, the United States of America), others had in-quota rates well below very high out-of-quota rates (e.g., Indonesia; India; Korea, Rep. of), and a few had both high in-quota and out-of-quota rates (e.g., Mexico and the Russian Federation) (see Figure 9).

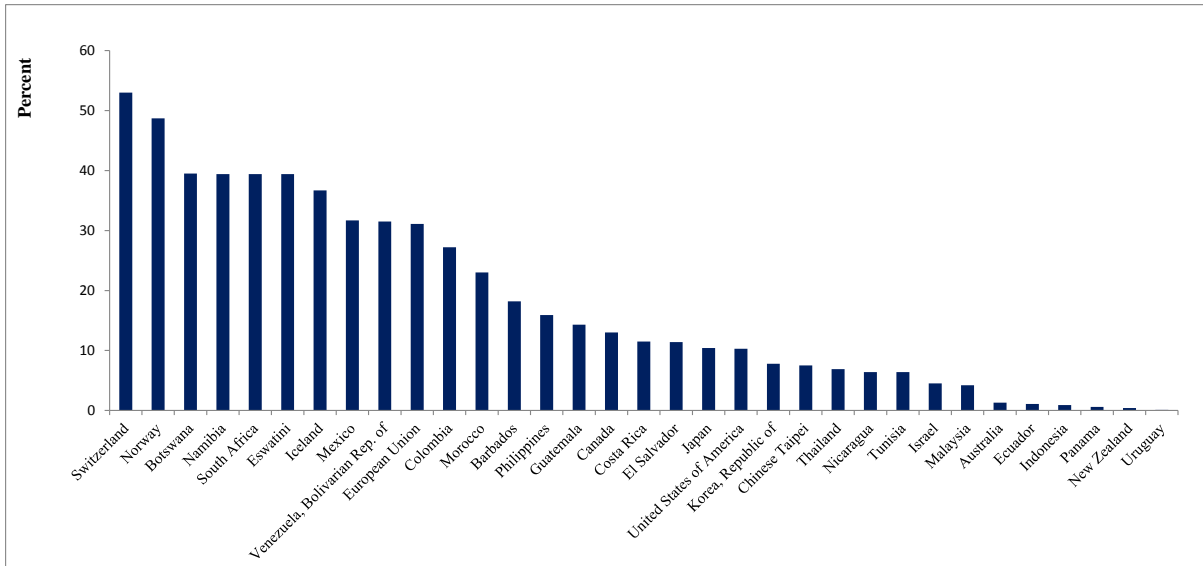
Figure 9: Average In-Quota and Out-of-Quota AV Rates for Select Members, 2016

Special Agricultural Safeguard

1.21. The Special Agricultural Safeguard (SSG) was developed to help Members to deal with import surges resulting from tariffication during the Uruguay Round. A total of 39 Members reserved rights to use the SSG on a wide variety of products covering an average of 18% of agricultural tariff lines (see Figure 10).¹¹ Switzerland and Norway maintain SSG rights on approximately 50% of agricultural tariff lines, while Botswana, Namibia, South Africa and Eswatini have SSG rights covering nearly 40% of agricultural tariff lines.

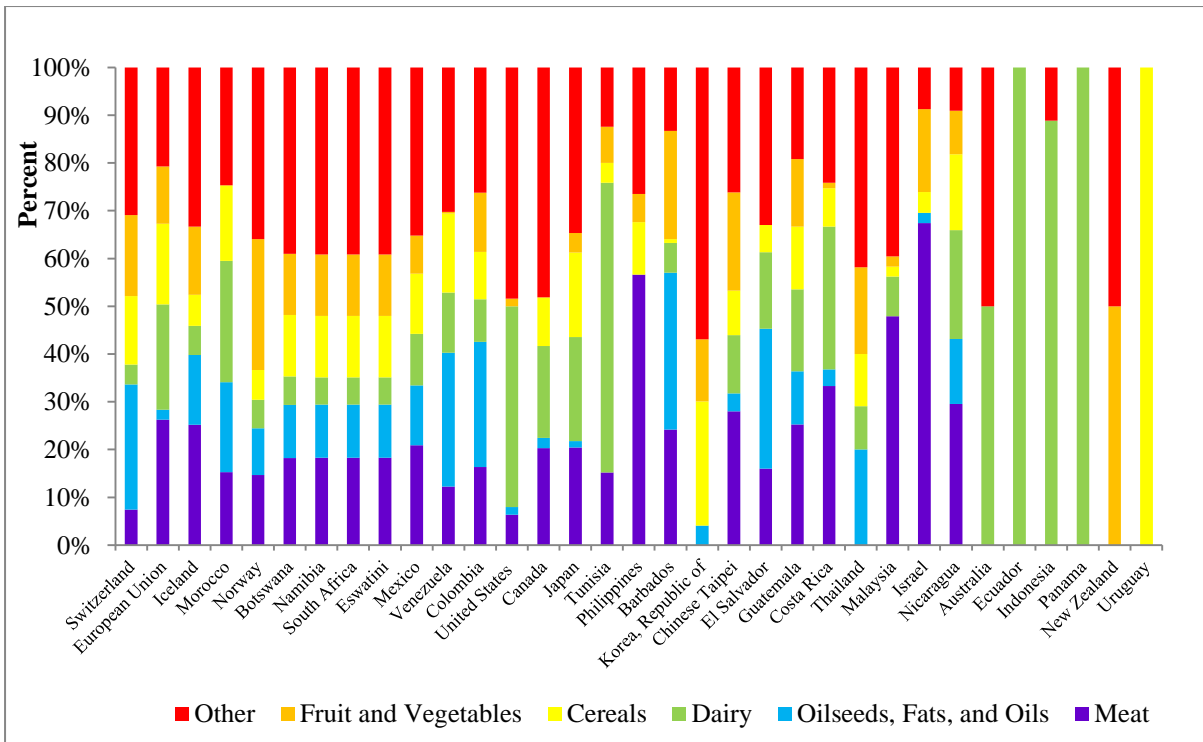
¹¹ TN/AG/S/29/Rev.1

Figure 10: WTO Members with SSG Rights as Percent of Ag Tariff Lines



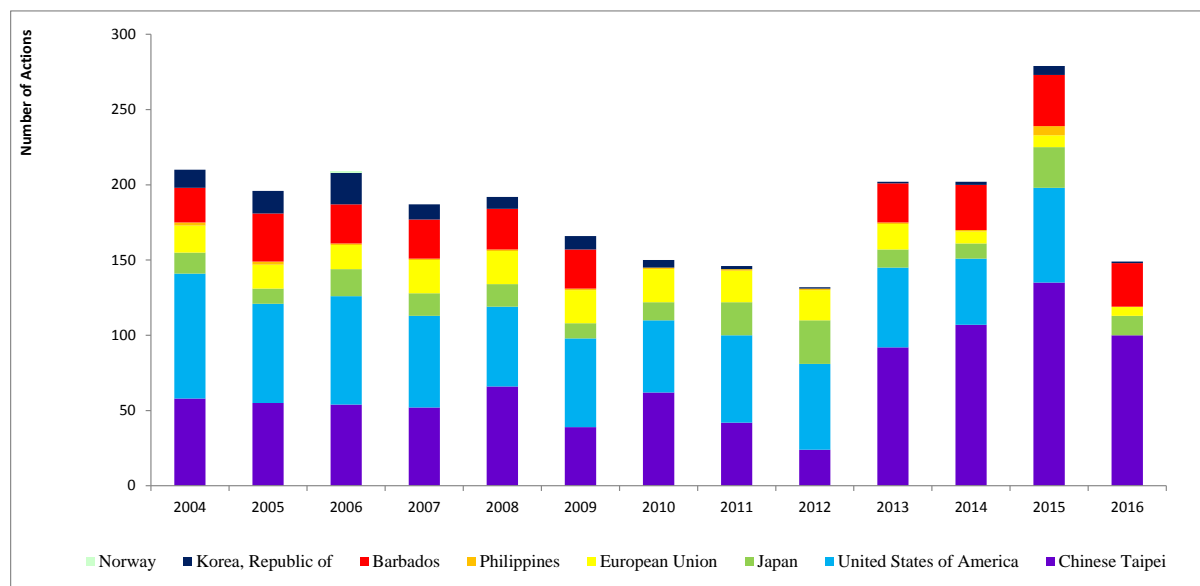
1.22. In total, meat (18%), oilseeds, fats, and oils (14%), dairy (13%), fruits and vegetables (12%), and cereals (12%) account for more than two-thirds of all SSG lines covered. However, composition by country varied (see Figure 11).

Figure 11: WTO Members' SSG Rights by Product Share



1.23. While rights to the SSG are broad, actual use has been relatively limited. The largest users of SSG actions, both price- and volume-based, have been Chinese Taipei and the United States of America (see Figure 12). With regards to price-based SSGs, only seven Members (Barbados; European Union; Japan; Korea, Rep. of; Philippines; Chinese Taipei and the United States of America) made use of such actions between 2004 and 2016.¹² Only six Members (Japan; Korea, Rep. of; Norway; Chinese Taipei and the United States of America) made use of the volume-based SSG during the same period.¹³

Figure 12: Notified SSG Actions, 2004-2016

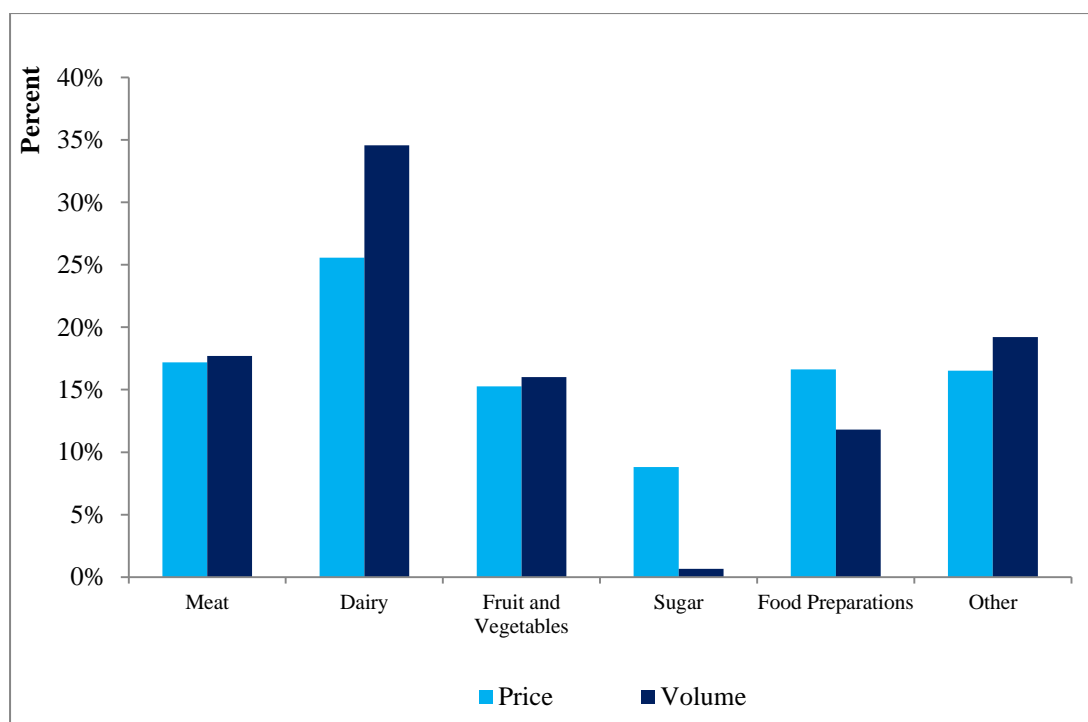


1.24. Notified price-based SSG actions totaled 1,827 from 2004 through 2016 accounting for approximately three-quarters of all SSG actions. The United States of America, Chinese Taipei, Barbados and the European Union accounted for 89% of total price-based SSG actions. These actions were primarily used for dairy, meat, food preparations, fruits and vegetables, and sugar (see Figure 13).

1.25. Notified volume-based SSG actions totaled 593 over the same period accounting for approximately one-quarter of all SSG actions. Chinese Taipei and Japan accounted for 93% of total volume-based SSG actions. These actions were primarily used for dairy, meat, fruit and vegetables, and food preparations (see Figure 13).

¹² TN/AG/S/29/Rev.1 and Member notifications.

¹³ TN/AG/S/29/Rev.1 and Member notifications.

Figure 13: SSG Actions by Commodity, 2004-2016

Preferential and Free Trade Agreements

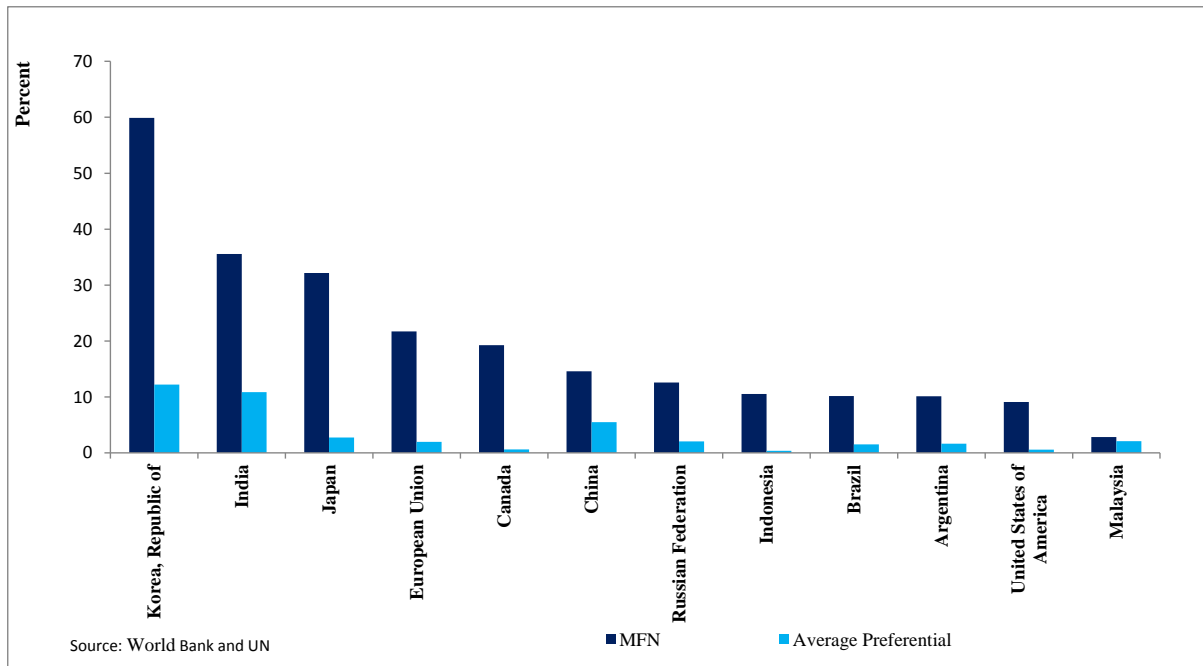
1.26. As detailed above, many Members unilaterally apply MFN tariff rates that are below their bound rates. This facilitates more open trade, but also contributes to market uncertainty because Members can raise tariffs without notice when water in their bound tariffs is significant. However, MFN tariff rates are increasingly becoming less relevant to larger shares of global agricultural trade due to the proliferation of preferential and free trade agreements (FTAs), which can significantly reduce the tariff rates faced on agricultural products. For example, US agricultural exports to FTA partner countries have increased from 29% of total US agricultural exports in 1990 to more than 40%.¹⁴

1.27. Almost all WTO Members participate in one or more preferential or free trade agreements, while a few participate in many. If the preferential or free trade agreements cover substantially all agriculture and result in complete tariff elimination, the result can provide enormous trade liberalizing opportunities.

1.28. Amongst the largest importing and exporting Members of agricultural products the trade liberalizing trend with tariff reductions is clear. In 2016, the average preferential agricultural tariff rates were only 20% of the MFN applied tariff rates for the largest importers and exporters of agricultural products (see Figure 14).¹⁵ For example, preferential rates in the Japan, the European Union, Canada, Indonesia and the United States of America were less than 10% of the MFN tariff rate.

¹⁴ USDA FAS, "Free Trade Agreements and US Agriculture", <https://www.fas.usda.gov/data/free-trade-agreements-and-us-agriculture>.

¹⁵ Data sourced from World Bank WITS and uses *ad valorem* equivalents using UNCTAD methodology. Data are presented for illustrative purposes and without prejudice or preference towards any *ad valorem* equivalent methodology at the WTO.

Figure 14: MFN and Average Preferential Tariff Rates, 2016 *Ad Valorem* Equivalents

Conclusion

1.29. Members' implementation of tariff measures is both complex and varies considerably by Member. Understanding how Members implement and adjust tariff measures at the multilateral, plurilateral, and unilateral levels can contribute to understanding their impacts on global agricultural trade. This in turn can help Members to address the challenges that face farmers today within the context of agricultural trade and the WTO. One of the most direct impacts of tariffs is limiting the ability of consumers to purchase producers' products. Improving access to customers contributes to the likelihood that farmers get better prices for their products and in turn the more production they can undertake. Similarly, expanding access to more producers benefits consumers who have more choice and competition when seeking supplies. More open markets contribute to greater productive efficiencies, particularly for value chains, and foster competition that spurs investment and technological innovation.

1.30. Therefore, as noted previously, the United States of America requests the Secretariat to compile information and Members to ensure that all WTO notifications relevant to market access are up to date and consider what other data could improve Members' knowledge. The United States of America will continue its own analysis of the six identified areas within this paper and looks forward to constructive engagement from other Members.