Issues on tariffs:
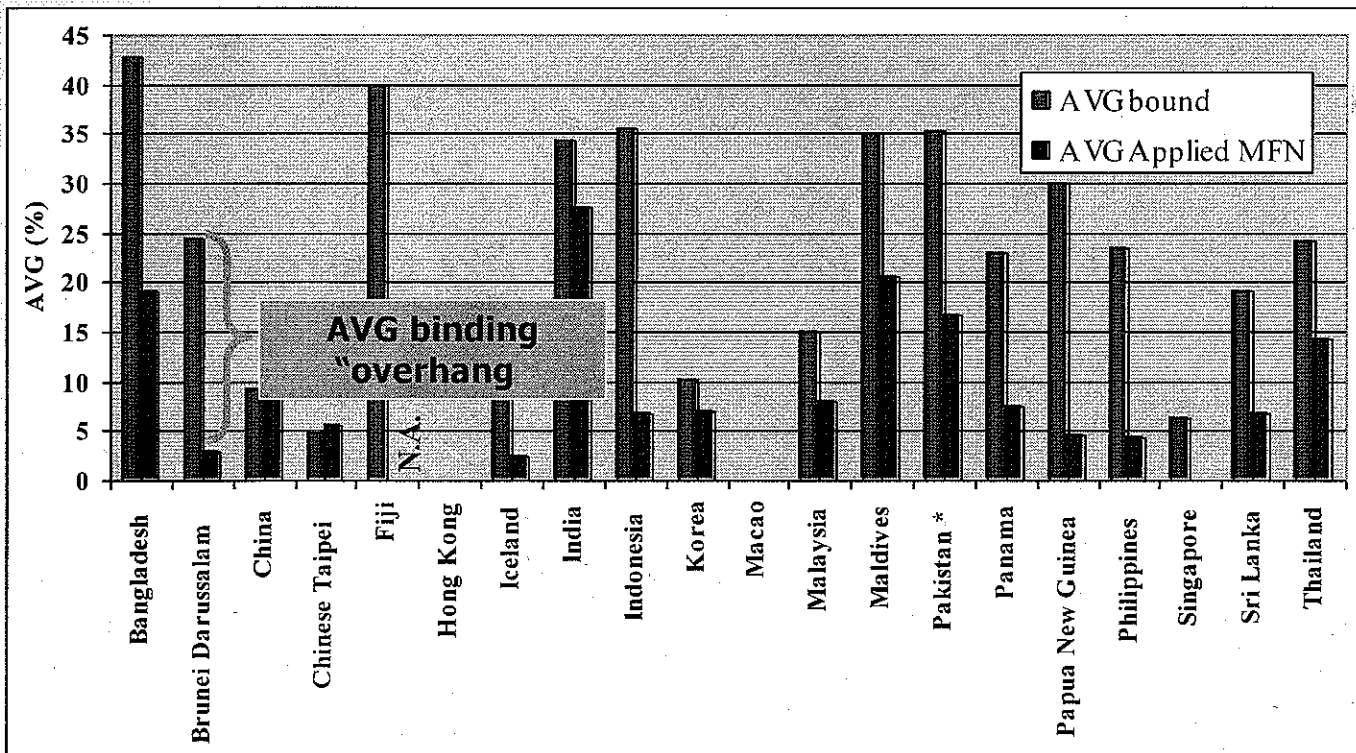
- Residual protection in developed country markets

- Absolute high protection in developing country markets (high bindings and/or unbound items)

Bound vs. Applied tariffs

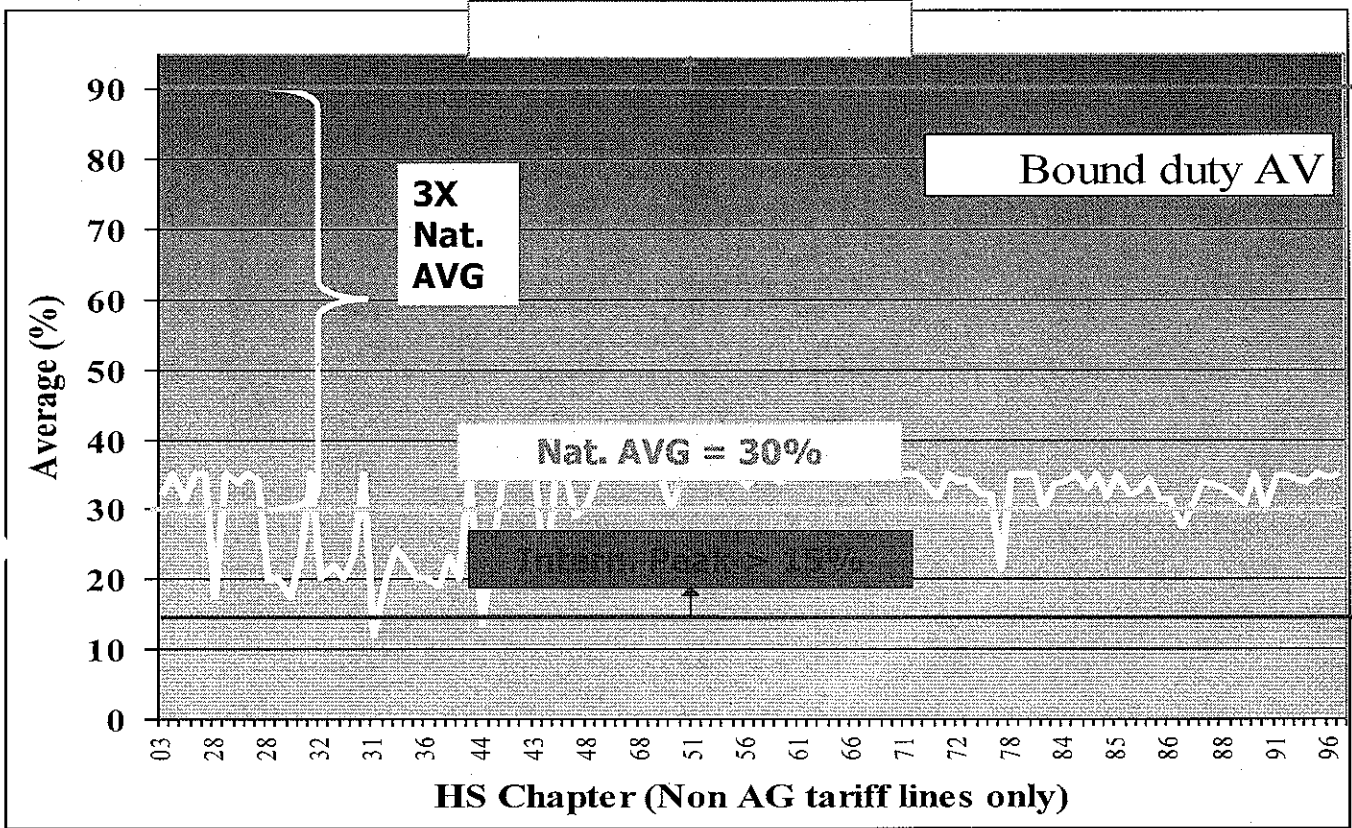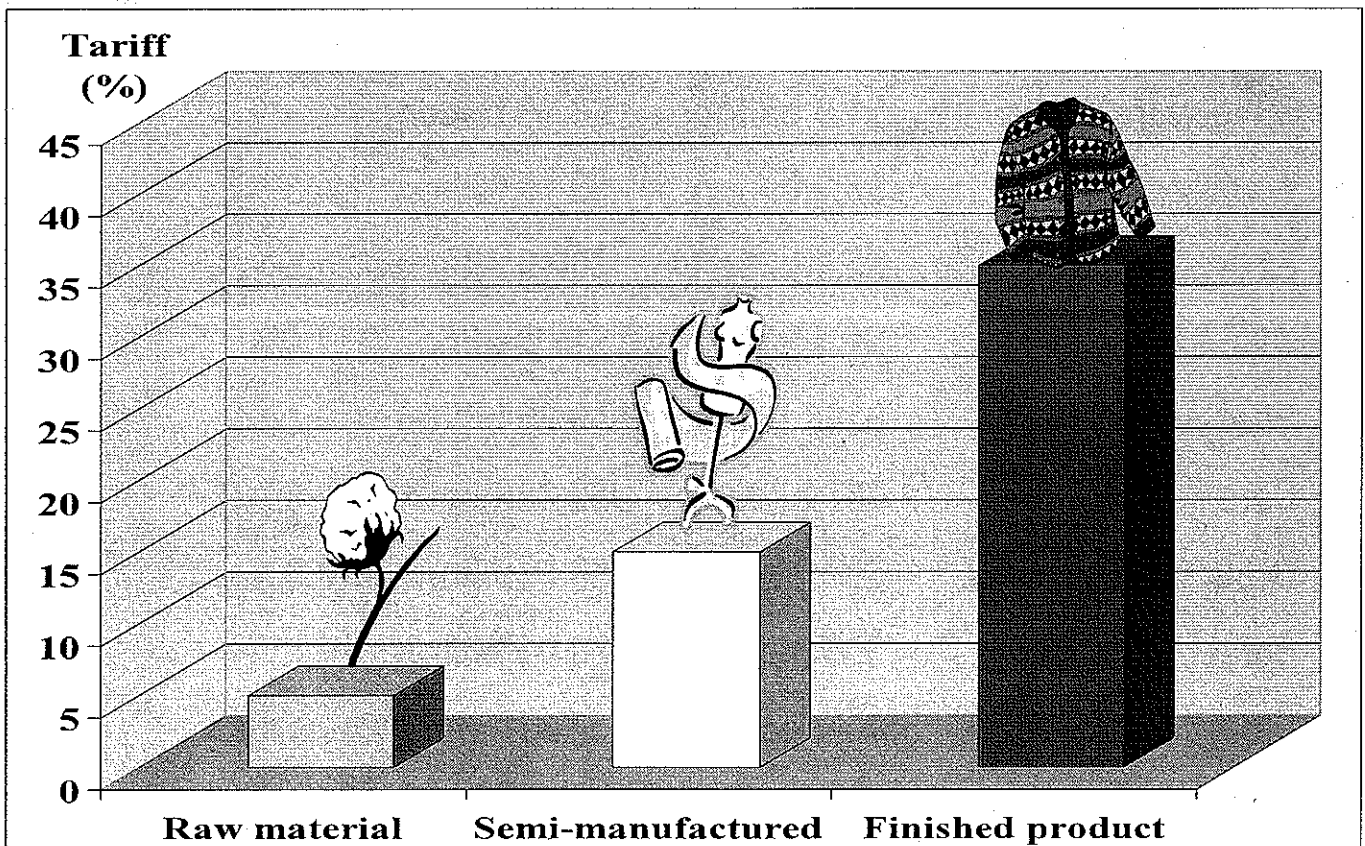**Source:** WTO Secretariat based on CTS for bound and IDB and UNCTAD for the MFN applied tariffs.

Brazil: bound AVG per HS Chap.

Tariff escalation: textiles and clothing

THE U.S. TARIFF SYSTEM, 2007

PRODUCT	IMPORTS	Tariff penalty	Average Rate
ALL GOODS	$1.26 trillion	$25.3 billion	2.0%
H-Tariff Manufactures	*$112.4 billion*	*$13.5 billion*	*12.0%*
Clothes	$63.1 billion	$9.1 billion	14.5%
Leather/Luggage	$7.3 billion	$0.95 billion	13.0%
Shoes	$19.0 billion	$1.9 billion	10.0%
Costume Jewelry	$1.3 billion	$0.11 billion	8.0%
Household linen	$9.3 billion	$0.7 billion	7.5%

THE U.S. TARIFF SYSTEM, 2007

PRODUCT	MPORTS	Tariff penalty	Average Rate
Silverware/tableware	$1.9 billion	$0.15 billion	7.9%
Watches	$3.3 billion	$0.15 billion	4.5%
Sports-fishing Equip.	$5.4 billion	$0.19 billion	3.6%
All Else	*$1.14 trillion*	*$11.7 billion*	*1.0%*
Energy	$168 billion	$0.25 billion	0.1%
Cars	$87 billion	$2.2 billion	2.5%
Other foods	$32.1 billion	$0.5 billion	1.6%
Steel	$25 billion	$0.01 billion	0.4%

Source: (US)ITC. Excludes goods imported from FTA partners.

Can NAMA help us out of the crisis?

- "Double exports in five years? Yes, the president's new trade goal, set out in last week's State of the Union address, is ambitious, realistic and more likely than any other option to provide the foundation for a new decade of growth and job creation. But to reach it, the president's team must overcome two obstacles."

Can NAMA help us out of the crisis?

- "In Asia alone, 150 million people will retire in the next decade and tens of millions more will start college. Old and young, they will be massive buyers of everything from advanced medical equipment and telemedicine services to online entertainment. Their governments are investing tens of billions in telecommunications, energy and power grids, and hospitals."

Can NAMA help us out of the crisis?

- "Trade policy should make sure that a lot of this goes to buy American technologies and services, using the WTO's Doha Round or a series of sectoral agreements among the big countries. Success will bring a doubling of exports in range."

Can NAMA help the poorest nations in the world?

- Yes.

- For example, the US and other countries should provide Duty Free and Quota Free treatment to imports from all LDCs.

U.S. tariff collection, by trading partner (2006)

Country	U.S. Imports	U.S. Tariffs	Average Rate
U.K.	$53.5 billion	$430 million	0.8%
Bangladesh	$3.3 billion	$496 million	15.2%
France	$36.8 billion	$367 million	1.0%
Cambodia	$2.2 billion	$367 million	16.9%

U.S. tariff collection, by trading partner (2007)

Country	Per capita income	Goods Imported	Tariff collected	Average rate
Britain	$37,760	$57 billion	$412 million	0.70%
Cambodia	$430	2.46 billion	$419 million	17.00%
Saudi Arabia	$12,510	$35 billion	$45 million	0.10%

U.S. imports* and tariff penalties, January-July 2010

- United Kingdom
- Imports: $27.9 billion
- Tariff Penalty: $195 million
- Tariff Rate   0.7%

- Cambodia
- Imports: $1.2 billion
- Tariff Penalty: $195 million
- Tariff Rate: 16.2%

U.S. imports* and tariff penalties, January-July 2010

- WORLD TOTAL
- Imports: $1.06 trillion
- Tariff Penalty: $14 billion
- Tariff Rate: 1.3%

- Bangladesh
- Imports: $2.3 billion
- Tariff Penalty: $356 million
- Tariff Rate: 15.3%

U.S. imports* and tariff penalties, January-July 2010

- Pakistan
- Imports: $2.0 billion
- Tariff Penalty: $198 million
- Tariff Rate: 10.0%

- Indonesia
- Imports: $9.1 billion
- Tariff Penalty: $543 million
- Tariff Rate: 6.0%

U.S. imports* and tariff penalties, January-July 2010

- China
- Imports: $193.5 billion
- Tariff Penalty: $6.3 billion
- Tariff Rate: 3.3%

- Turkey
- Imports: $2.3 billion
- Tariff Penalty: $68 million
- Tariff Rate: 2.9%

U.S. imports* and tariff penalties, January-July 2010

- Thailand
- Imports: $12.4 billion
- Tariff Penalty: $234 million
- Tariff Rate: 1.9%

- Japan
- Imports: $65.8 billion
- Tariff Penalty: $1.1 billion
- Tariff Rate: 1.7%

U.S. imports* and tariff penalties, January-July 2010

- Brazil
- Imports: $13.4 billion
- Tariff Penalty: $137 million
- Tariff Rate: 1.0%

- European Union (all 27)
- Imports: $177.4 billion
- Tariff Penalty: $1.95 billion
- Tariff Rate: 1.1%

U.S. imports* and tariff penalties, January-July 2010

- Norway
- Imports: $4.5 billion
- Tariff Penalty: $16 million
- Tariff Rate: 0.3%

- Sub-Saharan Africa
- Imports: $36.8 billion
- Tariff Penalty: $15 million
- Tariff Rate: 0.2%

U.S. imports* and tariff penalties, January-July 2010

- Venezuela
- Imports: $18.6 billion
- Tariff Penalty: $18 million
- Tariff Rate: 0.1%

- OPEC
- Imports: $86.3 billion
- Tariff Penalty: $66 million
- Tariff Rate: 0.1%

THE MANDATE

Doha Ministerial Declaration
14 November 2001

Paragraph 16

- "We agree to negotiations which shall aim, **by modalities to be agreed**, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of **tariff peaks**, **high tariffs, and tariff escalation**, as well as **non-tariff barriers**, in particular on products of export interest to developing countries."

Paragraph 16 of DMD (cont.)

- "Product coverage shall be comprehensive and without a priori exclusions."

- "The negotiations shall take fully into account the special needs and interests of **developing and least-developed country participants**, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of **Article XXVIII bis** of GATT 1994 and the provisions cited in paragraph 50 below."

NAMA negotiations
Sequence of main events

2001 -> Doha Ministerial Declaration

July 2002 -> Work programme is adopted
(deadline for modalities = 31 May 2003)

May 2003 -> Chairman's Draft Elements for Modalities
(TN/MA/W/35 i.e. "Girard Text")

September 2003 -> Cancun Ministerial fails to adopt a
"framework" on NAMA *(JOB(03)152/Rev.2)*

July 2004 -> "July Package" adopts NAMA Framework with
initial elements *(WT/L/579)*

December 2005 -> Hong Kong Ministerial adopted some
elements

NAMA negotiations
Sequence of main events

19 July 2006 -> Towards NAMA Modalities
(TN/MA/W/80)

8 February 2008 -> Draft Modalities for NAMA
(TN/MA/W/103)

20 May 2008 -> Draft Modalities for NAMA Second
Revision (TN/MA/W/103/Rev.1)

10 July 2008 -> Draft Modalities for NAMA Third Revision
(TN/MA/W/103/Rev.2)

29 July 2008 -> Report by the NGMA Chairman to the
TNC (JOB(08)/96)

06 December 2008 -> Draft Modalities for NAMA Fourth
Revision (TN/MA/W/103/Rev.3)

Currently, NAMA negotiations are focused on NTBs

Issues involved in NAMA negotiations

A. Formula

B. Treatment of Unbound Tariff Lines

C. Sectorals

D. Other Modalities for Tariff Reduction
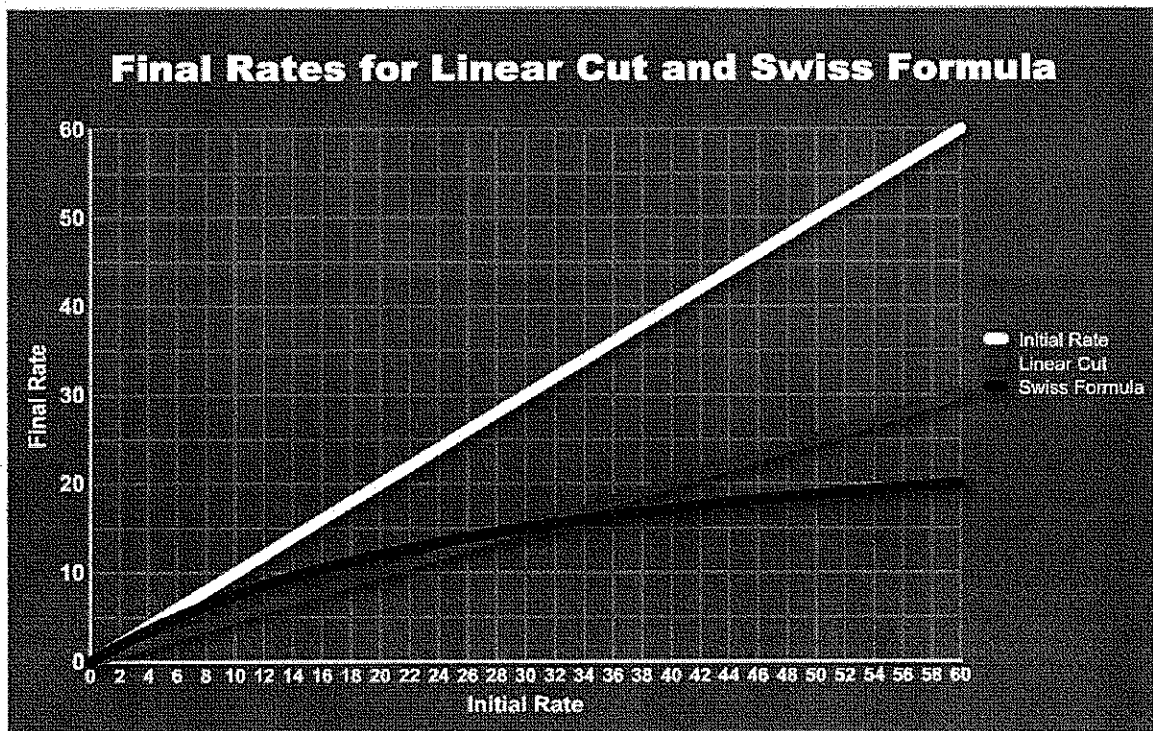
Issues involved in NAMA negotiations

E. Flexibilities
   1. LDCs
   2. Developing countries with low binding coverage
   3. Developing countries applying the formula
   4. Newly acceded Members
   5. Small, vulnerable economies

F. Preference Erosion

G. Non-Tariff Barriers

H. Balance between Agriculture and NAMA

The "Swiss formula"

- Originally proposed by Switzerland during the Tokyo Round
- Results in higher percentage cuts for higher tariffs
- Can only be applied on ad valorem duties. An *ad valorem equivalent* (AVE) is required for NAV duties
- The lower the "A" coefficient, the higher the cut

$$t_1 = \frac{A \times t_0}{A + t_0}$$

Comparison of Linear and Swiss Formula

Final Rates for Linear Cut and Swiss Formula

Legend:
- Initial Rate
- Linear Cut
- Swiss Formula

Y-axis: Final Rate (0, 10, 20, 30, 40, 50, 60)
X-axis: Initial Rate (0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54 56 58 60)

What is Non-Linear Formula

- Cuts to tariffs can be either linear or non-linear. A linear cut merely reproduces the type of rate existing at a lower scale (e.g. 30% cut in a linear fashion means chopping off 30% of the initial duty, regardless of how high the initial duty is.
- A non-linear cut, on the other hand, refers to cuts that are in a certain relation of direct or inverse proportionality to the initial tariff rate. In tariff negotiations non-linear cuts are cuts that are in an inverse relation (i.e. tend to cut higher duties more than lower ones, since the latter tend to be less distorting.
- The higher the tariff, the higher the cut
  ➡ Progressivity in tariff reductions
- Overall average reductions depend on formula coefficient(s), level and structure of schedules

Effects of Single Non-Linear Formula (or Swiss Formula)

- The non-linear formula is also called Swiss Formula (as it was proposed by Switzerland during the Tokyo Round) which is:

$$t_1 = \frac{A \times t_0}{A + t_0}$$

- T_0 is the initial tariff rate; A is the maximum final tariff rate and the coefficient which is agreed to represent the level of cuts; T_1 is the final tariff rate that results.
- So, a coefficient of 30 applied to an initial tariff of 100% produces a final tariff of about 23% and the cuts would be about 77%.
- If the same cut applied to an initial tariff of 15% produces a final tariff of 10% and the cuts would be about 33%.

Effects of Swiss formula

Leads to harmonization within schedules but not necessarily across schedules

Same coefficient for all Members:
=>harmonization across schedules: higher average cuts for schedules with higher rates

Different coefficients for different Members
=>allow to '**control**' the harmonization across schedules; schedules with high rates are not cut more if coefficients are adjusted

Swiss formula with single coefficient

		Base rate	New rate	Cut %
			a= 10	
Schedule	TL_1	2	1.7	17
with low	TL_2	3	2.3	23
duties	TL_3	10	5.0	50
	Avg	5	3	40

		Base rate	New rate	Cut %
			a= 10	
Schedule	TL_1	10	5.0	50
with high	TL_2	15	6.0	60
duties	TL_3	50	8.3	83
	Avg	25	6	74

Swiss formula with variable coefficients

		Base rate		New rate	a= 10 Cut %
		Base rate		**New rate**	*Cut %*
Schedule	TL_1	2		1.7	*17*
with low	TL_2	3		2.3	*23*
duties	TL_3	10		5.0	*50*
	Avg	**5**		**3**	*40*

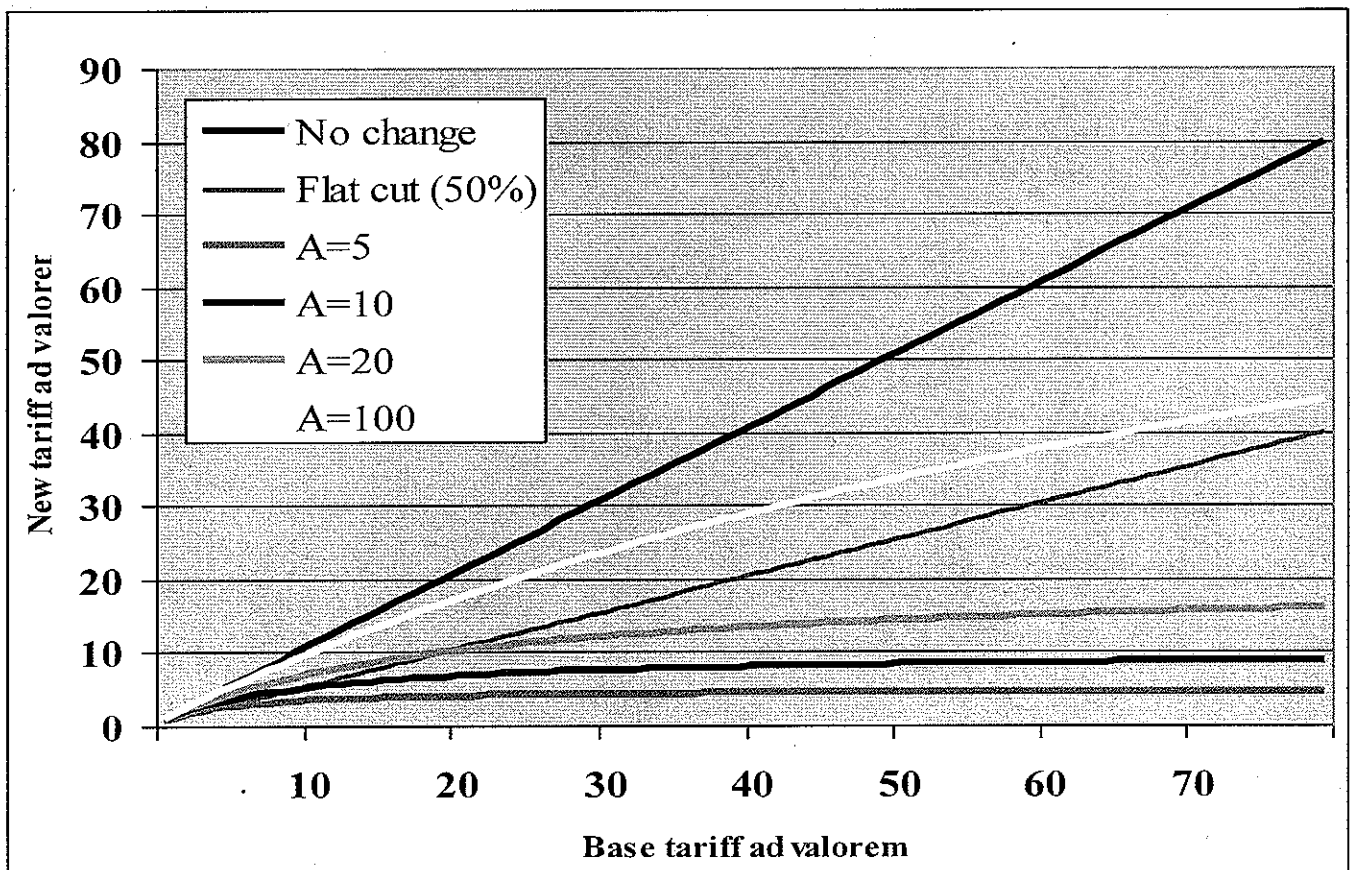|		Base rate		New rate	a= 50 Cut %
		Base rate		**New rate**	*Cut %*
Schedule	TL_1	10		8.3	*17*
with high	TL_2	15		11.5	*23*
duties	TL_3	50		25.0	*50*
	Avg	**25**		**15**	*40*

The impact of the tariff profile

- Schehules with *higher share of peaks* are subject to relatively higher overall reductions
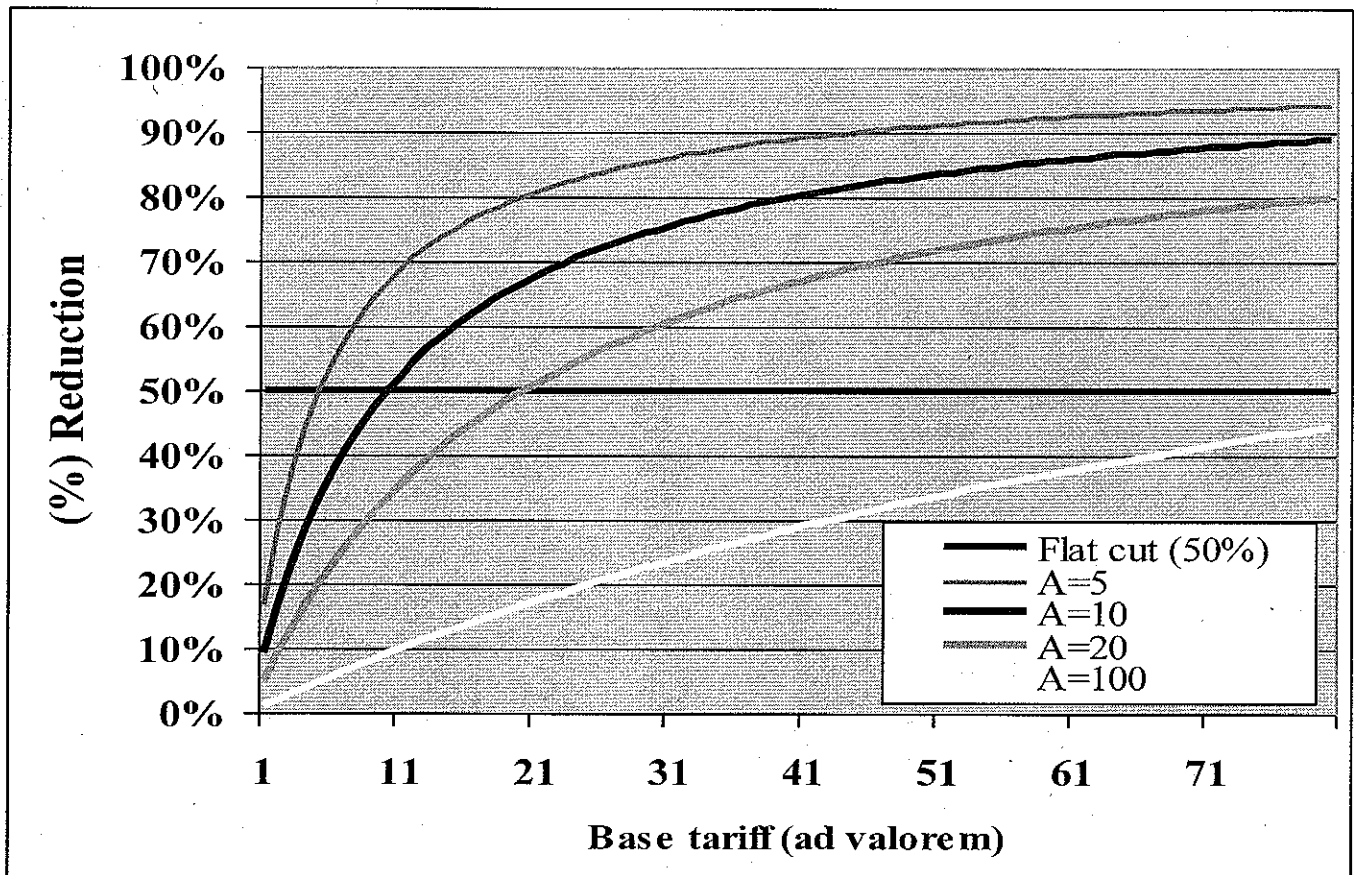
The impact of the tariff profile

		Base rate		New rate	Cut %
				(a= 10)	
Schedule	TL_1	2		1.7	17
with low	TL_2	3		2.3	23
duties	TL_3	10		5.0	50
and peak	Avg	5.0		3.0	40

		Base rate		New rate	Cut %
				(a= 10)	
Schedule	TL_1	5		3.3	33
with 'flat'	TL_2	5		3.3	33
duties	TL_3	5		3.3	33
	Avg	5.0		3.3	33

Swiss formula (cont.)

Legend:
- No change
- Flat cut (50%)
- A=5
- A=10
- A=20
- A=100

Y axis: New tariff ad valorer

X axis: Base tariff ad valorem

Swiss formula (cont.)

Impact of Swiss formula on Members'
schedules depends on:

- ◆ How coefficients are determined
- ◆ Profiles of Members' base rates
- ◆ Options for flexibilities (offering less cuts)
- Detailed evaluation is crucial
  - ◆ overall effects
  - ◆ sectoral effects

Modalities — "customized"

- Modalities – one size does not fit all

- Take into account different needs and development objectives.But,

- How to distinguish?

- How many different "groups"?

Modalities — "rankings"

- LDC
  - + *low income economies in transition*
- Low binding coverage
- SVE – Small, vulnerable economies
- RAM - Recently acceded Members
  - - *very recently acceded Members*
- Other developing
- Developed countries