



# Impact of the 2008 Draft Modalities on US Agricultural Market Access

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# Issues

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- US agricultural tariffs
- Nature of the proposal
- Impacts on US agricultural tariffs
  - Application of the tiered formula
  - Flexibilities for sensitive products
- Impacts on barriers facing the United States

# US Bound Agricultural Tariffs

	Simple. Average	Trade Weighted	Reference Group
	%	%	%
<i>Ad Valorem</i>	4.1	4.1	4.7
Mixed-Compound	21.8	17.7	20.3
Specific	5.6	8.1	10.3
Overall Average	7.7	8.7	11.5

# Ethanol

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- Most protection provided by a specific additional duty of 14.27c/l
- Not clear that this additional duty will be cut using the formula
  - The modalities refer to final bound tariffs

# Tariffs by Chapter

	<b>Tariff Revenue</b>	<b>Bound Tariffs</b>	<b>AVE</b>	<b>Ad valorem</b>	<b>Binding Overhang</b>
	%	%	%	%	%
Agric total	100	9	5	4	0.8
Live Animals	0.1	22	22	0.1	22
Meat	14	13	0.2	13	0.0
Dairy prods	9	28	25	3	0.0
Vegetables	5	6	2.5	3	0.0
Sugar	21	47	42	4	0.0
Veg.preps	7	9	3	6	0.0
Tobacco	13	44	9	34	0.9
Cotton	0.1	12	11	0.3	0.0

# Importance of Tariff-Rate-Quotas

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	%
Share of tariff lines	8.0
Share of imports	18.4
Average tariff -- TRQ	30.4
--Non-TRQ	2.8

# The Tiered Formula, %

	Developed		Developing	
Band	Range	Cut	Range	Cut
I	0-20	48-52	0-30	32-34.6
II	20-50	55-60	30-80	36.6-40
II	50-75	62-65	80-130	41.3-43.3
IV	>75	66-73	>130	44-48.6
Av. cut	Min	54	Max	36

# Tariff Escalation & Tropical Products

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- Tariff Escalation: uses a set of primary & processed products
  - Where a product has a higher (by more than 5% after formula) tariff than its input, it is given the cut of the next higher band
  - Tariff cuts on products in the highest band are increased by [1.3]
- Tropical (or diversification) products are subjected to deeper-than-formula cuts

# Sensitive Products

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- [4] to [6] percent of tariff lines allowed sensitive product treatment
  - 6 to 8% if have more than 30% of tariffs in top band, or schedule at six-digit level
- Sensitive products allowed smaller-than-formula tariff cuts
  - 2/3 of formula, 1/2 of formula, or 1/3 of formula
  - Linked to expansion of TRQ access
    - If 2/3 of formula cut, market access must increase by 3 to 5% of domestic consumption
    - If 1/3 of formula ct, market access must increase by 4 to 6% of domestic consumption

# How Will Sensitive Products be Chosen?

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- Hugely important question– and a big source of uncertainty in the negotiations
- Some studies assume that sensitive products will be those with:
  - highest bound tariffs (Sharma)
  - the highest applied tariffs (eg Vanzetti and Peters); or the
  - Products with the largest tariff revenue loss (Jean, Laborde and Martin 2006)
    - Picks products with large imports, little binding overhang and high bound tariffs

# Sensitive Products, Continued

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- Highest tariff rate assumptions mean little impact on weighted-average tariffs
  - Many high-tariff products are unimportant
    - Broom corn?
- The tariff revenue loss criterion means sensitive/special products have an enormous impact
  - 2% of sensitive products can wipe out gains
- Problem: none of these approaches have any firm behavioral basis

# Sensitive Products: Suggestion

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- We identify products by working out the importance attached to them by policy-makers
  - Policy makers are prepared to incur the highest costs for goods with strong support
  - High tariffs on “important” goods indicate very strong political support
- Sensitive products likely important goods, where the formula involves large cuts, and sensitive product treatment allows big reductions in cuts

# Formula Used for USA

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Bands	0/20/50/75
Cuts	50/57.5/63.5/68.5
T. Escalation	Cut from the next higher band or 1.15 * top tier cut.
Tropical Prods	Use U. Rnd list. Exclude from sensitive product treatment. Tariffs <25% → 0. Tariffs >25%, 85% cut
Sensitive prods	Up to 5% lines cut by 2/3 of formula
Minimum cut	Min ave. cut of 54%, including sens. products

# Which Tiers are US Tariffs in?

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	Simple Ave. HS6	Simple Ave. HS8	HS6 Trade Wtd Ave.
Tier I	92.8	90	90.8
Tier II	3.8	5.7	6.2
Tier III	1.5	2.1	1
Tier IV	1.9	2.2	2
Dutiable	71.6	76.5	73.3

# Formula Impacts on MFN Rates%

	Initial	Formula	+T. Escal.	+ Trop. Prods	Full Formula
<b>Total Agric</b>	7.9	3.5	3.5	3.3	3.3
<b>Meat</b>	13	6	6	6	5.9
<b>Dairy</b>	28	12	12	12	12.4
<b>Vegetables</b>	5.7	3	3	3	2.8
<b>Oilseeds</b>	2.6	1	1	0.8	0.8
<b>Sugar</b>	47	16	16	16	16
<b>Misc. food</b>	12	6	6	6	6
<b>Tobacco</b>	43	15	15	13	13
<b>Cotton</b>	12	6	6	6	6

# Formula Impacts on Applied Rates%

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	Initial	Formula	+T. Escal.	+ Trop. Prods
<b>Total Agric</b>	6.2	2.6	1.7	0.6
<b>Meat</b>	12.7	5.8	0.3	0.1
<b>Dairy</b>	27.6	12.3	0.6	0.2
<b>Vegetables</b>	0.6	0.3	5.1	2.5
<b>Oilseeds</b>	2.2	0.7	0.4	0.1
<b>Sugar</b>	41.8	15.1	4.9	1.4
<b>Misc. food</b>	10.5	5.7	1.8	0.4
<b>Tobacco</b>	37.1	12.1	5.4	0.7
<b>Cotton</b>	10.1	4.7	1.5	1.1

# Sensitive Products

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- Products identified based on political benefit of sensitive product treatment
- Sensitive products lower the average-cut below 54%, so proportional cuts in all tariffs must be increased
  - Therefore choose only the smallest deviation from formula–  $\frac{2}{3}$  of formula cuts
- Weigh the political benefit of smaller cuts on sensitive products against the political costs of larger proportional cuts

# 18 Sensitive Products Identified

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	Formula %	w/- 2/3 cut %	Quota Fill Ratio
Fresh beef	11	16.3	6.4
Frozen beef	22	35.1	2.1
Butter	27	42.1	25.7
Milk fats	24	41.3	5.9
Cheese, not fresh	41	71.0	9.5
Peanuts	18	26.0	180.8
Raw cane sugar	12	16.5	2.8
Sugar	39	71.6	No TRQ
Confectionary	42	72.8	2.8
Chocolate	28	48.5	No TRQ
Flour dough	11	15.8	2.3
Peanuts	12	18.0	3.5
FC Orange Juice	39	71.6	0.7
Food preps	18	26.4	15.7
Animal feed	16	29.7	8.7
Tobacco unstemmed	24	44.2	1.8
Tobacco stemmed	33	60.7	142.5
Smoking tobacco	38	65.0	No TRQ

# Impacts on US Tariffs by Chapter %

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	Initial	Formula	+Sensitive
Agric, total	7.9	3.3	4.1
<i>Non-sensitive</i>	4.3	2.0	2.0
<i>Sensitive prods</i>	50.4	18.2	29.3
Meat	13.0	5.9	7.2
Dairy prods	28.1	12.4	16.5
Sugar	46.8	16.5	24.8
Tobacco	42.6	12.8	22.5

# Tariffs Facing US Exporters

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- Estimation process similar for other industrial countries
- In developing countries, bands broader & cuts smaller. Top band >130, cut 40%
- Add Special Products option
  - 6.5% with no cut; 6.5% with half formula
- 3 Country groups
  - LDCs no cuts
  - Small and Vulnerable Economies (10% smaller cut in each band);
  - RAMs (7.5% less)

# Tariffs Facing US Exporters

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	Initial	Formula	w/- Flex.
All WTO	19.5	11.6	15.9
Developed	20.5	10.0	14.6
Developing	20.8	13.5	18.8
Developing excl Korea	7.9	6.4	7.4
SVEs	11.7	11.4	11.7
RAMS	16.0	12.4	14.3
LDCs	9.7	9.7	9.7

# Tariffs facing US exporters, %

	Initial	Formula	+flexibilitie s	Exports,\$mn
<b>Meat</b>	35	16	22	5711
<b>Fruit &amp; Nuts</b>	6	4	4	4480
<b>Cereals</b>	38	23	33	11214
<b>Oilseeds</b>	19	11	17	8683
<b>Misc.food</b>	15	11	13	3188
<b>Food resids</b>	13	5	8	3814
<b>Tobacco</b>	22	16	19	3212
<b>Hides/Skins</b>	2	2	2	1523
<b>Cotton</b>	13	9	11	3281

# Conclusions

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- Relatively low US tariffs mean very few in the higher tiers
  - But many non *ad valorem* tariffs on highly protected goods and TRQ goods v important
  - Formula alone cuts US agric tariffs by more than half, bigger cuts in highly protected Chapters covering dairy, sugar
- Provisions for tariff escalation and Tropical Products have limited impact
  - But sensitive products are very important

## Conclusions, contd

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- Identify sensitive products taking into account shares of domestic expenditures, initial tariffs, formula cuts, little binding overhang, & reduction allowed in the cut.
  - The minimum 54% cut means all cuts must be increased proportionately
  - Leads to smaller reductions from formula cuts and selection of only 18 6-digit products
  - Formula cuts average US tariffs from 7.9% to 3.3%. Sensitives raise from 3.3% to 4.1%

# Conclusions

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- Highest tariffs facing US exporters are in the industrial countries
  - Formula reduces ave tariff 19.5% → 11.6%
  - Sensitive & special prods 11.6% → 15.9%
    - Mostly due to sensitive prods in developed countries
- Excluding Korea, the barriers in developing countries are 7.9%
  - Formula means 7.9% → 6.4%, flexibilities return to 7.4%