INFORMATION NOTE NUMBER 9, NOVEMBER 2009

Capping Unusually High Tariffs: The WTO Doha Round and 'Tariff Peaks'

Introduction

In the current Doha Round of trade negotiations, WTO Members are attempting to reduce barriers to trade while remaining committed to the 'development' principles enshrined in the Round's guiding documents.[1] Believed to be the 'engine' of the Round, agriculture, one of the most contentious areas of talks, alternates between driving and stalling talks.[2] This note intends to examine what a cap on extremely high tariffs, or tariff peaks, may mean for developing country exporters.

More than eight years in, agricultural issues in the round have developed a level of complexity that few other areas of international trade negotiations can parallel. Along with cuts in subsidies, WTO members have largely agreed to the principle composition of tariff cuts. Developed country tariffs will face the steepest cuts and developing countries, with some exceptions, will cut tariffs by two-thirds of the developed country rate. Additionally, the higher the tariff, the greater the cut.[3]

There are important caveats to tariff cuts for both developed and developing countries. They include a set of 'special' products for developing countries that will be exempted on the grounds of their significance to livelihoods, food security, and rural development. Developed countries, as well as all other Members, will be allowed some politically 'sensitive' products. These products will be subject to a smaller tariff cut in exchange for an expansion of quotas. Determining what products can be selected as 'sensitive' and the treatment of their tariff cuts has been the subject of much controversy.[4] Tariff peaks are often linked to quotas and a proposed cap would be aimed at creating a simple yet uniform limit for all agricultural goods.

A Brief History of 'Sensitive Product Negotiations

The idea of 'sensitive' products is linked to talks on tariff-rate quotas, an instrument that came into being under Uruguay Round process of 'tariffication.' The Round attempted to convert market access barriers, such as quotas, into tariffs. Tariff-rate quotas allowed lower tariff rates for specified quantities and higher rates for quantities that exceed the quota.[5]

ICTSD

International Centre for Trade and Sustainable Development

[1] *World Trade Organizaiton (WTO). 20 November 2001. The Doha Ministerial Declaration. WT/MIN(01)/DEC/1, Geneva.*

[2] *"The Trade Round that Refuses to Die." Bridges Monthly. Vol 12:4. August 2008. http://ictsd.org/i/news/bridges/27728/*

[3] *World Trade Organizaiton (WTO). 6 December 2008. Revised Draft Agriculture Modalities. TN/AG/W/4/Rev.4, Geneva.*

[4] *"WTO Members Reach 'Moment Of Truth' On Sensitive Farm Products." Vol.12:12. 11 April 2008 http://ictsd.net/i/news/bridgesweekly/11066/*

[5] *"Understanding the WTO: The agreements; Agriculture: fairer markets for farmers." Accessed 15 July 2009. URL: http://www.wto.org/english/theWTO_e/whatis_e/tif_e/agrm3_e.htm#tariffquota*

Table 1: Proposal on Sensitive Products Based on the July 2004 Framework Agreement[6]

	G-10	EU	US	G-20
Number	15% linear cuts 10% flexible cuts	8% of tariff lines	1 % of tariff lines	1% of tariff lines
Cap	No	100% (Not on sensitive)	75%	100%
New TRQs	Yes	Yes	No	No
Avg Tariff Cut	25-30%	46% (39%)	75%	54%

Sensitive products formally entered Doha Round negotiations in August 2003, in an Annex to the Cancun Ministerial Text. Declared politically 'sensitive', the products were intended to allow all Members, but developed countries in particular, the flexibility that they required for across the board tariff cuts. When talks came to a standstill, the July 2004 Framework Agreement breathed life back into the round and provided a series of 'grand' bargains. Sensitive products were an essential part of flexibilities that many developed countries required to make the a potential Doha deal palatable. They agreed that some 'sensitive' goods would be exempted from the overall tariff cuts that all agricultural goods would face in exchange for a "substantial improvement in market access."[7]

In the context of the July 2004 Framework Agreement, agricultural exporters and importers issued a variety of proposals. Substantial differences emerged on the number of sensitive products and their treatment. Table 1 summarizes their positions on 'sensitive' products. The G-10 emerged as the group committed to the greatest number sensitive products, new tariff-rate quotas, and no limits on tariffs. As net farm good importers, the group tried to protect its markets, farmers, and food security. While other larger economies such as the EU and US had a mixed bag of concerns – to increase market access in developing countries for their agricultural exports while protecting a select group of farmers that were, in the context of international prices, inefficient. Of the proposals submitted, the G-20 laid out a comprise that would liberalize trade the most but also attempted to address the concerns of net agricultural importers.

In the years since the July 2004 Framework Agreement, negotiations evolved substantially through a series of detailed modalities texts, or blue prints, on a final Doha deal. Beginning in September 2007, a group of exporters and importers, known informally as the 'friends of the chair,'[8] met to iron out the treatment and selection of sensitive products. This effort provided the final details the that chair of the WTO agriculture negotiations needed to formalize positions for the February 2008 draft modalities text and a succession of drafts in May, July and December 2008. The latest figures are summarized in Table 2.

Table 2: Sensitive Products in the December 2008 Draft Modalities Text

Number	4-6%[9]
Cap	100%[10]
New TRQs	Maybe[11]

The July 2008 modalities text removed brackets from the headline numbers surrounding sensitive products and thereby formalized the emerging consensus of a figure around 4 percent of tariff lines.[12] An additional two percent of tariff lines would be available to Members with more than 30 percent of their tariff lines receiving the highest cuts and for Members

[6] *Antoine Bouet, Lionel Fontagné, and Sébastien Jean (2006). "Is Erosion of Tariff Preferences a Serious Concern?" Agricultural trade reform & the Doha development agenda. Eds Kym Anderson and Will Martin. The World Bank: Washington DC.*

[7] *World Trade Organizaiton (WTO). 20 November 2001. The Doha Ministerial Declaration. WT/MIN(01)/DEC/1, Geneva.7 Hanrahan, Charles and Randy Schnepf (2005)."WTO Doha Round: Agricultural Negotiating Proposals." CRS Report for Congress. Washington DC.*

[8] *Friends of the Chair group of countries include: Argentina, Australia, Brazil, the EU, Japan, Norway, New Zealand, Switzerland, Uruguay and the US.*

[9] *According to the documents circulated with the most recent draft agreement of December 2008, Canada and Japan are requesting 6 and 8 percent of their importing tariff lines to be declared sensitive, respectively.*

[10] *This cap does not apply to sensitive products within a member's entitlement. Also, Iceland, Japan, Norway and Switzerland will be allowed to have 1or 2 percent of tariff lines outside of their sensitive product entitlement in excess of 100 percent.*

[11] *Working documents indicate that this is contentious but the issue has been included in the text as an either/or.*

[12] *This draft agreement was reached through WTO Director General Pascal Lamy's efforts during July 2008. As such, countries still have the option of back tracking.*

that would find the HS 6 digit level of tariff line detail a "disproportionate constraint" in selecting the products they intended on declaring sensitive.[13] Although lower than the EU and G-10 figures, the modalities text granted sensitive products well in excess of the 1 percent sought by the G-20 and the US in July 2004.

Many economists have argued against the reduced ambition that tariff-rate quotas, negotiated through sensitive products, would introduce into the Doha Round.[14] However, sensitive products and tariff-rate quotas have been deemed a political necessity in concluding the round.[15] A cap on tariffs has therefore been viewed as a means of balancing the needs of some countries for 'sensitive' products with the overall need for increased market access.

Depending on the sway of negotiations, tariff caps have appeared and disappeared from a succession of agriculture draft modalities texts. Formally introduced in the Hong Kong Ministerial Declaration of 2005, the idea of tariff caps first appears in the agriculture draft modalities text in July 2006 but does not resurface until July 2008. At Hong Kong in 2005 and in Geneva in July 2006 the idea of a 75 to 100 percent limitation on all tariffs was floated. However, some Members, the G-10 in particular, voiced strong opposition to the idea because it would leave their farm goods vulnerable.[16] Shortly after the text was issued, the Doha round talks were indefinitely suspended until Members were able to come back to a consensus. Agricultural negotiations were cited as the reason.[17]

In its current iteration, the tariff cap limits agricultural tariffs of developed countries to 100 percent after cuts. However, if sensitive product tariffs, after cuts, remain above 100 percent, Members may keep them in exchange for an additional expansion of tariff-rate quotas by 0.5 percent of domestic consumption for the respective tariff line. Additionally, Iceland, Japan, Norway, and Switzerland can exceed the 100 percent tariff cap on 1 percent of tariff lines beyond their tariff sensitive product entitlement. If they choose to do so, they must increase tariff-rate quotas by 0.5 percent for all of their sensitive products or cut tariffs for the respective tariff lines either by an additional 10 percent or two years faster than otherwise required.

Beyond the draft modalities text released in December 2008, a series of accompanying working documents, outlining the Chair's thoughts on where the WTO membership stands, diluted some of the clarity achieved on 'sensitive' products and the tariff cap in the text.[18] Canada and Japan "unambiguously" signalled that designating 4 to 6 percent of tariff lines as sensitive would not be an acceptable outcome of the agreement. The chair indicated that these countries needed 6 and 8 percent, respectively. While Iceland, Japan, Norway and Switzerland want 2 percent of tariff lines to be allowed to exceed the 100 percent tariff cap.

The complexity of the issue means that it is, not only difficult to decipher the meaning of the paragraphs on sensitive products, it is also difficult to understand what this may mean in practice for the tariffs of some of the most protected markets. A tariff cap, tariff-rate quotas, and sensitive products are inextricably linked. The sections below attempt to detail the implications that a tariff cap may have on the interests of developing countries. We begin by looking at the composition of tariff-rate quotas (TRQs) and then address the issue of country specific tariff profiles.

Tariff–Rate Quotas

Tariff-rate quotas are amongst the most restrictive border measures used by developed countries to control imports.[19] Tariff-rate quota composition, as well as their administration, present significant

[13] *Harmonized Commodity Description and Coding Systems (HS) is an internationally agreed framework of classification for traded goods. The HS 6 digit level of classification is the most detailed product classification available in the system. However, if they wish, countries may chose to be even more specific at 8 or 10 digit level. Such levels of specificity, although utilized under the partial designation elements of the draft agreement, are not "harmonized." There is no international agreement on what they mean.*

[14] *De Gorter and Kliauga (2006) "Reducing tariffs versus expanding tariff rate quotas." Agricultural trade reform & the Doha development agenda. Eds Kym Anderson and Will Martin. The World Bank: Washington DC.; Sébastien Jean, David Laborde, and Will Martin (2006) "Consequences of Alternative Formulas for Agricultural Tariff Cuts." Agricultural trade reform & the Doha development agenda. Eds Kym Anderson and Will Martin. The World Bank: Washington DC;*

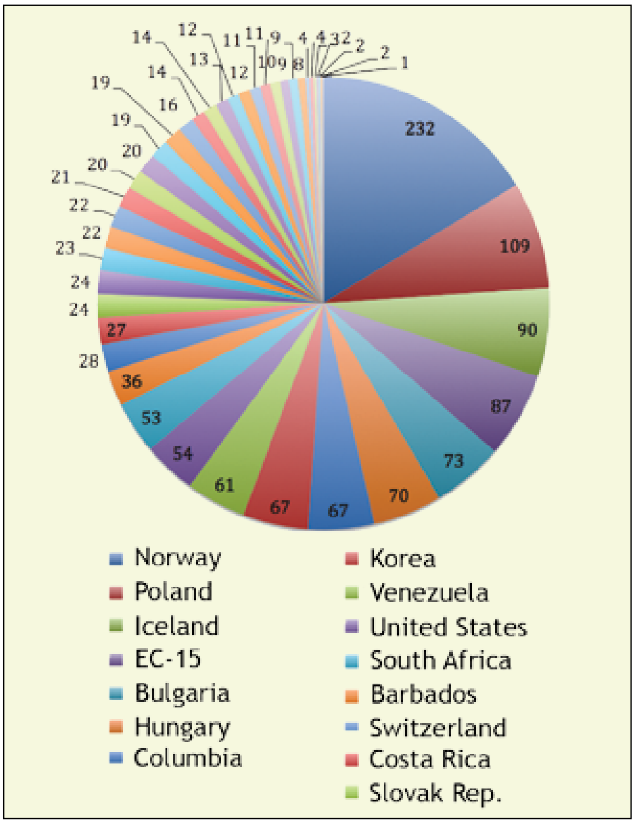
[15] *"Hitch On Sensitive Ag Products Delaying Rest Of Doha Talks." Bridges Weekly Trade News Digest. Vol 12:11. 2nd April 2008. http://ictsd.net/i/news/bridgesweekly/11063/ 16 "WTO Agriculture Week Sees G-10 Proposals, But Little Progress." Bridges Weekly Trade News Digest. Vol 10:3 1 Feb 2006. http://ictsd.net/i/news/bridgesweekly/6255/*

[17] *"Doha Round Suspended Indefinitely After G-6 Talks Collapse." Bridges Weekly Trade News Digest. Vol 10:27 26th July 2006. http://ictsd.net/i/news/bridgesweekly/6354/*

[18] *World Trade Organization (WTO). 6 December 2008. Revised Draft Modalities for Agriculture Sensitive Products: Designation. TN/AG/W/5, Geneva.*

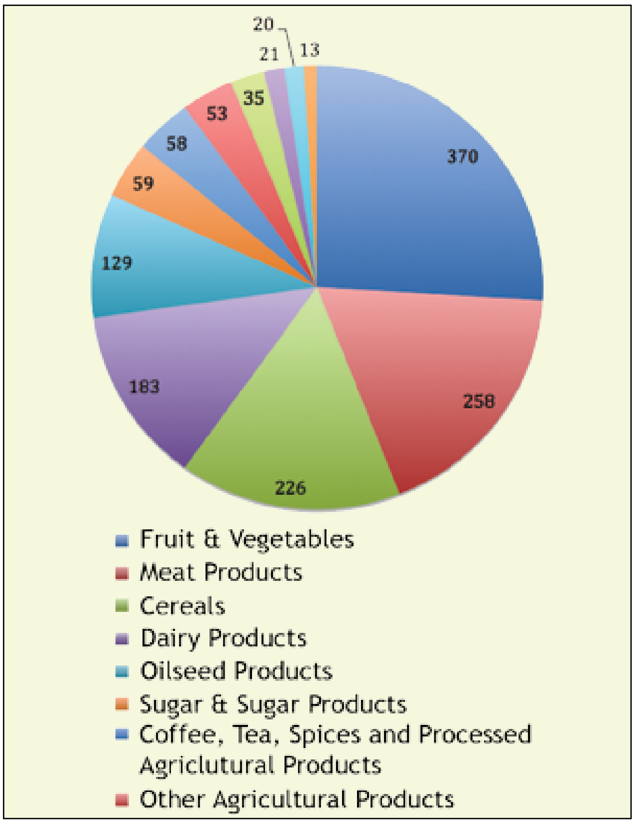
[19] *De Gorter, Harry and Erika Kliauga (2006) "Reducing tariffs versus expanding tariff rate quotas." Agricultural trade reform & the Doha development agenda. Eds Kym Anderson and Will Martin. The World Bank: Washington DC.*

Figure 1: Number of Tariff-rate Quotas



Source: World Trade Organization (WTO). 2002. Tariff and other quotas, TN/AG/S/8. Geneva.

Figure 2: Distribution of Tariff-rate Quotas by Category



Source: World Trade Organization (WTO). 2002. Tariff and other quotas, TN/AG/S/8. Geneva.

hurdles to developing country exporters.[20] They are concentrated in a few countries, with Norway, Poland and Iceland leading the pack.[21] These countries' share of the number of tariff-rate quotas notified to the WTO can be seen in Figure 1. Concentration of tariff-rate quotas, generally, is around four product groups: fruit and vegetables, meat, cereals, and dairy, detailed in Figure 2. Tariff peaks are also concentrated in these areas.

Fruit and vegetables, at 13 percent of global agricultural exports in 2006, are a significant component of international agricultural exports, especially for LDC exports, as demonstrated in Figures 3 and 4. Preferential trade, or special treatment granted to countries with which an importer has historically traded, is the most likely explanation for the importance of fruits and vegetables in LDC exports. Many former colonies receive preferential treatment through low tariffs on goods of historical export interest. Bananas and sugar are some of the most important and controversial such products. Tariff-rate quotas may actually bolster LDC exporters by reinforcing the disparity between a low preferential rate and a higher rate for other WTO Members.[22] Of the highest tariffs observed, in the countries under consideration, many are out of quota tariffs associated with tariff-rate quotas.

Under the current sensitive products provision, many tariff-rate quotas will remain; some new ones may be created, and will generally continue to be a constraint on market access. The issue of tariff-rate quotas has been particularly controversial because it may allow countries to shield new products from imports, violating in some ways the principle of improved market access in the Doha Round. Additionally, innovative tariff-rate quota mechanisms, such as partial designation, or the ability to select a tariff line at greater degree of specificity than the HS 6-digit level, will allow importers to stretch their sensitive product entitlement further limiting market access gains.

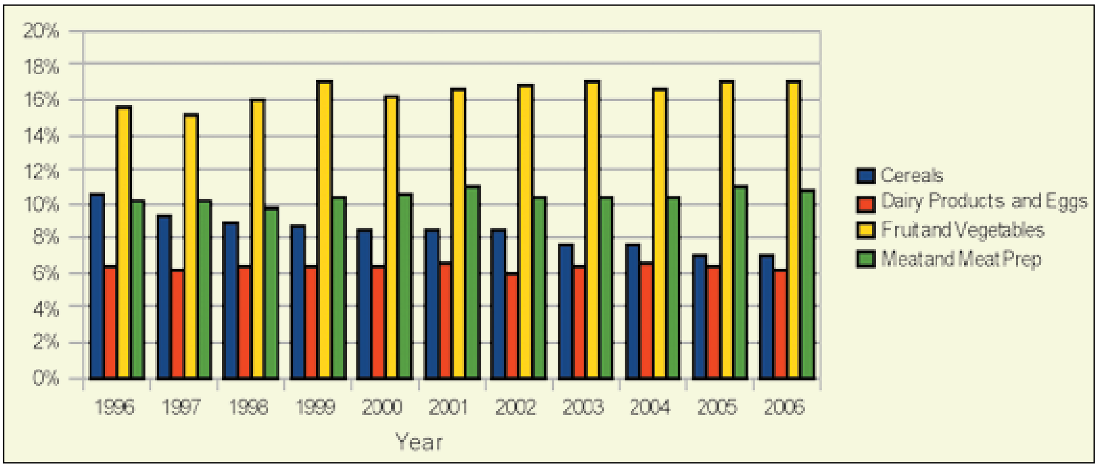
Analysis of tariff-rate quotas has been provided in a variety of studies examining the many possible variations

[20] *Khorana, Sangeeta, (2008). "The Developmental Relevance of Tariff Rate Quotas as a Market Access Instrument: An Analysis of Swiss Agricultural Imports," Estey Centre Journal of International Law and Trade Policy, Estey Centre for Law and Economics in International Trade, vol. 9(2).*

[21] *World Trade Organization (WTO). 2002. Tariff and other quotas, TN/AG/S/8. Geneva.*

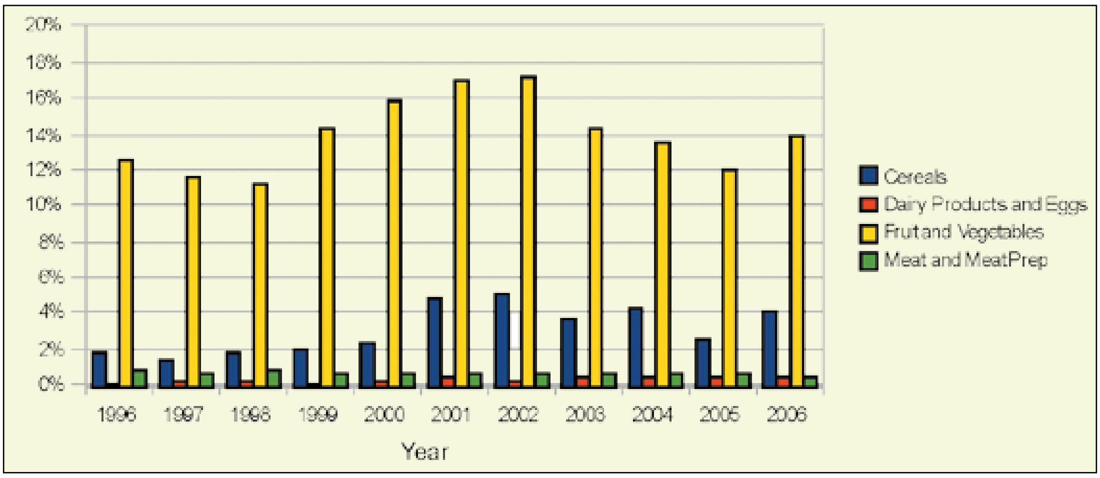
[22] *Antoine Bouet, Lionel Fontagné, and Sébastien Jean (2006). "Is Erosion of Tariff Preferences a Serious Concern?" Agricultural trade reform & the Doha development agenda. Eds Kym Anderson and Will Martin. The World Bank: Washington DC.*

Figure 3: World Agricultural Exports



Source: World Trade Organization (WTO). 2002. Tariff and other quotas, TN/AG/S/8. Geneva.

Figure 4: Least Developed Country Agricultural Exports



Source: World Trade Organization (WTO). 2002. Tariff and other quotas, TN/AG/S/8. Geneva.

on the expansion of quotas and a reduction in tariffs. As evidenced by the most recent Draft Modalities, such studies have failed to dissuade trade policy makers from negotiating for their continuation. Analysis in this area, based on the most recent draft modalities text, though welcome, is beyond the scope of this paper.

Tariff Peaks Overview

Tariff peaks are frequently defined as a tariff above 20 percent or its ad valorem equivalent in studies by institutions such as the World Bank and the OECD.[23] However, because of the proposed tariff cap, this paper will treat tariffs above 100 percent as a problematic peak. The average tariffs and the products protected, for the countries under consideration, vary greatly. With some reaching into the thousands of percentage points, the highest tariffs protect rice in Japan, livestock in Switzerland, foliage in Iceland, and flour products in Norway. EU and US tariffs, although lower on average, apply to markets that dwarf the much smaller markets mentioned above.

In both character and frequency, the US has the lowest tariff peaks of the countries examined, as demonstrated in Figure [insert number]. The peaks themselves do not reach the heights of tariffs in some other countries. However, the products for which the US highest tariff peaks are applicable - sugar, tobacco, and groundnuts- are goods of significant export interest to developing countries. The EU, on the other hand, has some peaks that rival those of Japan, a country whose farmers rely primarily on tariffs to remain viable.[24] This is worth noting because the EU uses both high subsidies and high tariffs to protect its agriculture sector.[25]

[23] *Organization of Economic Cooperation and Development (OECD) Glossary of Statistical Terms cites 15 percent as the definition of tariff peak. (available at http://stats.oecd.org/glossary/index.htm)*

[24] *Yamashita, K (2008). Implications for Japan of the July 2008 Draft Agricultural Modalities. International Centre for Trade and Sustainable Development. Geneva, Switzerland.*

[25] *Jean, S, Josling, T, and Laborde, D (2008). Implications for the European Union of the May 2008 Draft Agricultural Modalities. International Centre for Trade and Sustainable Development, Geneva, Switzerland.*

Iceland, Japan, Norway and Switzerland have similar agricultural trade policy objectives - they want to encourage agriculture in their countries even though international prices present an obstacle. Among tariffs higher than the 100 percent cap, meat, vegetables, and dairy products appear the most frequently. Nonetheless, there is significant variance between countries. Norway, for example, in comparison to its peers, has chosen to protect a large number of tariff lines in the oilseeds category. Moreover, since Iceland, Norway and Switzerland have a large number of tariff lines in excess of 100 percent, they are able to protect a broad range of products in a variety of areas. In contrast, the US and EU only have 11 and 27 tariff lines in excess of 100 percent, respectively. Coupled with lower tariffs, this means that protection is more specific and not distributed across an array of goods. For example, Switzerland's tariff lines that exceed the tariff cap are spread across 16 HS chapters while the US has similar tariff lines in only 5 HS chapters.

Tariff Peaks at the Country Level

Attachment A of the December 2008 modalities text offers a list of possible sensitive products in 430 tariff lines, which would mean that 65 percent of all agricultural tariff lines would be eligible to be designated as sensitive. Iceland, Japan, Norway and Switzerland will be allowed to protect products outside their sensitive product list through possible tariff-rate quota creation and the exception afforded to them on the tariff cap. This in effect makes any agricultural tariff line eligible for sensitive treatment for these countries.

Iceland, Norway and Switzerland will likely have a 6 percent sensitive product entitlement, or 41 tariff lines out of approximately 690 agricultural tariff lines. Japan is seeking to ensure that 8 percent of products, or 55 tariff lines can be designated as sensitive. Only 1 to 2 percent of products, or 7 to 14 of all tariff lines will be eligible to exceed the 100 percent cap in addition to the sensitive product entitlement for Iceland, Japan, Norway and Switzerland. This detail is summarized in Table number 3.

Iceland

With more than 430 tariff lines in excess of 20 percent, and 215 tariff lines in excess of 100 percent, Iceland's agricultural market is amongst the most difficult to penetrate in the world. The average of its 55 highest tariff lines, among the ones that may be afforded exceptional treatment from average cuts, is 643 percent. Within these lines, dairy and meat are the most commonly protected areas.

Iceland's agricultural import bill is approximately US$300 million.[26] However, the 55 highest tariff lines of protected goods compose nearly 5 percent of this total. Although the domestic agricultural market is relatively small, the country's reliance on imports presents a significant opportunity for exporters that can develop

[26] *FAO Statistical Year Book available at http://faostat.fao.org/*

Christmas Trees in Costa Rica

Iceland's tariff peak on Christmas trees, HS060491, noted in specific terms, is nearly 5000 percent when converted to its ad valorem equivalent.[27] Importing 85 percent of its Christmas trees, Iceland represents a lucrative market for these exports. Costa Rica, a developing country, has been amongst the largest exporters of Christmas trees in the world and the only one to penetrate the Icelandic market. If applied, Iceland's bound tariffs allow it to constrain market access almost entirely to such exporters. This case typifies the problems of tariff peaks – tariffs so high that they can close off a market to a product of export interest to a developing country.

Currently, the majority of Iceland's Christmas trees come from the EU due to a free trade agreement. However for the last 10 years, imports have faced an applied MFN tariff of 30 percent that is renewed annually by the Icelandic Ministry of Fisheries and Agriculture. Although the applied tariff is low in comparison to the bound tariff, the government justifies the need for such a high bound tariff through the need for infant industry protection. Since the 1950s, the government has embarked on policy for reforestation and views the commercial aspect as an important element of its strategy.[28] In Iceland's view, high tariffs are needed to give the Christmas tree industry a chance to grow. However, for the last decade, only the ad valorem tariff of 30 percent has been applied.

The Icelandic Christmas tree market is not, at the moment, a crucial one for livelihoods in Costa Rica. However, when tariff peaks prevent developing country exports from entering, it limits an exporter's ability to explore new markets and the development of additional sources of livelihoods and export revenues. In this case, the EU has free access to a valuable market while a developing country that is a leading exporter in this area does not. Moreover, if countries keep prohibitively high barriers on a given product it is unlikely that exporters will invest the time and effort to examine their relative comparative advantage in the product or explore the market of interest. For example, a potentially efficient Christmas tree producer in a developing country may not examine the feasibility of growing Christmas trees if they know that exporting the good to Iceland will be difficult due to an extremely high tariff. Tariffs that prevent the development of non-traditional exports and the exploration of new markets doubly penalize developing countries. Firstly, by preventing the good from entering the market and then by constraining the exploration of additional products of potential export interest.

Table 3: Leading Potentially Sensitive Product Imports

HS Code	Description	Trade Value	Developing Country Partners	Bound Tariff
020230	Bovine cuts boneless, frozen	$3,269,181	None	556.77%
070519	Lettuce, fresh or chilled except cabbage lettuce	$1,861,558	Turkey, Morocco	442.24%
070610	Carrots and turnips, fresh or chilled	$1,614,691	None	563.41%
070190	Potatoes, fresh or chilled except seed	$1,609,075	None	439.02%
040630	Cheese processed, not grated or powdered	$1,077,014	None	495.11%
070490	Edible brassicasnes, fresh or chilled	$1,066,012	Brazil, South Africa, Viet Nam, Uganda	444.97%
	All other possible sensitive tariff lines	$4,432,983		

Source: UN Comtrade Database (2006) and MAcMAP Database (2004)

a trading relationship with the country. Due to high tariffs, the domestic prices of many agricultural goods are much higher than international prices.

Iceland has some exceptionally high tariffs, as demonstrated in Figure 5. The tariffs on foliage and branches- Christmas trees at the HS 8 digit level -and unrooted cuttings are nearly 5000 percent, presenting a challenge for any exporter.[29] Iceland's 5000 percent tariffs on Christmas trees and foliage could remain unchanged after a Doha deal, even though they are not on the list of products eligible for sensitive treatment. This is because it will be allowed to keep 1 to 2 percent of its tariff lines in excess of 100 percent in addition to its sensitive product allocation. Iceland's actual applied tariffs are far

[27] *This ad valorem equivalent figure is taken from the MAcMaps 2004 database on tariffs and their ad valorem equivalents. An alternative calculation in the WTO CTS/IDB database is approximately 300 percent. However, access to the WTO CTS/IDB database is limited to WTO Members and select intergovernmental organizations.*

[28] *This was communicated to the author by the Ministry of Foreign Affairs.*

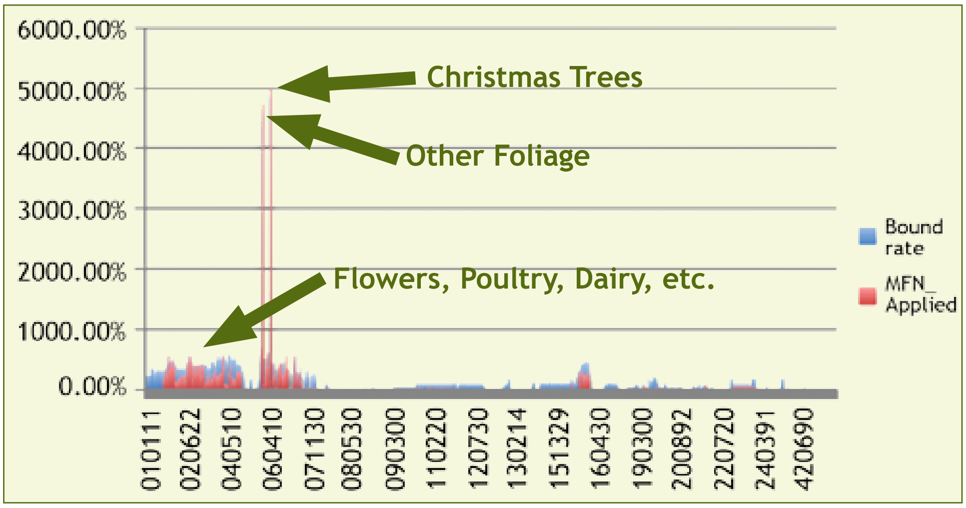
[29] *In the WTO-CTS database the ad valorem equivalent tariff is closer to 300 percent. However, for consistency within this note MacMaps 2004 data has been used. More information on MAcMaps is available at http://www.cepii.org/anglaisgraph/bdd/macmap.htm*

Table 4: Leading Partners on Potential Sensitive Products

Partner Title	Trade Value
Netherlands	$3,765,201
Denmark	$2,286,163
USA	$1,654,380
New Zealand	$1,621,185
France	$1,402,977
Other Partners	$4,200,608

Source: UN Comtrade Database (2006)

Figure 5: Ad Valeorem Equivalent Tariffs



Source: MAcMAP Database (2004)

lower than its bound tariffs. However, for the highest tariffs, as demonstrated in Figure 5, the bound and applied rates are similar.

Iceland imports its highest tariff products largely from developed countries, even though developing countries, such as China, are leading exporters of some of its imports. Developing country agricultural exporters are poorly represented in the import flows of its highest protected products, comprising only 2 percent of imports of the goods with the highest tariffs. This can be explained through historical trade relationships, re-exports from developed countries, and a trade agreement with the EU.

Norway

Norway, with 307 tariff lines above 100 percent, has raised significant barriers to nearly half of its agricultural tariff lines from trade. It also has more tariff-rate quotas than any other country in the world.[30] Although it has only one tariff line at 5000 percent, it trades almost exclusively with developed countries, largely EU based, for its most sensitive products. Additionally, the 5000 percent tariff on flour meal is not present in the list of products eligible to be sensitive in Attachment A of the December 2008 draft modalities. Norway will be able to cover such products under the 1 to 2 percent exception to the tariff cap. Though Norway's distribution of highly protected goods focuses on dairy, meat, and vegetables the sheer number of high tariff lines allows it to protect certain areas, such as oilseeds, that few other countries do.

The average tariff for goods that might be exempted from the tariff cap is nearly 300 percent. Although lower than Iceland's average tariff, the trade value of the goods covered is far greater.

Brazilian exporters of protein and textured protein substitutes, often derived from soy, are the single largest high tariff import in Norway. This, however,

Table 5: Leading Potentially Sensitive Product Imports

Code	Description	Trade Value	Developing Country Partners	Bound tariff
210610	Protein concs. & textured protein subs.	$19,053,686	Brazil, Sri Lanka	545%
200819	Nuts (excl. ground-nuts), incl. mixts., prepd./presvd., whether or not cont ...	$13,420,286	Argentina, Sri Lanka, China, Indonesia, Iran, Jamaica, Lebanon, Malaysia, Mexico, Philippines, India, Viet Nam, Spain, Syria, Thailand, Turkey	386%
350510	Dextrins & oth. modified starches	$11,572,324	None	495%
180620	Chocolate & oth. food preps. cont. cocoa (excl. of 1803.10-1806.10), in blo ...	$10,869,981	None	474%
	Other potentially sensitive products	$17,547,990		

Source: UN Comtrade Database (2006) and MAcMAP Database (2004)

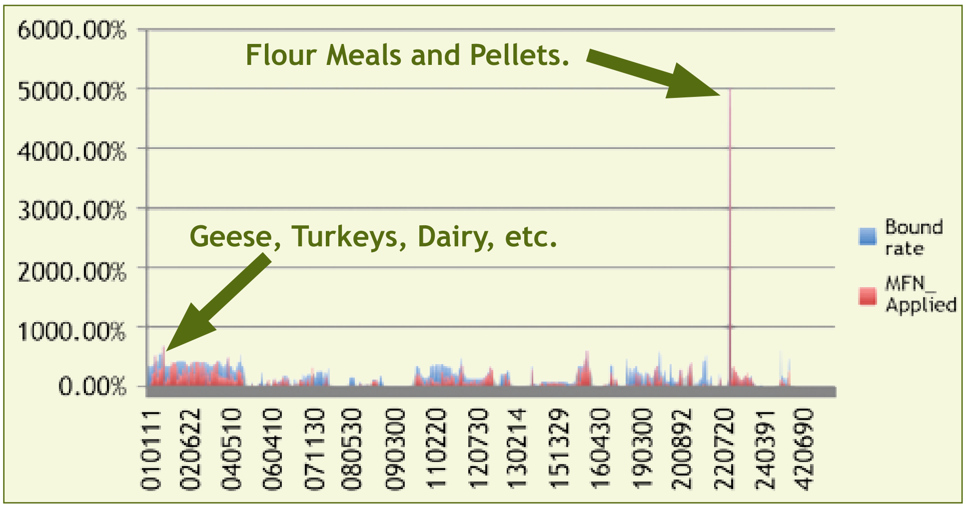
[30] *World Trade Organization (WTO). 2002. Tariff and other quotas, TN/AG/S/8. Geneva.*

Table 6: Leading Partners on Potential Sensitive Products

Partner Title	Trade Value
Brazil	$16,498,270
Sweden	$12,873,198
Denmark	$9,815,770
Netherlands	$7,382,321
Germany	$6,988,896
Other Partners	$29,828,234

Source: UN Comtrade Database (2006)

Figure 6: Ad Valeorem Equivalent Tariffs



Source: MAcMAP Database (2004)

Table 7: Leading Imports from Brazil of Potentially Sensitive Products

Code	Description	Trade Value
210610	Protein concs. & textured protein subs.	$16,160,396
200990	Mixtures of juices, unfermented & not cont. added spirit, whether or not co ...	$188,806
160250	Prepared/presvd. preps. of bovine animals (excl. homogenised preps.), incl. ...	$138,973
020443	Meat of sheep (excl. lamb), frozen, boneless	$10,095

Source: UN Comtrade Database (2006)

is the bulk of its agricultural trade of potentially sensitive products with a developing country. Even fruits and their juices, a strength of developing country exporters, come largely from the EU.

Japan

Japan is unique in possibly being able to protect all of its tariff lines in excess of the 100 percent cap. It is likely to be allowed to designate 8 percent of its products as sensitive - exempting 55 tariffs lines from substantial cuts. It also has a total of 69 tariff lines in excess of 100 percent. It is the only large market with such consistently high tariffs, making even relatively small market access gains very valuable.

At more than US$ 3.46 billon in imports for the 69 tariff lines greater than 100 percent, trade on a few Japanese tariff lines sometimes dwarfs the entire import bill of other G-10 members. Moreover, imports from developing countries compose less than a third of trade on these lines. Least developing countries, are very poorly represented in imports, with only US$ 3.4 million.

Rice, in its many forms, is the single most frequently protected good. The two highest tariffs, on broken rice and rice in the husk, are approximately 1500 and 1400 percent, respectively. However, as in the other highly protected markets, dairy, meat and vegetables face high tariffs. Japan is unusual among the countries examined in this note for the difference in tariffs between its various schemes for developed and developing countries – even though its bound and applied tariffs are nearly identical. Even more noteworthy is the presence of developing country imports on many tariff lines that exceed 100 percent. This can perhaps be explained through the regional nature of trade. Many of Japan's most significant trading partners are developing countries in Asia. For example, nearly all non-durum wheat comes from China. This is nearly $1 million worth of imports. However, efficient developed country exporters such as Australia, provide almost all of Japan's raw cane sugar. Nonetheless, some developing countries such as Colombia, that manage to export as little as US$ 2,000 of raw sugar, may still find such trade profitable.

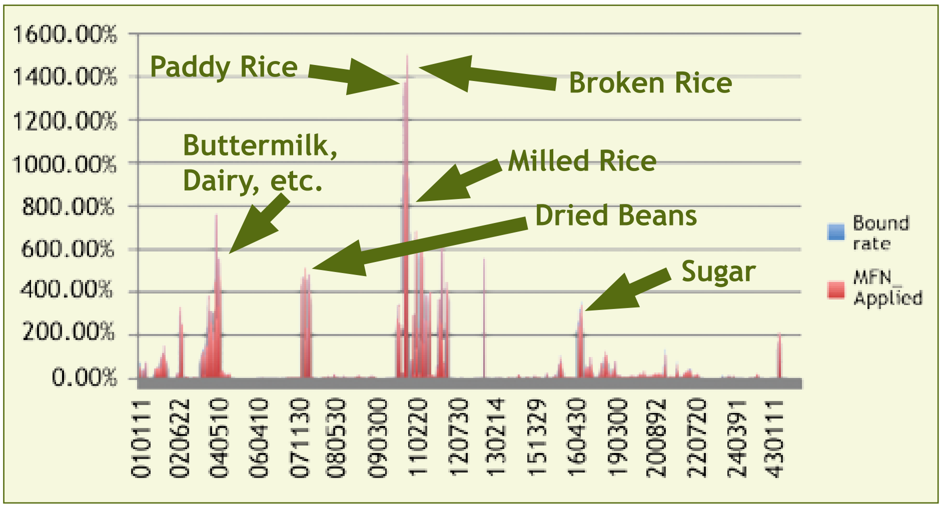
China and Thailand stand out as a source of many of Japan's imports of highly protected goods. Thailand largely exports rice and sugar to Japan, while China exports a broader range of products from ranging from pork to raw silk. High costs of production mean that Japan will continue to rely on imports to meet domestic demand for sugar and rice. However, demographic trends such as an aging

Table 8: Leading Partners on Potential Sensitive Products

Partner Title	Trade Value
USA	$1,116,274,956
Australia	$740,699,647
Canada	$431,287,622
Thailand	$331,329,758
China	$274,486,896
Other partners	$567,968,526

Source: UN Comtrade Database (2006)

Figure 7: Ad Valeorem Equivalent Tariffs



Source: MAcMAP Database (2004)

Table 9: Leading Potentially Sensitive Product Imports

Code	Description	Trade Value	Developing Country partners	Bound tariffs
100190	Wheat other than durum wheat; meslin		China	342.09%
170111	Cane sugar, raw, in solid form, not cont. added flavouring/colouring matter ...	$486,879,788	Bolivia, Brazil, China, Colombia, Costa Rica, Fiji, Indonesia, Paraguay, Philippines, Viet Nam, South Africa, Sri Lanka, Thailand	261.83%
190190	Malt extract; oth. food preps. of flour/groats/meal/starch/malt extract [see ...	$347,948,357	Brazil, Sri Lanka, China, Hong Kong, Indonesia, Malaysia, India, Viet Nam, Thailand	108.72%
100630	Semi-milled/wholly milled rice, whether or not polished/glazed	$262,801,616	China, Pakistan, India, Viet Nam, Thailand	956.45%
100300	Barley	$260,527,812	None	
160242	Shoulders of swine & cuts thereof	$174,486,545	Chile, China, Mexico, Thailand	111.71%
	Other possibly 'sensitive' commodities	$575,601,897,232		

Source: UN Comtrade Database (2006) and MAcMAP Database (2004)

Table 10: Top Imported Commodities from Thailand

Code	Description	Trade Value
170111	Cane sugar, raw, in solid form, not cont. added flavouring/colouring matter ...	$200,834,984
190190	Malt extract; oth. food preps. of flour/groats/meal/starch/malt extract [see ...	$33,921,534
100630	Semi-milled/wholly milled rice, whether or not polished/glazed	$29,203,135
110814	Manioc (cassava) starch	$26,768,487
100640	Broken rice	$17,805,984
170310	Cane molasses	$15,119,235
	Other potentially sensitive commodities	$7,676,399

Source: UN Comtrade Database (2006)

Table 11: Top Imported Commodities from China

Code	Description	Trade Value
190190	Malt extract; oth. food preps. of flour/groats/meal/starch/malt extract	$52,708,124
100630	Semi-milled/wholly milled rice, whether or not polished/glazed	$51,618,420
500200	Raw silk (not thrown)	$31,426,963
120220	Ground-nuts, not roasted/othw. cooked, shelled, whether or not broken	$30,229,338
160242	Shoulders of swine & cuts thereof	$25,980,764
121299	Vegetable prods., incl. sugar cane & unroasted chicory roots (Chicorium int	$15,144,799
	Other potentially sensitive commodities	$67,378,488

Source: UN Comtrade Database (2006)

population might not offer the growth potential of other emerging markets. However, countries such as China and Thailand that have established trading relationships with Japan may benefit from any expansion of quotas or reduction in tariffs, especially on the products with the greatest amount of protection. However, for others countries, such as Uruguay, the Japanese rice market remains largely untapped.

Exporters are unlikely to get additional market access opening on goods that have a strong history of protection, such as rice. The expansion of quotas on some lines or reduction in tariffs will nonetheless provide opportunities for some countries. However, a complex set of Japanese preferences for developing countries make it difficult to have a clear and immediate assessment of what the gains or losses might be. It is clear though that the actual cuts that the highest Japanese agricultural tariffs will face are minimal. Given such a scenario, developing country negotiators seeking market access gains may seek greater payment in exchange for the special treatment afforded to tariff peaks.

Switzerland

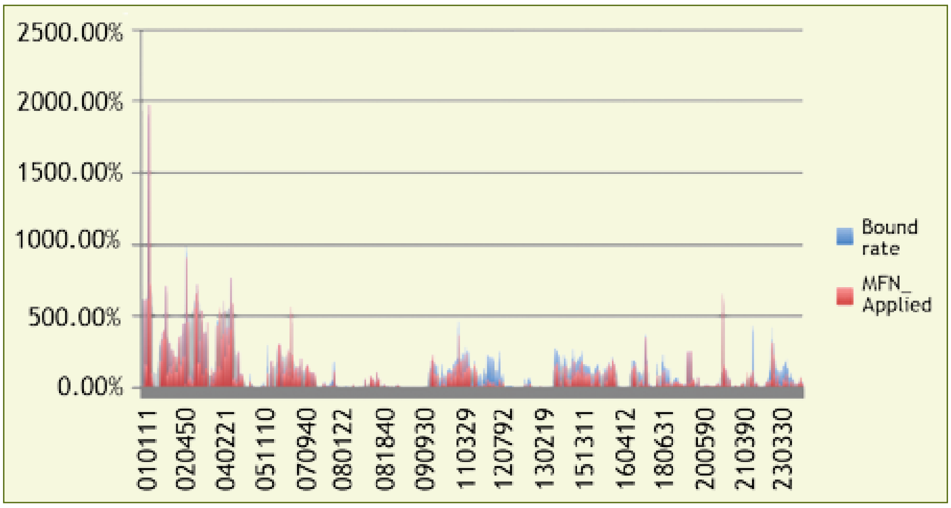
With a population of 7.5 million, Switzerland is a large market in comparison to Norway and Iceland. Its 55 highest tariff lines are valued at US$160 million in trade, while figures for the other similar countries examined hover around the tens of millions. The pattern of protection of Swiss agriculture for tariff lines in excess of 100 percent in duties is similar to other such countries - dairy, meat, and fruits and vegetables are heavily protected, with significant protection for animal and vegetable fats as well as wheat gluten. As noted earlier, there is a wide dispersal of coverage for Swiss tariff peaks - its trade policy therefore is may be intended to protect agriculture as broadly as possible, rather than a few specific niches.

Table 12: Leading Partners on Potential Sensitive Products

Country	Trade Value
Brazil	$91,477,469
Germany	$49,726,345
France	$46,726,748
Netherlands	$36,861,132
USA	$28,891,156
Other partners	$128,144,258

Source: UN Comtrade Database (2006)

Figure 8: Ad Valeorem Equivalent Tariffs



Source: MAcMAP Database (2004)

Table 13: Leading Potentially Sensitive Product Imports

Code	Description	Trade Value	Developing Country Partner	Bound Tariff
020130	Meat of bovine animals, fresh/chilled, boneless	$59,237,571	Uruguay, South Africa, Namibia	389.16%
020714	Cuts & edible offal of species Gallus domesticus, frozen	$42,681,182	Argentina, Brazil, Chile, Haiti, Samoa	728.05%
020500	Meat of horses/asses/mules/ hinnies, fresh/chilled/frozen	$36,352,484	Uruguay, Mexico, Brazil, Argentina	448.74%
020713	Cuts & edible offal of species Gallus domesticus, fresh/ chilled	$30,368,801	Brazil, Afghanistan	657.41%
070190	Potatoes other than seed potatoes, fresh/chilled	$27,863,450	Malta, Morocco, Tunisia	306.71%
020230	Meat of bovine animals, fro-zen, boneless	$24,477,011	None	714.71%
	Other potentially sensitive products	$160,846,609		

Source: UN Comtrade Database (2006) and MAcMAP Database (2004)

Table 14: Leading Imports from Brazil of Potentially Sensitive Products

Code	Description	Trade Value
020130	Meat of bovine animals, fresh/chilled, boneless	$35,531,294
020714	Cuts & edible offal of species Gallus domesticus, frozen	$26,003,381
020230	Meat of bovine animals, frozen, boneless	$23,746,384
020727	Cuts & edible offal of turkey, frozen	$6,165,058
020713	Cuts & edible offal of species Gallus domesticus, fresh/chilled	$22,569
020500	Meat of horses/asses/mules/hinnies, fresh/chilled/frozen	$7,209
	Other potentially sensitive products	$1,574

Source: UN Comtrade Database (2006)

Unlike the other G-10 members examined in this note, among highly protected products, Switzerland imports a significantly larger proportion of goods from highest tariff lines. This is detailed in the table below. Beef and poultry are often highly protected but rarely figure in the leading imports for the other countries. For Switzerland they do – with Brazilian beef and poultry among the leading imports. Brazilian beef and poultry producers, among other efficient exporters, should have a strong interest in expanding market access on these tariff lines.

Tariff Caps, Part of a Grand Bargain?

The strict discipline that a tariff cap would impose has been diluted by both the complexity of sensitive product negotiations and the reluctance of some WTO Members to concede ground on either side. At stake is the principle of the Doha Round's rules based tariff cuts, with deference to developing country needs, and the achievement of a lasting trade agreement. Policies that restrict or prevent trade from taking place are likely to hurt WTO Members in the long run but lack of an agreement in the near term will do the same. The current draft modalities text on agriculture allow for a degree of liberalization in many products. However, sensitive products, in conjunction with a tariff cap that, in principle, permits 5000 percent tariffs, is likely to significantly alter the ambition of the round and stifle some aspects of developing country gains.

An important argument that G-10 members emphasized in their previous proposals was that their agricultural imports were far greater than their populations would otherwise suggest, and that any Doha agreement should address this reality by allowing them special flexibilities.[29] This is certainly an important point to make. However, given the size of the Japanese market, 10 percent significantly deviating from tariff cuts could affect market access gains for developing countries. Moreover, highly technical aspects of the draft modalities text, such as partial designation, would allow WTO Members to stretch their sensitive product allocation even further.

Some negotiators have emphasized the need for the principle of a tariff cap to be introduced into the Doha Round and for future rounds to press the idea further. A less effective tariff cap may also be part of concessions made in other areas of talks, such as Non-Agricultural Market Access. Given the volatility of the tariff cap and its bracketed provisions, WTO Members may attempt to leave it on the table until talks are finalized.

[31] *G-10 Proposal July 2004*

The International Centre for Trade and Sustainable Development (www.ictsd.org) is an independent non-profit and non-governmental organization based in Geneva. Established in 1996, ICTSD's mission is to advance the goal of sustainable development by empowering stakeholders to influence trade policy-making through information, networking, dialogue, well-targeted research and capacity building.

ISSN 1816-6970