DOHA ROUND DISCUSSION PAPER

Special Products Exemption Sharply Reduces Market Access Gains

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SUMMARY

There are many remaining areas of disagreement in the Doha Round trade negotiations. In the months since the Doha Round July mini-ministerial, virtually all of the discussion has centered on the Special Safeguard Mechanism, cotton, and Sectoral Negotiations in the NAMA (non-agricultural market access) negotiations as being among the last remaining hurdles. The Lamy provisions on Special Products have scarcely been mentioned.

Unfortunately, the Special Products provisions threaten to undermine the potential for any meaningful market access for agricultural exports into developing countries. The Special Products exemptions alone will allow many of the world's most significant developing countries to avoid formula tariff cuts on 90% of their agricultural trade. Some could shield as much as **98-99%** of their agricultural imports from any meaningful increase in market access.

BACKGROUND

At the July 2008 Mini-Ministerial, the Director General of the WTO, Pascal Lamy, proposed a compromise "package" intended to form the basis for further compromises and discussions with respect to both agricultural and non-agricultural trade negotiations. The tentative agreement among the members to use that package as a basis for discussions broke apart primarily on the issue of developing country demands for a Special Safeguard Mechanism that would, in certain situations, authorize Members to raise their tariff rates to levels that would be above Uruguay Round bound rates.

However, the treatment of Special Products in the Lamy "Package" may be even more troubling for U.S. agriculture. The Lamy Special Product provisions would allow developing countries to designate 12-13% of their tariff lines as Special Products. Up to 5% of such tariff lines may be exempt from ***any*** tariff cuts and the average tariff cut on Special Products would be 10-11%. Because the bulk of agricultural trade to developing countries is concentrated in a few tariff lines, providing Special Product exemptions on even a small percentage of tariff lines will impact a very large portion of the actual agricultural trade that occurs.

Approximately 90% of Agricultural Trade to Developing Countries Covered by Special Product Exemptions

This analysis, applied at the HTS-6 digit level, indicates that approximately 90% of agricultural imports into developing countries (by value) are concentrated in only 10% of tariff lines. A Special Products exemption of 12% will exempt about 90% of existing agricultural trade into developing countries from the formula tariff cuts that are the foundation of the Falconer negotiating text. A 5% exemption from ***any*** tariff cuts would cover between 80-85% of their agricultural imports. As a result, the Special Product exemption may effectively deprive most U.S. agricultural export interests of any material gain in market access to developing country markets. The following table highlights the concentration of agricultural imports in a small number of tariff lines.

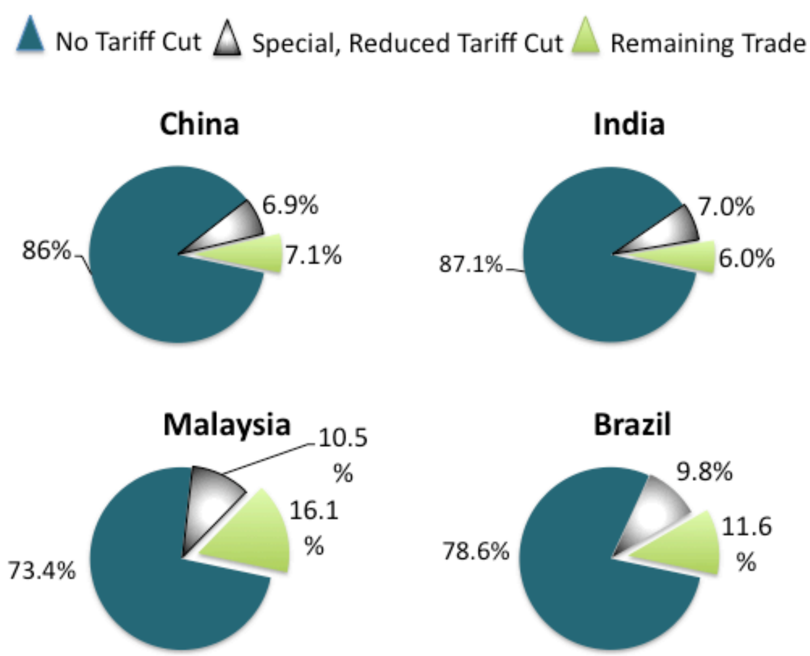
Concentration of Agricultural Imports in Key Developing Countries

	Imports in WTO Ag Categories*	% Imports (value) in top 5% HTS lines**	% Imports (value) in top 10% HTS lines**	% Imports (value) in top 20% HTS lines**
China	$36,922,638,781	86.1%	92.9%	95.7%
Indonesia	$8,650,639,924	86.9%	93.6%	96.5%
Malaysia	$8,057,934,537	73.4%	83.9%	89.5%
India	$6,826,655,368	87.1%	94.0%	96.4%
Brazil	$5,419,306,693	78.6%	88.4%	93.1%

*Source: Global Trade Atlas
**Imports ranked based on value of imports at the 6-digit HTS level

The attached table lists the top ten import articles for the listed countries. The Special Products exemption would clearly impact significant U.S. export interests such as soybeans, cotton, wheat and vegetable oils. The breadth of the exemption, however, insures that developing countries will have sufficient flexibility to designate other important products as Special Products.

As the following charts indicate, the Lamy Special Products provisions would ensure that developing countries, in general, would be responsible for applying formula tariff cuts on ***10-15% or less***, by value, of their current agricultural imports. The Lamy Package would allow China, for example, to exempt 86% of its current agricultural imports (by value) from any tariff cut and only 7.1% could be subject to formula cuts.



From this vantage point, it appears the US is giving up ***$34 billion*** or more in allowable domestic support while getting virtually no market access increase in developing countries in return. The market access picture is even bleaker if the disparity in bound and applied tariff rates is considered.

Bound vs. Applied Tariff Impacts

In most developing countries, there is a significant gap between bound and applied tariff rates. As a result, the cuts in bound rates called for in the Lamy "Package" would actually affect only a small percentage of applied tariff rates. For those tariff lines that would potentially be affected by the formula tariff cuts proposed in the Falconer Text, a developing country could declare many, if not all of them, to be Special Products and negate the potential for increased market access. Without reductions in actual applied tariff rates, there is no real increase in market access.

Example: India

India, for example, would be able to avoid any significant increase in agricultural market access under the current texts. The Global Trade Atlas reports trade data for approximately 700 6-digit tariff lines for India covered by the Agreement on Agriculture. In 2007, imports under those lines totalled $6.83 billion. The WTO website maintains spreadsheets with bound and applied tariffs at the 6-digit tariff level. Data from both sources allows an evaluation of the impacts of the Lamy "Package."

Since India is not a Recently Acceded Member (RAM) of the WTO, they are allowed to designate 12% of tariff lines as Special Products with an average reduction in tariffs of 11%. Within the 12%, 5% of tariff lines are allowed to receive no reduction in tariff. As a result, the remaining 7% would need an average reduction of 19% in order to average 11% across the full category of Special Products.

When applying the formula cuts to the 6-digit lines, 89 tariff lines would be affected. This is 12.7% of the 700 tariff lines reported for India in the Global Trade Atlas. It should be noted that there is no *ad valorem* bound tariff reported for 77 6-digit tariff lines. However, those 77 lines account for only 1.1% of total imports. Because they have no bound *ad valorem* tariff rate, it is not possible to factor them completely into this analysis.

The 89 affected tariff lines have an import value of $1.79 billion, representing 26.3% of total imports in 2007. The average reduction in applied tariff rates across the 89 lines would be 15.3 percentage points, with a high of 58.3 percentage points and a low of 2.1 percentage points. This reflects the application of the formula cuts scaled to meet a maximum average cut of 36% in bound tariff rates.

The Lamy "Package" allows 12% (or 84 of the approximately 700 total lines) to be designated as Special Products. If India designated the top 35 tariff lines (based on import value) from the 89 affected tariff lines as Special Products exempt from formula tariff cuts, then the bound tariffs in the remaining 49 lines must be reduced by approximately 19% in order to achieve the 11% average cut required for Special Products.

Applying the 19% reduction to the 49 lines results in just 26 lines for which the new reduced bound rate falls below the current applied rate. Those 26 lines (plus the 5 lines that could not be designated as Special Products) account for just $6.5 million in imports in 2007, or 0.1% of total imports. Or put another way, India, through careful designation of Special Products, can shield 98-99% of its agricultural imports from any actual increase in market access. Again, this analysis does not include the impact of any exemptions claimed for Sensitive Products.

Percent of Agricultural Trade into India Affected by Market Access Provisions	
% of Trade* Affected by Formula Reduction in Bound Tariff Rates Actually Reducing Applied Tariff Rates	**26.3%**
Special Products Designations (12% of Tariff Lines)	
5% tariff lines exempt from any reduction	**26.1%**
Portion of remaining Special Product lines with applied tariff rate below new bound rate after 19% reduction applied to bound rate**	0.1%
% of Trade With Reduction in Applied Tariff Rates *After* Application of Special Products Exemptions	**0.1**%

* Based on 2007 import values
**19% reduction is required to achieve overall 11% reduction on Special Products

To be fair, the Falconer text does contain more liberalization for developed country agricultural markets, but developing countries are the real growth markets for agriculture. According to data from the WTO "International Trade Statistics 2007," developing country markets show the largest growth in imports, with average annual growth rates since 2000 for developing and developed markets at 12% and 7%, respectively. The Special Products exemption will effectively prevent much of U.S. agriculture from benefiting from this growth.

Failure of the Falconer Formula

The Falconer draft text and the formula approach to tariff cuts and subsidy cuts contained in it have veered in a direction that seemingly cannot return substantive gains to U.S. agriculture and will hamper export growth in many smaller developing countries as well. Increasingly, the Falconer text has evolved from one that focused on formula cuts to tariffs and domestic support to one that is focused on exceptions. At this point, the general formulas do little to define the impact of the agreement. As the exceptions grow and further outweigh the rule, one must begin to question the validity of the rule.

In addition to the incredible breadth of the Special Products exemption discussed above, the ability of Members to take advantage of other exemptions, including a Sensitive Products designation further undermines any positive impact of the formula tariff approach.

The safeguard mechanism contemplated in the Lamy text is not just a problem for US agriculture. The special safeguard could also harm other developing countries and their ability to export to the major developing countries. Given that India and China were the most vociferous in support of SSM, it is reasonable to assume while an SSM might be directed against major exporters, it would also catch smaller developing countries. This would subvert the purposes of the Doha Development Agenda and sharpen the divide between advanced developing countries and smaller less developed ones.

Clearly, the WTO Secretariat is determined to steer the current negotiating text, with the Lamy package, to port before the end of the year. As the potential for a year-ending ministerial meeting increases, so are the calls for more concessions from the United States -- concessions that would be offered by a lame-duck Administration.

Top Ten Imports by Value at the HTS 6-Digit Level

China	HTS 6-Digit	Description	Imports
1	120100	Soya beans, whether or not broken	$11,465,029,671
2	520100	Cotton, neither carded nor combed	$3,478,637,957
3	151190	Palm oil and its fractions, whether or not refined (excl. chemically modified and crude)	$3,371,784,817
4	150710	Crude soya-bean oil, whether or not degummed	$2,127,350,755
5	510111	Greasy shorn wool, incl. fleece-washed wool, neither carded nor combed	$1,645,443,200
6	410150	Whole raw hides and skins of bovine "incl. buffalo" or equine animals, whether or not dehaired or split, of a weight per skin > 16 kg,	$1,216,333,940
7	230120	Flours, meals and pellets of fish or crustaceans, molluscs or other aquatic invertebrates, unfit for human consumption	$1,012,715,243
8	020714	Frozen cuts and edible offal of fowls of the species Gallus domesticus	$916,334,855
9	071410	Fresh, chilled, frozen or dried roots and tubers of manioc "cassava", whether or not sliced or in the form of pellets	$660,019,965
10	220820	Spirits obtained by distilling grape wine or grape marc	$358,691,746
		Total of Top 10	**$26,252,342,149**
Indonesia	**HTS 6-Digit**	**Description**	**Imports**
1	100190	Wheat and meslin (excl. durum wheat)	$1,160,477,637
2	520100	Cotton, neither carded nor combed	$800,103,286
3	230400	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	$702,129,541
4	170111	Raw cane sugar (excl. added flavouring or colouring)	$630,010,585
5	120100	Soya beans, whether or not broken	$479,428,416
6	170199	Cane or beet sugar and chemically pure sucrose, in solid form (excl. cane and beet sugar containing added flavouring or colouring a	$410,183,777
7	100630	Semi-milled or wholly milled rice, whether or not polished or glazed	$336,618,645
8	040210	Milk and cream in solid forms, of a fat content by weight of <= 1,5%	$316,476,915
9	230990	Preparations of a kind used in animal feeding (excl. dog or cat food put up for retail sale)	$231,862,680
10	010290	Live bovine animals (excl. pure-bred for breeding)	$218,355,133
		Total of Top 10	**$5,285,646,615**
Malaysia	**HTS 6-Digit**	**Description**	**Imports**
1	180100	Cocoa beans, whole or broken, raw or roasted	$786,597,518
2	170111	Raw cane sugar (excl. added flavouring or colouring)	$442,296,223
3	100510	Maize seed	$396,867,999
4	100190	Wheat and meslin (excl. durum wheat)	$367,893,715
5	040210	Milk and cream in solid forms, of a fat content by weight of <= 1,5%	$304,986,281
6	230400	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	$270,081,738
7	151321	Crude palm kernel and babassu oil	$238,097,870
8	100630	Semi-milled or wholly milled rice, whether or not polished or glazed	$233,193,138
9	210690	Food preparations, n.e.s.	$227,121,137
10	120100	Soya beans, whether or not broken	$218,016,921
		Total of Top 10	**$3,485,152,540**
India	**HTS 6-Digit**	**Description**	**Imports**
1	151110	Crude palm oil	$1,340,434,753
2	150710	Crude soya-bean oil, whether or not degummed	$681,496,089
3	071310	Dried, shelled peas "Pisum sativum", whether or not skinned or split	$555,579,092
4	100190	Wheat and meslin (excl. durum wheat)	$384,202,372
5	080131	Fresh or dried cashew nuts, in shell	$368,296,023
6	071331	Dried, shelled beans of species "Vigna mungo [L.] Hepper or Vigna radiata [L.] Wilczek", whether or not skinned or split	$264,805,589
7	520100	Cotton, neither carded nor combed	$188,225,715
8	080211	Fresh or dried almonds in shell	$181,382,162
9	500200	Raw silk "non-thrown"	$180,745,134
10	071390	Dried, shelled leguminous vegetables, whether or not skinned or split (excl. peas, chickpeas, beans, lentils, broad beans and horse	$163,768,085
		Total of Top 10	**$4,308,935,014**
Brazil	**HTS 6-Digit**	**Description**	**Imports**
1	100190	Wheat and meslin (excl. durum wheat)	$1,388,773,468
2	110710	Malt (excl. roasted)	$279,746,525
3	100630	Semi-milled or wholly milled rice, whether or not polished or glazed	$176,158,945
4	110100	Wheat or meslin flour	$175,866,173
5	220421	Wine of fresh grapes, incl. fortified wines, and grape must whose fermentation has been arrested by the addition of alcohol, in conta	$156,310,070
6	180100	Cocoa beans, whole or broken, raw or roasted	$153,030,311
7	230990	Preparations of a kind used in animal feeding (excl. dog or cat food put up for retail sale)	$132,841,115
8	100590	Maize (excl. seed)	$131,932,729
9	520100	Cotton, neither carded nor combed	$123,711,116
10	210690	Food preparations, n.e.s.	$106,859,447
		Total of Top 10	**$2,825,229,899**