

# Implications of the Chair's May 2008 draft modalities for agricultural special products

I C T S D

## 1. Introduction

*Recent research on special products (SPs) has focused mainly on developing acceptable indicators for food security, livelihood security and rural development, which are the agreed criteria for designating SPs. However, equally important is the question of what treatment should be accorded to these products. Central to this discussion is the debate on whether or not special products should be excluded from tariff reductions.*

*The G-33 developing country group maintains that some SPs must be exempt from tariff cuts in order to ensure that the outcome of the negotiations is faithful to the mandate of the Doha Development Agenda. Conversely, countries such as the US, Malaysia and Thailand argue that special products should not be exempt from tariff reductions. These countries propose that flexibilities for special products be limited to smaller tariff cuts and lesser tariff rate quota (TRQ) expansion than would be accorded otherwise.*

## 2. Methodology

To assess the need for market access flexibility, this information note summarizes key findings on the difference between applied and bound duties, or tariff overhang, for 16 'proxy' special products - those most commonly identified as special in the 19 country studies conducted by ICTSD. These are used to examine the effectiveness of the tariff structures for 30 developing country members of the G-33, excluding least-developed countries (LDCs).

The sixteen products that were commonly identified as special were chicken, rice, milk, dairy products, bovine meat, sugar, corn, pork, potatoes, vegetable oils, sheep meat, goat meat, wheat, tomatoes, onions and beans. These products were selected in over 40 percent of country studies conducted on the basis of a methodology elaborated by ICTSD, which assessed the importance of products at national and sub-national level using a set of 'indicators' to determine the importance of products in contributing to food security, livelihood security and rural development objectives. Multi-stakeholder national consultations were held to review and revise local researchers' findings.



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While the 16 proxy special products can provide a useful benchmark in estimating the impact of tariff cuts on tariff overhang, these may not in fact provide a true picture of countries' actual needs. The product lists identified in individual ICTSD country studies were therefore also used to provide a more accurate assessment of the impact of proposed cuts.

In order to assess how special products would be affected by the treatment proposed in the draft modalities text recently circulated by the chair of the agriculture negotiations, Ambassador Crawford Falconer, tariff overhangs for the proxy special products and for the products listed in individual country studies are analysed to assess the potential implications for food security, livelihood security and rural development.

Other factors, such as the ability of current tariff bindings to bridge the gap between domestic and import prices, are also examined. These may also affect developing countries' need to exempt special products from tariff reductions.

### 3. Analysis

#### Bound rates

Except for a few countries, most of the G-33 members analysed were found to have linear tariff structures (uniform tariff bindings for the majority, if not all, of their agricultural commodities). Bound tariff rates for the 16 proxy special products also tend to reflect this broader pattern. Countries can be classified as having high, medium or low average bound tariffs (see Table 1).

The large differences in tariff bindings means that developing countries would be affected differently by different proposals on special product treatment. While minimum tariff cuts may be more acceptable for countries with high tariff rates, they would be much harder to accept for countries whose bound rates are already low.

Table 1 Country grouping by average bound tariff

Grouping	Countries
Low (Up to 40%)	China, Cote d'Ivoire, Cuba, Dominican Republic, Honduras, Mongolia, Peru, Philippines
Medium (41 to 80%)	Indonesia, Nicaragua, Republic of Korea, Sri Lanka, Venezuela
High (80% +)	Antigua and Barbuda, Barbados, Belize, Ghana, Grenada, Guyana, India, Jamaica, Kenya, Mauritius, Nigeria, Pakistan, St. Kitts and Nevis, St. Lucia, Trinidad and Tobago, Turkey, Zimbabwe

#### Applied rates

Many of the countries analysed have low applied tariffs. Twenty-six of the 30 countries have applied tariffs ranging from zero to 40 percent. The number of G-33 members that exhibit greater variance in applied tariffs is greater than those that show variance in bound rates. This indicates that countries actively manage tariff settings given their available tariff bindings.

In most cases countries adopt low applied tariffs even though their bound rates are higher. Arguably therefore, countries set actual tariffs based on domestic sensitivities and not on the level of tariff bindings. Table 2 shows a grouping of countries according to average applied rates.

#### Tariff overhang

The diversity in the tariff structure of G-33 members is clearly reflected in the way that tariff overhangs vary across countries. To understand developing countries' need for market access flexibility, it is important to look at the difference between applied and bound duties for each commodity in each country.

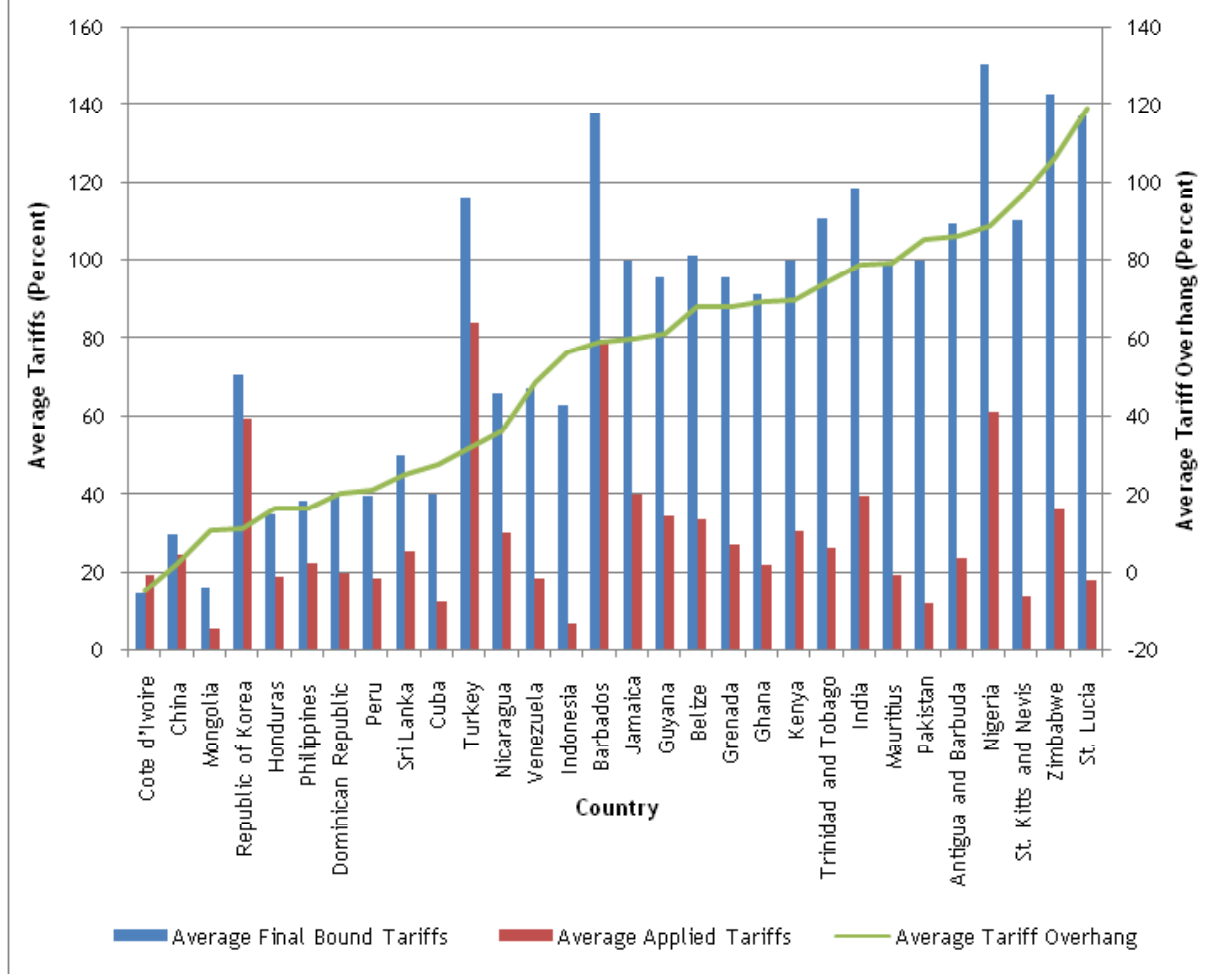
In order to evaluate whether developing countries genuinely need to exempt some special products from tariff reductions, commodity groups with zero overhang were examined. These products have the greatest need for market access flexibility, as they are the ones that will have to undertake effective tariff cuts if special products are not exempt from tariff reductions.

Data show that nine of the 30 countries covered by the study have at least one proxy special product that has zero or negative overhang. The products that most commonly have zero or negative tariff overhangs across these countries are rice, chicken, tomatoes and onions. Flexibilities for special products will be particularly useful for these products.

Table 2 Country grouping by average applied tariff

Grouping	Countries
Low (Up to 40%)	Antigua and Barbuda, Belize, China, Cote d'Ivoire, Cuba, Dominican Republic, Ghana, Grenada, Guyana, Honduras, India, Indonesia, Jamaica, Kenya, Mauritius, Mongolia, Nicaragua, Pakistan, Peru, the Philippines, St. Kitts and Nevis, St. Lucia, Trinidad and Tobago, Sri Lanka, Venezuela, Zimbabwe
Medium (41 to 80%)	Barbados, Nigeria, Republic of Korea
High (80% +)	Turkey

**Figure 1: Average final bound duties, applied tariffs and tariff overhangs for the 16 proxy special products in selected G-33 Countries**



While tariff overhangs are often seen in the abstract, it is important also to consider them in context. For example, an average applied rate that is 50 percent of average bound tariffs will be very different for a country with tariff bindings of 110 percent compared to another with bound duties of 20 percent.

Figure 1 shows the variance in average applied and bound rates and the range of average tariff overhang, which for some countries falls below zero. Some countries therefore have very limited or non-existent room for manoeuvre, and could expect at least some of their products to be severely affected by a reduction in tariffs. A number of others have average tariff overhangs of less than twenty percent, combined often with low average tariff bindings (less than forty percent).

### Special products requiring flexibility

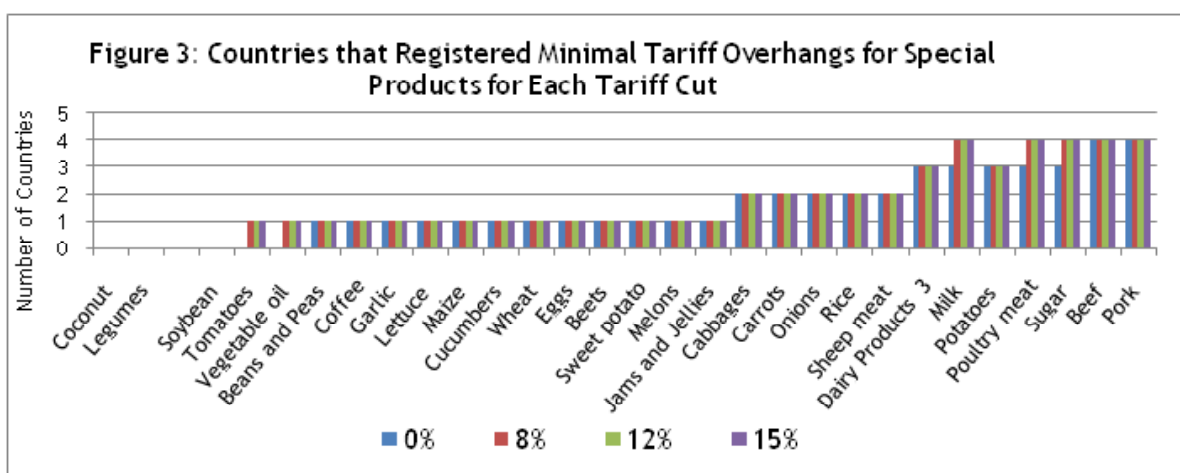
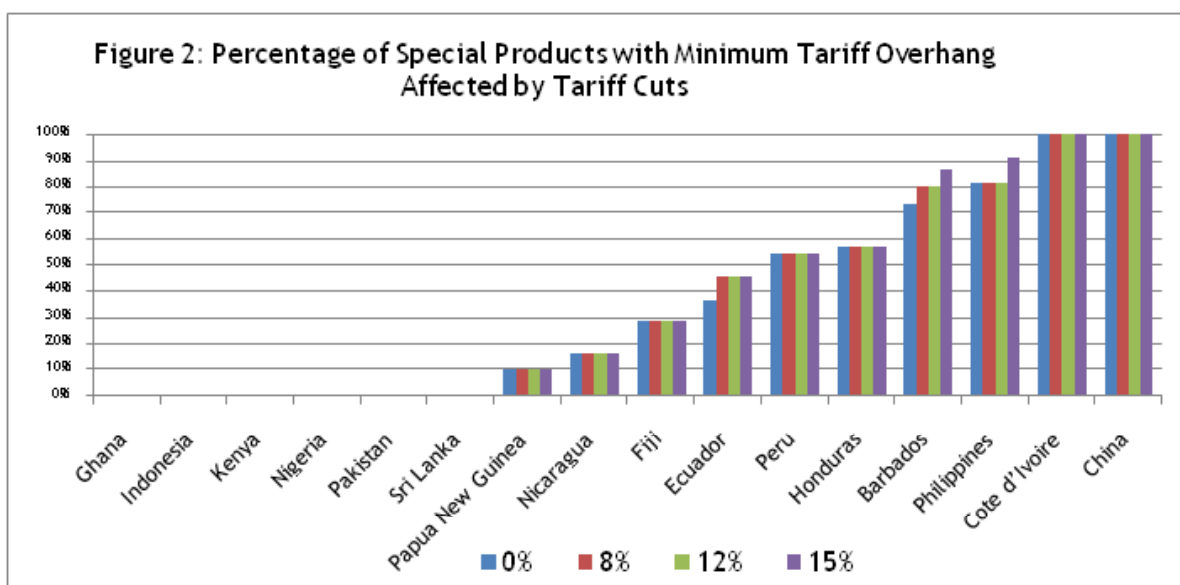
Of the G-33 members covered by the study, seventeen have proxy special products with tariff overhangs of less than 10 percentage points, while as many as twenty of them have proxy SPs with tariff overhangs of less than twenty percentage points.

For some countries, such as St Lucia, none of their special products have minimal tariff overhang (i.e. less than 10 percent), while others, such as Cote d'Ivoire and China, have all their special products in this category.

Across the group, countries have an average of 23.9 percent of proxy special products with less than 10 percent overhang, and 26.3 percent with less than 20 percent overhang. However, given the wide differences in tariff structure across the group, this average figure is not particularly meaningful.

The analysis above is likely to underestimate countries' actual need for tariff cut exemptions, because it is based around the 16 products that were most commonly identified as special, and not the actual special products in country lists. For example, while in Honduras only 12.5 percent of the proxy special products have minimal tariff overhangs of less than 10 percent, as much as 57 percent of the products identified as 'special' in the ICTSD country study have this low level of protection.

Analysis of Barbados and the Philippines revealed similar disparities between the tariff overhang faced by proxy



special products and that faced by the products that local researchers had identified.

Indeed, because many countries may wish to take into consideration low tariff overhangs when prioritising their potential special products, the analysis may significantly underestimate the true extent of countries' needs.

As many as nine out of sixteen countries in which ICTSD studies had been conducted were found to have products that had minimal tariff overhang, and would thus arguably benefit from tariff cut exemptions.

The average percentage of special products that would have minimal tariff overhang increased from 23.9 percent to 34.9 percent when analysis was conducted on the basis of countries' actual special product lists and not on the basis of proxy special products. Again, the wide disparities in countries' tariff structures mean that this overall average figure needs to be treated with caution.

### Modalities on special products

Figure 2 shows that, once tariffs on special products are reduced by 8 percent, the number of special products with tariff overhangs of less than 10 percent increases for Barbados and Ecuador but remains unchanged for the

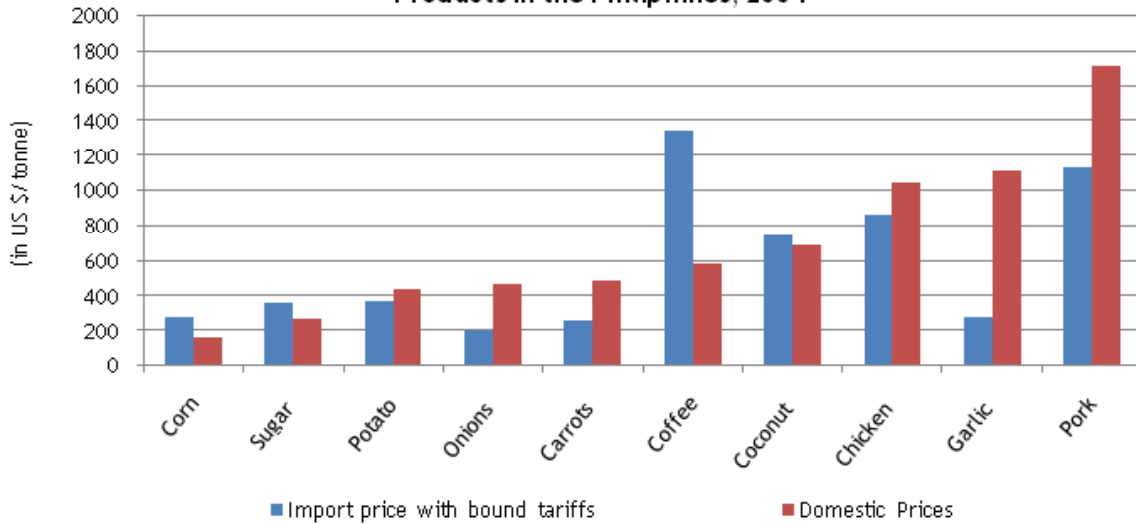
other countries. A 15 percent tariff cut will increase the percentage of proxy special products with minimal tariff overhangs for the Philippines, and would again also affect Barbados and Ecuador.

With each tariff cut, more products have their overhang reduced to zero or minimal levels. Figure 3 shows, for each proxy special product, the number of countries registering zero or minimal overhangs under different tariff cuts scenarios. The number of countries with minimal tariff overhangs increases for milk, pork, poultry meat, sugar, coconut, tomatoes, and vegetable oil as progressively higher tariff cuts are applied. However, for a number of other products, higher tariff cuts do not lead to any increase in the number of countries with minimal tariff overhang on the products concerned.

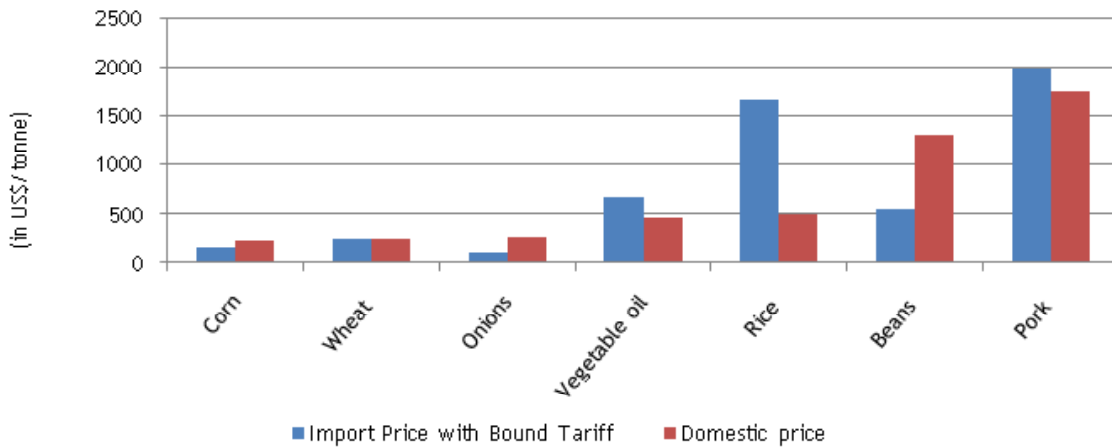
### Bound rates bridging the gap between domestic and import prices

The difference between bound and applied tariff rates only provides one dimension in assessing developing countries' need for market access flexibility. Another criterion is the ability of current tariff bindings to bridge the gap between the domestic and import prices of special products.

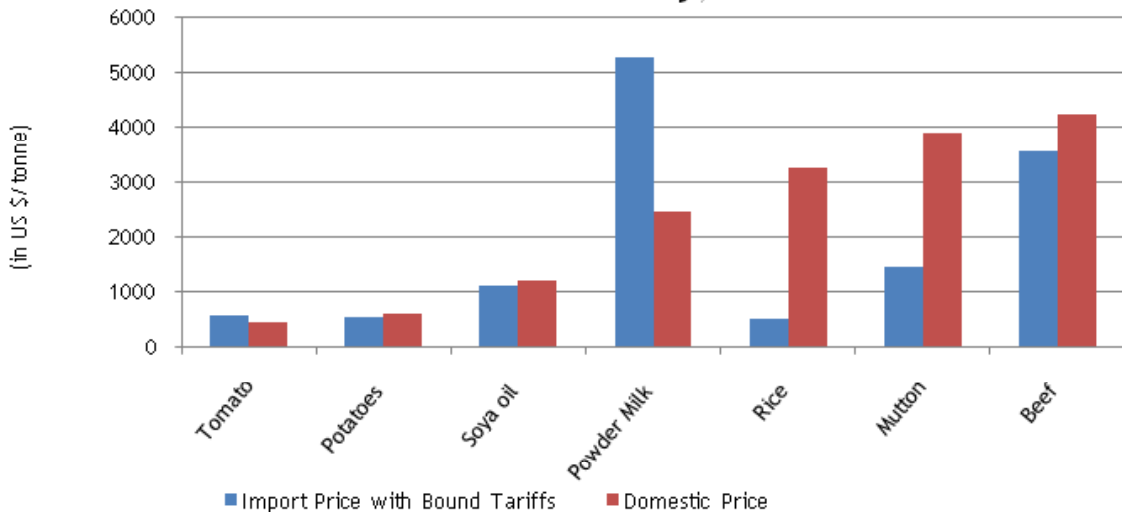
**Figure 4: Comparison of Domestic and Import Prices of Possible Special Products in the Philippines, 2004**

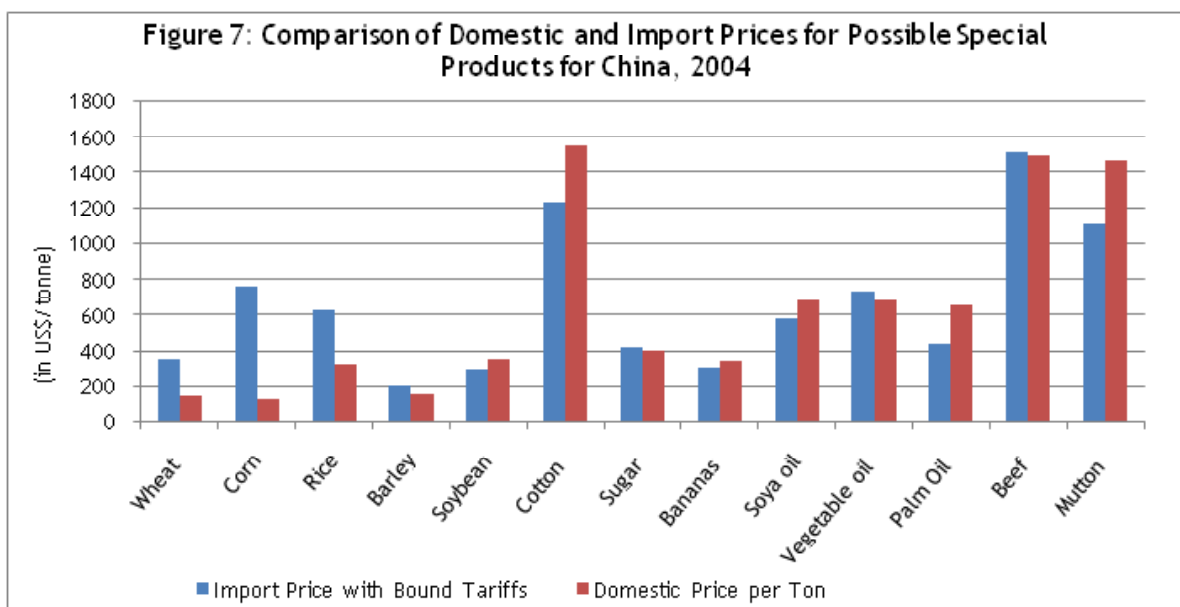


**Figure 5: Comparison of Domestic and Import Prices of Possible Special Products for Ecuador, 2004**



**Figure 6: Comparison of Domestic and Import Prices of Possible Special Products for Fiji, 2004**





This is particularly important given that, on a number of important commodities, many countries continue to use subsidies which distort international market prices. Interestingly, it is often these same products that are repeatedly identified by developing countries as being likely to be designated as ‘special’.

As can be expected, countries with low tariff bindings are more likely to have inadequate bound duties, and as such, narrower capability to address price gaps for special products.

Figures 4 to 7 show the comparison of domestic prices and import prices with bound rates on selected special products for four such countries, the Philippines, Fiji, Ecuador and China. While Fiji and the Philippines have fairly linear tariff structures, with import duty bindings pegged mostly at 40 percent, China and Ecuador have more divergent tariff profiles as bound tariffs vary from one special product to another. For Ecuador, for instance, tariff bindings on potential special products range from 20 percent to 70 percent, while for China bound rates vary from as low as 3 percent to as much as 65 percent.

Despite their differences, what these countries have in common is the fact that, in many instances, their tariff bindings appear to be insufficient to bridge the gap between domestic and import prices for potential special products.

Figures 8 to 10 track domestic prices, import prices and bound tariffs of potential special products for the Philippines, Ecuador and China. They suggest that, over a period of time, tariff bindings for some special products in some developing countries are often unable to bridge the gap between domestic and import prices.

Prices for many commodities have increased substantially since the period analysed in these figures, to the extent that bound tariff levels may again have become sufficient to allow governments to protect domestic producers.

However, price increases have historically tended to be short-lived occurrences, leading some analysts to warn that future price depressions could mean that special product flexibilities will remain important in permitting governments to bridge the gap between domestic and international prices.

Even if prices have in fact begun a long-term upward trend, as some suggest, price volatility is likely to remain a problem: special product flexibilities therefore potentially will remain important in allowing governments to limit the transmission of international prices to the domestic market.

Tariff bindings, in some instances, are arguably therefore often insufficient to provide developing countries the flexibility they need to protect themselves from possible displacement of commodity sectors that are crucial to the achievement of their food security, livelihood security and rural development objectives.



Figure 8: Import price, bound tariff and domestic price of onions for the Philippines

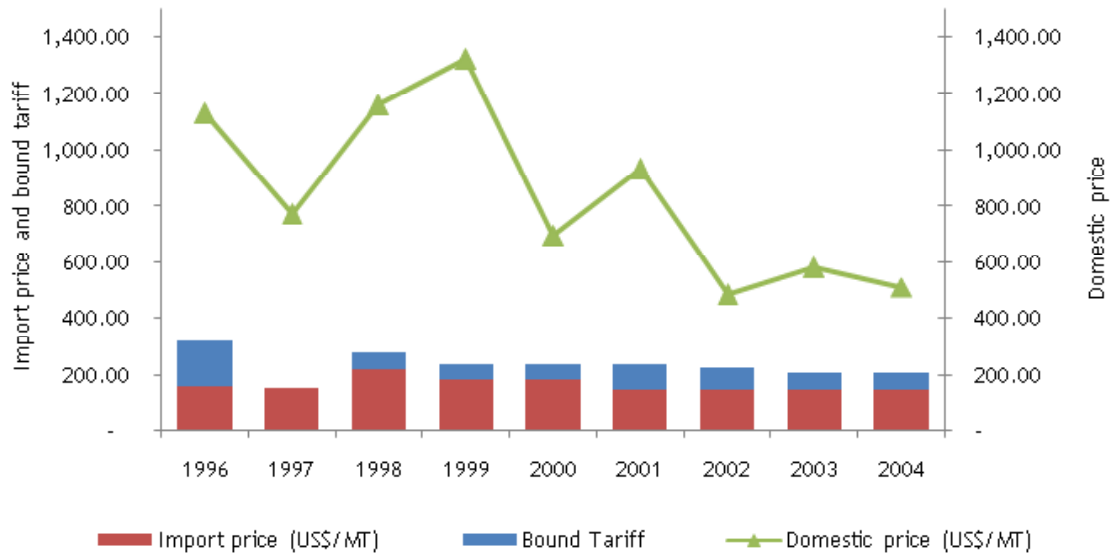


Figure 9: Import price, bound tariff and domestic price of corn, Ecuador

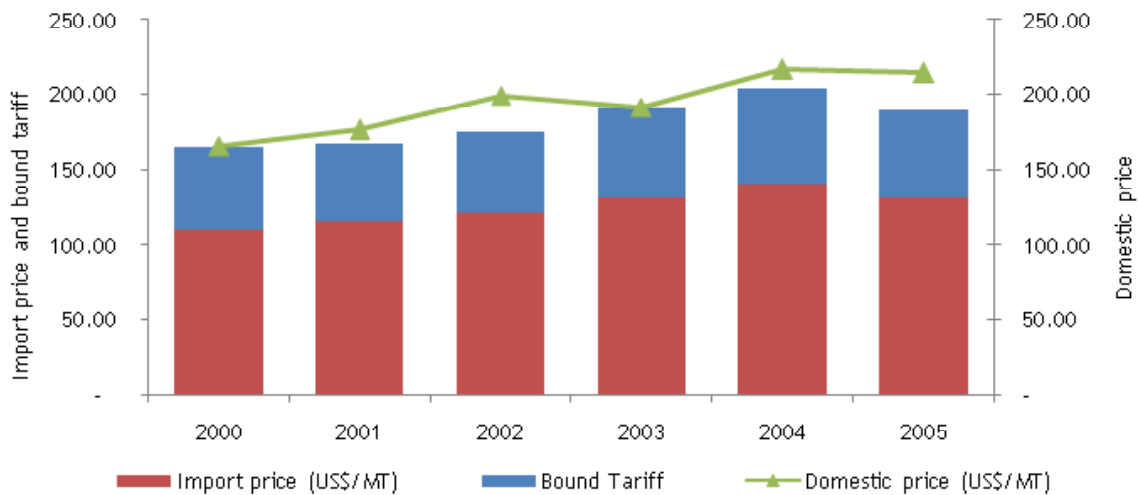
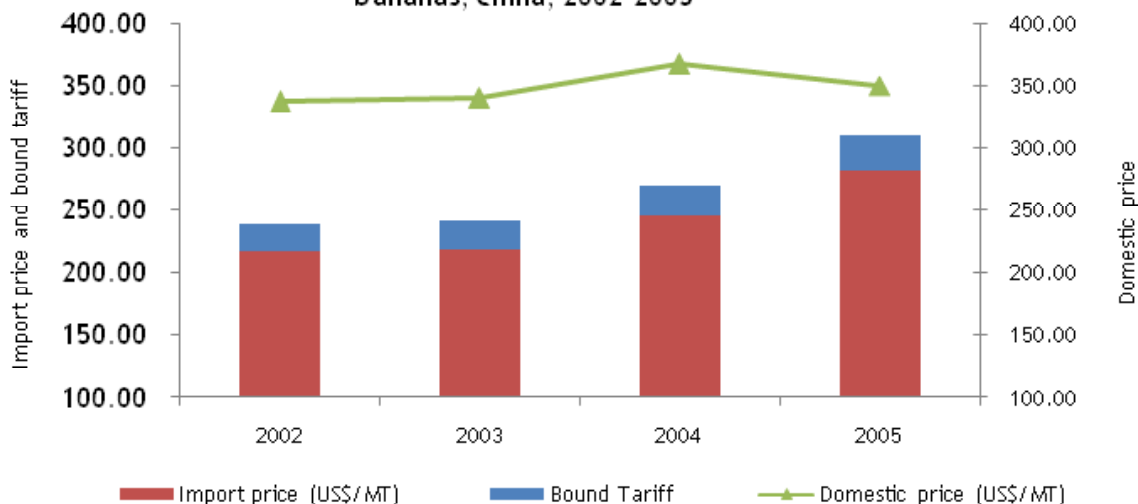


Figure 10: Import price, bound tariff and domestic price of bananas, China, 2002-2005



## 4. Conclusion

The chair's modalities text sets out different possible modalities for different groups of developing countries, proposing various options for recently-acceded Members, small vulnerable economies and other developing countries. The wide variation between developing countries' tariff structures suggests that this approach might be a necessity if the different and sometimes conflicting objectives in the Doha mandate are to be taken into account and also reconciled with one another.

However, preliminary analysis of developing countries' tariff structures suggests that some provision for tariff cut exemption may be necessary for all developing countries if small farmers and rural communities are to be provided with effective protection from cheap, and often subsidised, imports. Proxy special products with tariff overhangs of less than 10 percentage points were a problem for seventeen of the G-33 members examined, while those with tariff overhangs of less than 20 percentage points were a problem for twenty countries.

Analysis based on countries' actual product lists suggested that these figures could understate the case quite significantly, with the proportion of special products facing a minimal tariff overhang of less than 10 percent increasing from 12.5 percent to 57 percent in one example. Nine out of sixteen countries, or 56%, would have at least some products with minimal tariff overhang when actual product lists were examined.

Although rising prices may have removed some of the immediate necessity for high tariffs to protect small-scale producers in the short term, the historical record suggests that price fluctuations and volatility may mean that special product flexibilities will continue to be important as a tool for bridging domestic and international prices, particularly in the context of continued subsidisation of industrial agriculture in the developed world.



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