March 2001
Proposal for the Elimination of Industrial Tariffs
Executive Summary

**Tariffs: The WTO's Most Obvious Piece of Unfinished Business**
Industrial tariffs remain a major barrier to international trade. Although successive trade rounds have substantially reduced tariff levels, average industrial tariff rates in many countries remain prohibitively high, and tariffs impose as much as $64 billion annually in added costs on global trade. In developing countries, both simple mean bound rates and trade-weighted average rates remain very high, at 39% and over 25%, respectively. International tariff peaks (rates above 15%) make up nearly three quarters of the total tariff schedules of many developing countries, and in developed countries tariff peaks are prevalent in a number of different sectors. And despite significant progress in binding tariffs under international disciplines, 39% of all imports to developing countries are made under tariff lines that are not bound at all. Moreover, with multilateral trade liberalization at a temporary halt, there has been a proliferation of sub-regional and bilateral free trade agreements (FTAs). While these FTAs maintain momentum for free trade, they create a complex and confusing business environment.

**A Tax on Consumers: Residual Tariffs on Intra-Developed Country Trade**
But high tariff rates in developing countries are only part of the picture. In absolute dollar terms, many tariffs are paid on trade between developed countries. While tariff rates in developed countries averaged only 3.8% on a trade-weighted basis after the Uruguay Round, the sheer volume of trade among developed economies results in as much as $21 billion in tariff payments each year. Residual tariffs on intra-developed country trade are an enormous tax on consumers that serves virtually no trade policy or protective purpose.

**A Bold Proposal: Eliminate Industrial Tariffs**
NFTC calls for the elimination of all tariffs on industrial products, through a series of progressive tariff reductions leading to zero in all WTO members by a definitive end-date. This ambitious goal should be the centerpiece of a new Round. To accomplish this, NFTC calls for a broad Round of trade negotiations, encompassing a number of areas, so that negotiators have the flexibility to achieve industrial
tariff elimination and other significant market-opening initiatives. Indeed, NFTC recognizes that tariff cuts alone, without a larger Round that addresses other obstacles to imported goods, will not result in any significant market opening. Numerous non-tariff barriers persist in countries with relatively low rates of duty, resulting in very low import penetration. While a zero-tariff initiative is a necessary component—and indeed should be a centerpiece—of a new Round, it is not by itself sufficient to address all market access barriers in foreign markets.

**Getting To Zero: Modalities for Industrial Tariff Negotiations**

NFTC endorses the use of a number of different modalities to accomplish the goal of industrial tariff elimination, and would not rule out any approach leading to this objective. To start the process, NFTC calls on WTO members to agree to a standstill arrangement on applied tariffs during the pendancy of a new Round, with negotiations on tariff elimination to proceed from bound rates as the base.

The most efficient negotiating modality appears to be the establishment of a common end-point of zero tariffs on industrial products, with flexibility in the phasing and timetable of reaching this common endpoint. A formula approach which differentiates phase-outs depending on the existing bound tariff rate (longer for tariff lines currently bound at high or "peak" rates, shorter for items bound at low or "nuisance" rates) appears to offer the benefits of simplicity, breadth and fairness.

This approach effectively grants longer phasing for developing countries (whose rates tend to be bound at high rates) and for sensitive products in developed countries, without necessarily requiring a line-by-line or country-by-country negotiation. Tariff-band or harmonization approaches may also hold promise as an interim step before final reductions to zero, but harmonization alone is not a sufficiently bold objective for the new Round.

If negotiators can adopt a common end-point of zero tariffs, the timetable for arriving there could vary among countries and products.

Formulae based on existing bound tariff rates would afford flexibility to developing countries and more immediate access to larger markets.

Sectoral negotiations and regional or bilateral free-trade agreements which provide for zero tariffs can serve as powerful catalysts for broader multilateral tariff elimination. NFTC supports agreements in the framework of a new Round to achieve early sectoral elimination of tariffs where possible ("zero for zero agreements"), to be implemented before the end of the Round on an interim or provisional basis and considered as part of the overall balance of market access concessions (or so-called "single undertaking") to be determined at the conclusion of the new Round. NFTC also supports regional or bilateral free-trade agreements which eliminate all or substantially all industrial tariffs, and supports an initiative to offer comprehensive duty-free access to the products of the Least Developed Countries (LLDCs) by the end of a new Round.
Transparency and Availability of Tariff Information
NFTC believes it should be a near term objective of the WTO, either prior to a new WTO Round or as an early negotiating objective of a new WTO Round, to establish a transparent, comprehensive and public database on worldwide tariff rates that is accessible on the internet in a user-friendly format. Similar ready access to worldwide rules of origin regimes should also be put in place.
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Table of Contents

1.0 Tariffs Remain A Major Barrier to Trade .......................................................... 5
  1.1 High Mean Bound Tariff Rates ........................................................................... 5
  1.2 High Trade-Weighted Average Bound Tariffs ................................................... 5
  1.3 Tariff Peaks ........................................................................................................ 6
  1.4 Unbound Tariff Lines ......................................................................................... 6
  1.5 High Payments On Developed-Country Trade .................................................. 6
  1.6 Variance in Bound Vs. Applied Rates ............................................................... 7
  1.7 Tariff Escalation ................................................................................................. 7
  1.8 Complex Preferential Tariffs .............................................................................. 7

2.0 The Goal: Progressive Elimination of All Industrial Tariffs ............................... 8
  2.1 Tariff Elimination ............................................................................................... 8
  2.2 Tariffs as One Part of a Broad Round ................................................................ 8
  2.3 Developing Countries ......................................................................................... 8
  2.4 All Tariffs Bound ............................................................................................... 9
  2.5 Tariff Peaks and Nuisance Tariffs ...................................................................... 9
  2.6 Tariff Escalation and Preferential Tariffs ........................................................... 9

3.0 Modalities for Tariff Elimination ....................................................................... 10
  3.1 Bound Vs. Applied Tariffs: A Standstill Arrangement ....................................... 10
  3.2 Tariff Bands and Tariff Harmonization ............................................................. 10
  3.3 Common End-Point, Differential Phasing .......................................................... 11
  3.4 Differentiation by Country's Economic Development ....................................... 11
  3.5 Differentiation by Product ................................................................................ 12
  3.6 Differentiation by Bound Tariff Rate ................................................................. 12
  3.7 Sectoral Agreements and Early Provisional Implementation ............................ 13

4.0 Transparency of/Access to Tariff Information .................................................. 14
  4.1 Specific Steps to Improve Access to Information ................................................. 14
1.0 Tariffs Remain A Major Barrier to Trade

Contrary to the popular assertion that tariffs no longer matter in trade policy, it is evident that—whether intentionally or not—tariffs remain a prevalent instrument of trade protection and impose a significant financial burden on consumers and producers of industrial goods. Tariff reduction has been a central goal of multilateral trade liberalization since the creation of the GATT in 1947. It was recognized that tariffs posed significant trade barriers, increased the prices of goods for consumers, resulted in inefficient allocation of resources, and had harmful ripple effects throughout economies. Yet despite significant progress over 50 years of successive rounds of trade negotiations, as we enter the 21st Century industrial tariffs are the WTO's most obvious piece of unfinished business.

1.1 High Mean Bound Tariff Rates.

Average industrial tariff rates in many countries remain prohibitively high, and impose as much as $64 billion in added annual costs on global trade. A recent OECD study of post-Uruguay Round tariffs found that the simple mean rate of bound tariffs in a representative sample of non-OECD developing countries was 39%, compared to 14% in non-Quad OECD members and 4% in Quad countries. The problem of high rates was particularly acute in Asia, where India (59%), Indonesia (38%) and Thailand (28%) have very high bound mean tariff rates on industrial goods. In Latin America, no major country has a bound mean tariff rate of under 30%.

1.2 High Trade-Weighted Average Bound Tariffs.

Even on a trade-weighted basis, post-Uruguay Round average industrial tariff bindings remained well above 25% in several major developing countries, including such important emerging markets as Argentina, Brazil, India, Indonesia, Mexico, Thailand,

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1 Based on trade-weighted tariff averages and total MFN imports as measured by GATT Secretariat in "The Results of the Uruguay Round of Multilateral Trade Negotiations: Market Access for Goods and Services, Overview of the Results", GATT Secretariat, November 1994.
2 "Review of Tariffs Synthesis Report", OECD Trade Directorate, TD/TC(99)7/Final, July 5, 1999, p. 7. The "Quad" countries are Canada, the EU, Japan and the United States.
3 Ibid., p. 16.
Turkey and Venezuela.\textsuperscript{4} This represents over $20 billion in annual trade protection or potential protection in these eight countries alone.

1.3 Tariff Peaks
Despite the progress of the Uruguay Round, international tariff peaks (rates above 15%) affect a wide variety of industrial sectors in both developed and developing countries alike. In developed countries, peaks are most prevalent in textiles, apparel, footwear and motor vehicles. In developing countries, tariff peaks often account for the majority of the tariff schedule, up to three-quarters of lines in many cases.\textsuperscript{5}

1.4 Unbound Tariff Lines
Many countries have a large number of unbound tariff lines. This problem is particularly acute for industrial products; most agricultural tariff lines were bound in the Uruguay Round. According to a GATT study, 39\% of all imports to developing countries are made under tariff lines that are not bound \textit{at all}. This problem is particularly acute in Asia, where 32\% of tariff lines are unbound and 30\% of imports are made in unbound tariff categories.\textsuperscript{6}

1.5 High Payments On Developed-Country Trade
Tariffs are not just a problem in developing countries. In fact in absolute dollar terms, a significant portion of tariff payments are made on trade between developed countries. This is because while \textit{tariff rates} in developed countries averaged only 3.8\% on a trade-weighted basis after the Uruguay Round, the sheer volume of trade among developed economies results in as much as $21 billion in \textit{tariff payments} each year.\textsuperscript{7}

This is an enormous additional cost imposed on consumers and producers that serves virtually no trade policy or protective purpose. Indeed, some NFTC members have noted that tariff payments on intra-developed country trade account for as much as 40\% of their annual tariff burden. These tariffs are most often imposed on the routine movement of materials between already-established production facilities in developed countries. Tariffs on intra-developed country trade are little more than a tax on industrial sectors that neither desire nor need trade protection. Of course, this tax is ultimately passed on to consumers.

\textsuperscript{5} OECD, op. Cit., p. 7.
\textsuperscript{6} GATT, op. Cit., p. 29, Table II.11
\textsuperscript{7} Based on trade-weighted tariff averages and MFN trade between developed countries as measured by GATT Secretariat in ”The Results of the Uruguay Round of Multilateral Trade Negotiations”, op. Cit.
1.6 Variance in Bound Vs. Applied Rates

The OECD found that in many developing countries, the majority of bound tariff rates remain considerably higher than current applied MFN rates. The non-OECD mean bound rate (for all products) in the sample used was almost 40%, whereas the 1996 mean MFN applied rate was 22%. The spread for OECD members was smaller, but not insignificant. This means that in many cases, scheduled reductions in WTO-bound tariff rates may not result in any actual increase in market access for foreign products. It also poses problems for the modalities of industrial tariff negotiations.

1.7 Tariff Escalation

Tariff escalation, the practice of imposing low tariffs on inputs but relatively high tariffs on finished products, remains a major problem, according to the OECD. It is prevalent in many industrial sectors, in both developed and developing countries alike.

1.8 Complex Preferential Tariffs

Finally, the rapid proliferation of bilateral and regional free trade agreements (FTAs) has created a growing web of discriminatory and complex tariff regimes. Faced with FTAs between two of their substantial trading partners, countries or regional blocs have frequently responded by negotiating FTAs of their own with one or both of the partners. The result is a confusing proliferation of rules. It is difficult to determine which countries qualify for which rates and/or to know with accuracy the current rates of preferential tariffs on a global basis. The costs of tariff compliance are growing for developing and developed countries alike.

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8 OECD, op. Cit., p. 47, Figure 2.
2.0 The Goal: Progressive Elimination of All Industrial Tariffs

2.1 Tariff Elimination
The NFTC calls for the elimination of all tariffs on industrial products, through a series of progressive reductions leading to zero tariffs in all WTO members by a definitive end-date. This initiative will provide significant new market access to the products of developing countries, will eliminate distortions and high tariff payments on intra-developed country trade, and will build on the foundation of tariff-free trade already established by the major regional, sectoral and bilateral free-trade agreements. We call on negotiators to make this ambitious goal the centerpiece of a new round, finishing the work on tariffs begun by trade negotiators over fifty years ago.

2.2 Tariffs as One Part of a Broad Round
NFTC recognizes that in all likelihood the success of a zero-tariff initiative depends on the launch of a broad round of multilateral negotiations, in order to allow negotiators to make the broad requests and concessions necessary to achieve the goal of zero tariffs. Within the scope of tariff negotiations, no products or industrial sectors should be excluded, although differing timetables and phasing schedules may be appropriate (see Section 4 on Modalities). Similarly, the round should be sufficiently broad to offer a balance of concessions and interests to both developed and developing countries, including talks on such areas as agriculture, textiles trade, anti-dumping, government procurement and services.

2.3 Developing Countries
It is vital for the success of this initiative that developing countries realize substantial benefits from increased market access for their products. To this end, the NFTC supports immediate tariff-free treatment for the products of the least-developed countries (LLDCs), to be implemented no later than the end of a new Round. As noted above, the NFTC supports a comprehensive tariff negotiation in which no products or industrial sectors are excluded from the negotiation or the goal of zero tariffs. And NFTC supports a broad Round which encompasses the concerns of all countries, with no issues being taken "off the table" a priori.
2.4 **All Tariffs Bound**

Implicit in the goal of zero tariffs for all industrial products is that no sector should be excluded, and therefore no tariff lines should remain unbound at the end of Round. This will ensure that tariffs cannot be raised during the phase-out period or reintroduced one eliminated. While NFTC supports differential phasing and timetables for tariff elimination, it is important that all tariffs and their schedules for elimination be bound at the conclusion of the Round.

2.5 **Tariff Peaks and Nuisance Tariffs**

The goal of comprehensive tariff elimination will, over time, eliminate the problem of remaining tariff peaks and nuisance tariffs. But NFTC recognizes that high tariffs (peaks) and low tariffs (nuisance) must be dealt with on different timetables and through different modalities. (see Section 4).

2.6 **Tariff Escalation and Preferential Tariffs**

The goal of comprehensive zero tariffs on industrial products would have the benefit of dealing effectively with two other problems: protection through tariff escalation and the proliferation of preferential regional tariff arrangements. While such issues will persist during the transition to zero tariffs, over time their trade-distorting effect will be mitigated by the multilateral elimination of tariffs on industrial products.
3.0 Modalities for Tariff Elimination

3.1 Bound Vs. Applied Tariffs: A Standstill Arrangement

There was considerable debate prior to the WTO Ministerial Conference in Seattle over whether new industrial tariff negotiations should proceed from bound or MFN applied tariff rates. To a certain extent, this debate becomes less important if negotiators adopt zero tariffs as their ultimate goal; the question of applied vs. bound is then only relevant with regard to the timetables for tariff elimination, not the end-points. To address this issue, the NFTC proposes that WTO members agree at the beginning of a new Round to a standstill arrangement on industrial tariffs, with countries agreeing to freeze applied MFN rates in place during the pendency of the negotiating Round. In exchange for the political commitment to freeze applied MFN rates at current levels, countries would gain the political flexibility of negotiating tariff elimination timetables from bound rates, which in many cases are

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\begin{array}{c}
\text{Bound Rate} \\
\text{Applied Rate}
\end{array}
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higher than current applied rates. NFTC recognizes that in some cases this will delay market access benefits, since commitments for progressive elimination may not actually result in cuts to applied rates until later in the elimination timetable. However, NFTC considers that it is most important that countries accept the principle of zero end-rates; the timetable for arriving at zero can be flexible as long as tariff cuts are progressively implemented.

3.2 Tariff Bands and Tariff Harmonization

A number of countries--most notably the European Union--made proposals for tariff harmonization prior to the Seattle ministerial conference. The EU's proposal envisioned harmonizing all industrial tariffs into three relatively narrow bands, while a number of developing countries urged a formula approach to avoid the complexity and difficulty of a line-by-line tariff negotiation. NFTC does not believe that any approach to tariff elimination should be ruled out, but considers that a formula approach offers substantial
benefits of simplicity and breadth. We believe the EU proposal for a tariff-band approach has considerable merit, but it does not go far enough to serve as the ultimate goal for a new Round. Instead, negotiators might consider whether a tariff-band/harmonization approach might serve as an interim goal, in which tariffs would be rationalized before beginning the final staged reductions to zero. For example, negotiators might agree to harmonize all industrial tariffs into tariff bands shortly after the end of the Round, perhaps with differential phasing depending on a country's stage of economic development. Once tariffs are harmonized within these bands, a non-differentiated formula might then be used to progressively reduce all tariffs to zero. Obviously, there could be many variations on this approach, but regardless of the methodology used, the ultimate end-point for industrial tariff negotiations should be zero.

3.3 Common End-Point, Differential Phasing

NFTC believes that if a common end-point of zero can be achieved for industrial tariffs, the timetable for arriving at zero could be different for different products and countries, though it should in no case exceed 15 years. Indeed, this was the approach used to secure the participation of some developing countries in the Information Technology Agreement, and was also the approach used in the Chemical Tariff Harmonization Agreement during the Uruguay Round. There are three basic approaches to differential phasing, with timetables for tariff elimination varying 1) by country, 2) by product, or 3) by tariff rate. While the NFTC would not rule out any approach, for a variety of reasons a formula approach based on existing bound tariff rate seems preferable.

3.4 Differentiation by Country's Economic Development

Differentiation by country would require a negotiation as to the development status of various economies. Clearly, NFTC recognizes and endorses the principle that developing countries may need more time to phase out industrial tariffs. But this approach would require a precise definition of each WTO member's level of economic development, sparking lengthy debates over whether particular WTO members are "developed", "developing" or "transition" economies. Objective economic measurements, such as GDP per capita, are only snapshots in time and are not always indicative of a country's relative trading power or its need for flexibility on the timing of tariff cuts. Some terms, such as "least-developed countries", are fairly well accepted and indeed, NFTC supports a tariff-free initiative for the imports of these countries. But in general, trying to

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9 As the EU suggested, the tariff-band approach does not rule out a faster, zero/zero approach for some industrial sectors.
differentiate tariff phase-outs on the basis of inexact definitions of national economic development seems inadvisable.

3.5 Differentiation by Product
Differentiating by product (or tariff line) is another approach that could be problematic, because it would involve lengthy and complex negotiations over thousands of different products. It could immediately bog down negotiations over a small set of highly controversial "sensitive products" where countries seek special protection for political reasons, and would be highly complex and difficult to negotiate.

3.6 Differentiation by Bound Tariff Rate
It seems that the most effective method for differential phasing of tariff elimination might be the use of formulae based on existing bound tariff rates. Under this approach, tariffs currently bound above a certain rate (for example, 15% "international tariff peaks") might receive 10 years to progressively phase down to zero, with cuts being implemented in equal annual increments. Tariffs currently bound at a relatively low rate (perhaps less than the 3% "nuisance" rate) might be phased out relatively quickly, perhaps within 2 years. To avoid the problem of "free riding", it would be important that all countries agree that progressive elimination and equal annual reductions would begin at the same time, so that countries are reducing tariffs by some amount each year, though that amount may differ according to the elimination schedule. This approach has the benefit of affording substantial flexibility to developing countries (whose rates are often bound at 15% or higher) while ensuring more immediate market access for products from all countries in the more developed markets (whose bound rates tend to be lower). This approach also tends to afford longer phase-out periods for sensitive products (which are likely to be bound at high rates or unbound) but

10 Products which are unbound might use applied rates as the base for the purpose of phase-outs.
it does so without needing to resort to product-by-product negotiations with different countries. The particular thresholds and time periods for phase-outs would be subject to negotiation, but the key principle underlying this approach is that if zero tariffs are the agreed end-point, there can be flexibility on phasing. In adopting this approach, NFTC suggests that no phase-out period be any longer than 15 years from the conclusion of the negotiating Round. This approach was used successfully in the Uruguay Round for some sectors, and has also been used in various Free Trade Agreements.

3.7 Sectoral Agreements and Early Provisional Implementation; Regional FTAs

The use of sectoral agreements to achieve zero tariffs has been extremely successful, and NFTC supports a continued use of this tool to achieve early elimination of tariffs in certain industrial sectors. Tariffs on information technology products, for example, are already largely at zero by virtue of the Information Technology Agreement. Tariffs on pharmaceuticals, medical equipment, chemicals, furniture, distilled spirits have also been eliminated or substantially reduced through multilateral sectoral agreements. Indeed, such agreements can serve as an important catalyst for broad tariff elimination. NFTC supports agreements in the framework of a new Round to achieve early sectoral elimination of tariffs where possible ("zero for zero agreements"), to be implemented before the end of the Round on an interim or provisional basis and considered as part of the overall balance of market access concessions (or so-called "single undertaking") to be determined at the conclusion of the new Round.

Regional and bilateral free trade agreements (FTAs) can also be a strong catalyst toward multilateral tariff elimination, provided that they eliminate all or substantially all tariffs as part of the agreement. NFTC is concerned, however, that a proliferation of FTAs without simultaneous movement toward a new WTO Round of multilateral negotiations could result in an ever-more complex web of preferential tariff agreements that are difficult to administer and which may distort trading patterns.
4.0 Transparency of/Access to Tariff Information

NFTC believes it should be a near term objective of the WTO, either prior to a new WTO Round or as an early negotiating objective of a new WTO Round, to establish a transparent, comprehensive and public database on worldwide tariff rates that is accessible on the internet in a user-friendly format. Similar ready access to worldwide rules of origin regimes should also be put in place.

Efficient and user friendly public access to accurate tariff rates and rules of origin is critical to expanding trade. With the rapid growth of regional and bilateral trade agreements, and as economies become increasingly linked through growing trade and investment, access to current and future tariff rate information has never been more important to the free and fair flow of trade. Transparent, comprehensive and easily accessible tariff rate data would reduce government and business costs globally and would help keep trade honest and corruption-free.

4.1 Specific Steps to Improve Access to Information

Major improvement is needed in the public dissemination and transparency of accurate tariff rate information. While some progress has been made by governments and international organizations to place tariff information on the web, there is no comprehensive source of publicly available information. This is particularly important regarding applied tariff rates. The same concerns also apply to the different rules of origin that are in effect for various bilateral and regional trade agreements.

- A transparent, easily accessible public database should be all-inclusive. Coverage of current and future MFN applied and bound rates and all preferential tariff regimes is essential.

- Accurate tariff information should be incorporated in a user-friendly format on the WTO’s web site.

- WTO members should provide complete tariff rate information on preferential and free trade agreements as soon as they are concluded, as well as all MFN applied tariff rates. Comprehensive tariff rate information on already concluded trade agreements not yet provided to the WTO should be made available as soon as possible. If necessary, Article XXIV or other relevant WTO articles should be clarified to ensure such data is forthcoming in an efficient, comprehensive, and transparent manner.

- Ready access to the rules of origin in effect for regional and bilateral trade agreements should also be incorporated in a tariff information database.

- If appropriate, the WTO should coordinate with regional and multilateral development banks, such as the ADB, IDB, EBRD, and the World Bank. The
banks could assist the WTO in gathering the necessary databases in an internet-user friendly fashion and by providing any other needed resources, particularly with respect to regional trade agreements. Development of user-friendly links with regional banks and individual countries could facilitate and improve tariff data transparency and public availability.