ARE SECTORAL AGREEMENTS A WAY FORWARD FOR THE WTO? THE CASE OF CHEMICALS

October 25th, 2011

ECIPE

Reinhard Quick

Looking Back… (I)
Chemical Tariff Negotiations in the Uruguay Round (86-94)

- 1990: ICCA (International Council of Chemical Associations)

  Chemical industry not satisfied with UR discussions

→ 1991: CTHA Proposal:

1. The tariff levels of all products contained in Chapters 28-39 of the Harmonized Tariff System should be harmonized and bound. Harmonization shall start from currently applied Most Favored Nation (MFN) rates.

2. The harmonization will be phased as follows:

Tariff Level	Harmonization Level (See Attachment)	Time Frame
10% or less	5.5 – 6.5 percent	5 years
10.1 – 25%	6.5%	10 years
>25%	6.5%	15 years

Applied tariffs currently below the harmonization levels remain the same subject to the provisions of paragraph 3.

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Looking Back… (II)
Chemical Tariff Negotiations in the Uruguay Round (86-94)

3. Reduction of tariff levels below the specified harmonization level, including total elimination of tariffs, is a viable goal in certain sectors or for specific products and should be supported by negotiators.

4. There will be no exceptions to the harmonized agreement per se. The above phasing schedule is intended to accommodate products which may be sensitive to tariff reductions.

   However, manufacturers of products which may be most sensitive to tariff reductions must justify their claims to their respective negotiators. Only those products so justified need not to be subject to the provisions of §2, but may be granted the following treatment:

   a. Phasing shall not exceed 15 years

   b. The harmonization level may be different than those specified above.

   c. Tariff reductions will be no less than 30% and be in the spirit of the harmonization agreement.

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Looking Back… (III)
Chemical Tariff Negotiations in the Uruguay Round (86-94)

5. If, within the phasing periods, import surges occur such that imports of specific products are significantly in excess of the trend for a reasonable base period, affected parties will be allowed to delay tariff cuts for justified time periods. Such delays shall not affect the achievement of the final deadline for tariff harmonization.

6. Country coverage must be as complete as possible and should strive to include: Argentina, Austria, Brazil, Canada, the European Community, Finland, India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Singapore, Sweden, Switzerland, Thailand, Venezuela and the United States of America.

7. Tariff harmonization in accordance with the above criteria is subject to reduction and elimination of non-tariff measures which have been identified to the negotiators by their respective country chemical industries.

8. This agreement should be considered an integral part of the total Uruguay Round package. It is recommended that this agreement supersede the previous tariff offers in the chemical sector.

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Looking Back… (IV)
Chemical Tariff Negotiations in the Uruguay Round (86-94)

Harmonized Tariff Schedule	Chemical Tariff Harmonization Levels
Chapter 28	5.5 percent
Chapter 29	
2901 – 2902	0 percent
2903 – 2915	6.5 percent
2916 – 2942	6.5 percent
Chapter 30	6.5 percent
Chapter 31	6.5 percent
Chapter 32	6.5 percent
Chapter 33	6.5 percent
Chapter 34	6.5 percent
Chapter 35	6.5 percent
Chapter 36	6.5 percent
Chapter 37	6.5 percent
Chapter 38	6.5 percent
Chapter 39	6.5 percent

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Looking Back… (V)
Chemical Tariff Negotiations in the Uruguay Round (86-94)

- Result 1994: CTHA as a plurilateral agreement within the WTO
- Product Coverage: Chapters 28 – 39 HS
- Country Coverage: Armenia, Australia, Bulgaria, Canada, Chile, Ecuador, EU, Hong Kong China, Iceland, Japan, Jordan, Kyrgyzstan, Rep. of Korea, New Zealand, Norway, Oman, Panama, PR China, Qatar, Singapore, Switzerland, Taiwan, Turkey, U.A.E., USA
- No exceptions! BUT transition periods for sensitive products

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Tariff Negotiations in the DDA

- After Harmonization → Elimination
- Problems:
  - Horizontal Tariff Negotiations (NAMA)

    Formula(e); Flexibilities; Sectorals;
  - July 2008 Package

    Flexibilities for developing countries BUT definition???
  - Sectorals: Hong Kong 2005 – „voluntary“
    - EU-US distrust
    - Country coverage
    - Product coverage
    - Exceptions?

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DDA Sectoral Tariff Negotiations
- The World Chemical Industry in 2010

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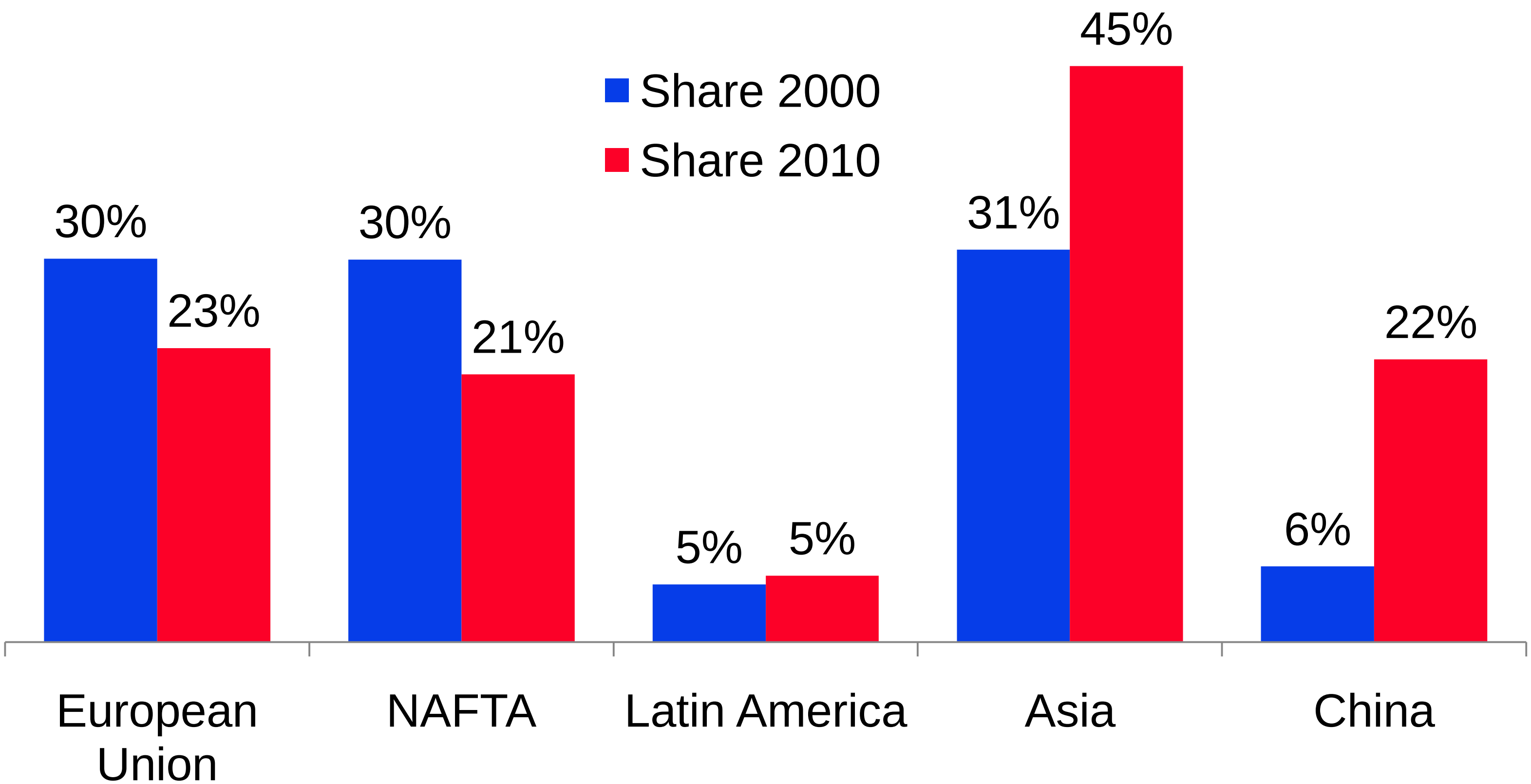
October 25, 2011

Prof. Dr. R. Quick

Asia is gaining shares

Chemical sales by region

Shares in world chemical sales in percent 2000 and 2010



Source: Chemdata International ,VCI

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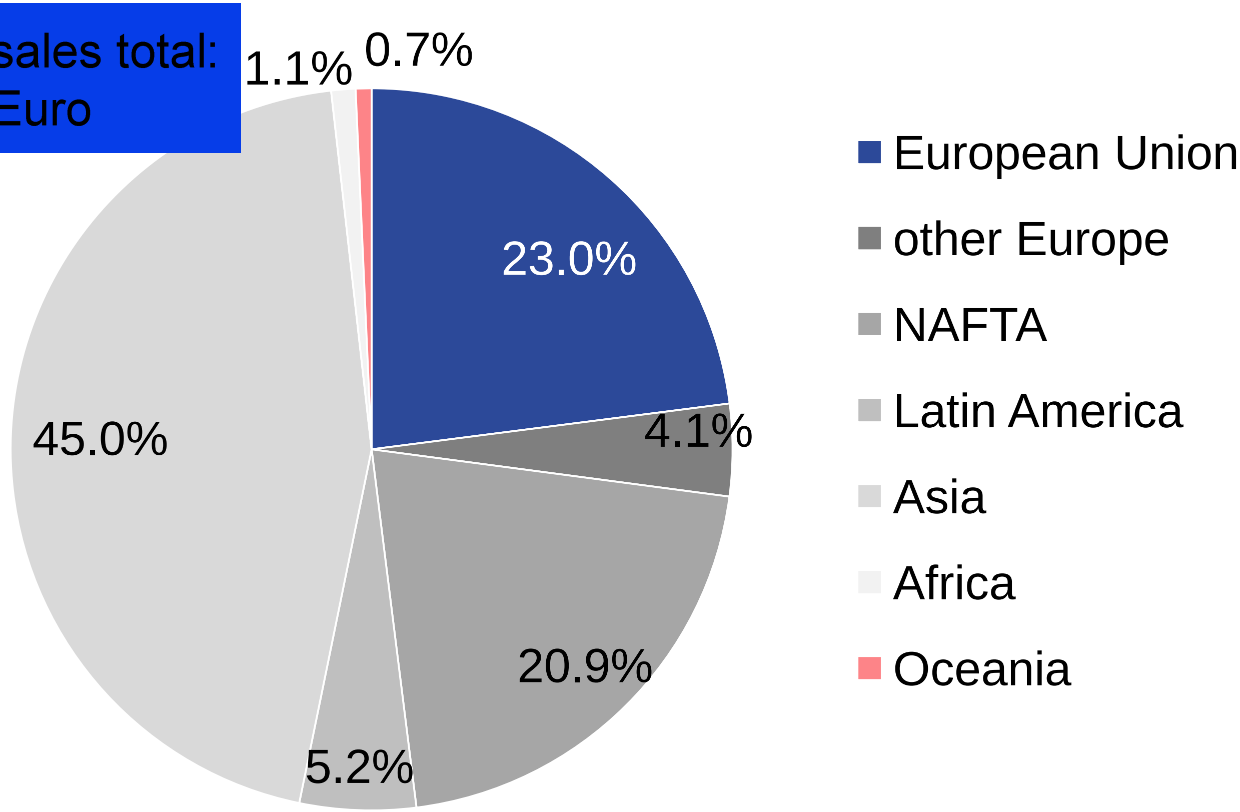
Europe accounts for 23 percent of global chemical sales

Chemical sales by region

Shares in percent, 2010

Chemical sales total:
3,140 bn. Euro



Source: Chemdata International ,VCI

„Chemical“ including pharmaceuticals in all charts

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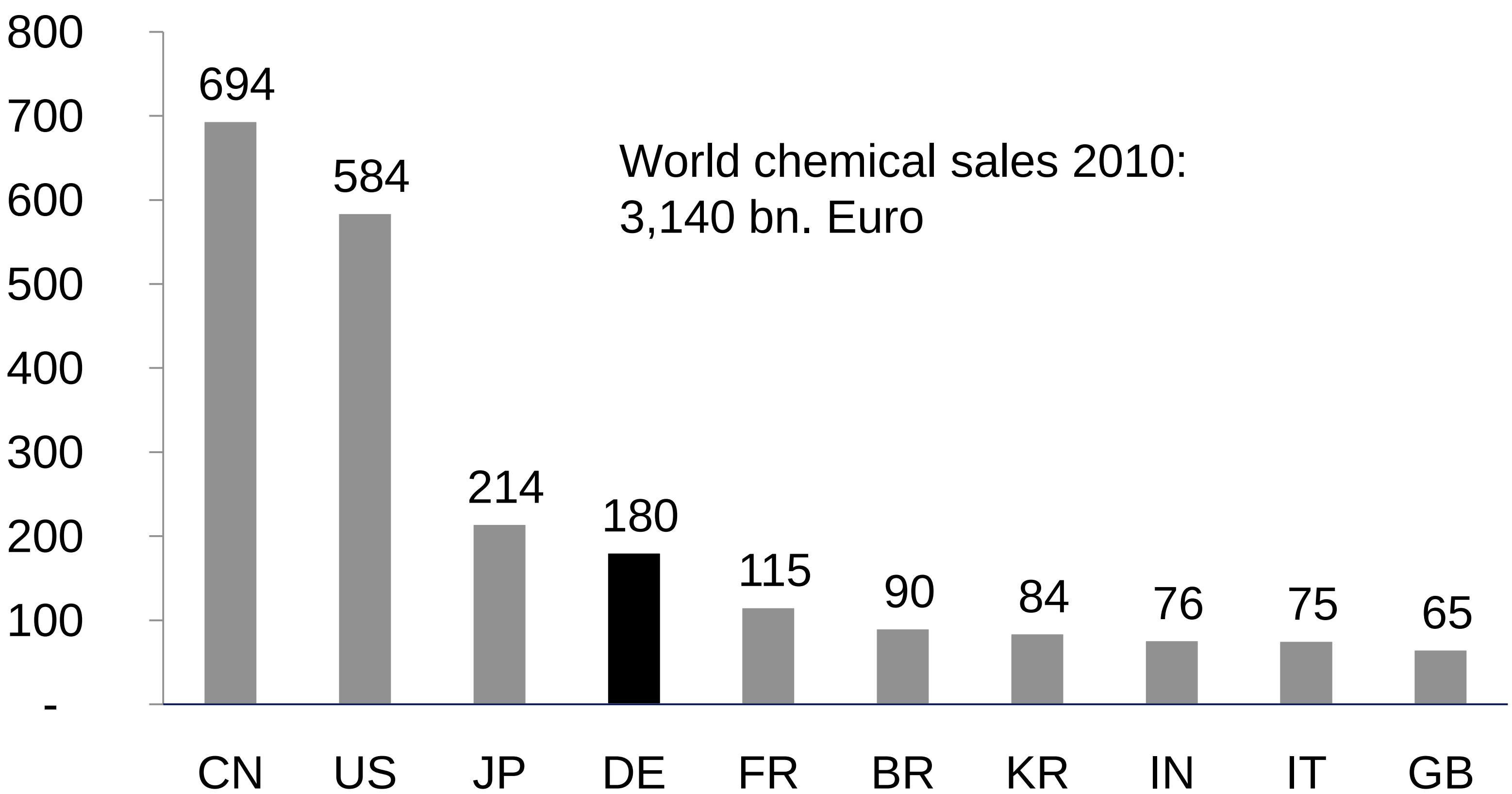
China is overtaking USA - Germany still ranking fourth worldwide

Top 10: Chemical producers

Chemical sales, in bn Euro, 2010



Source: Chemdata International ,VCI

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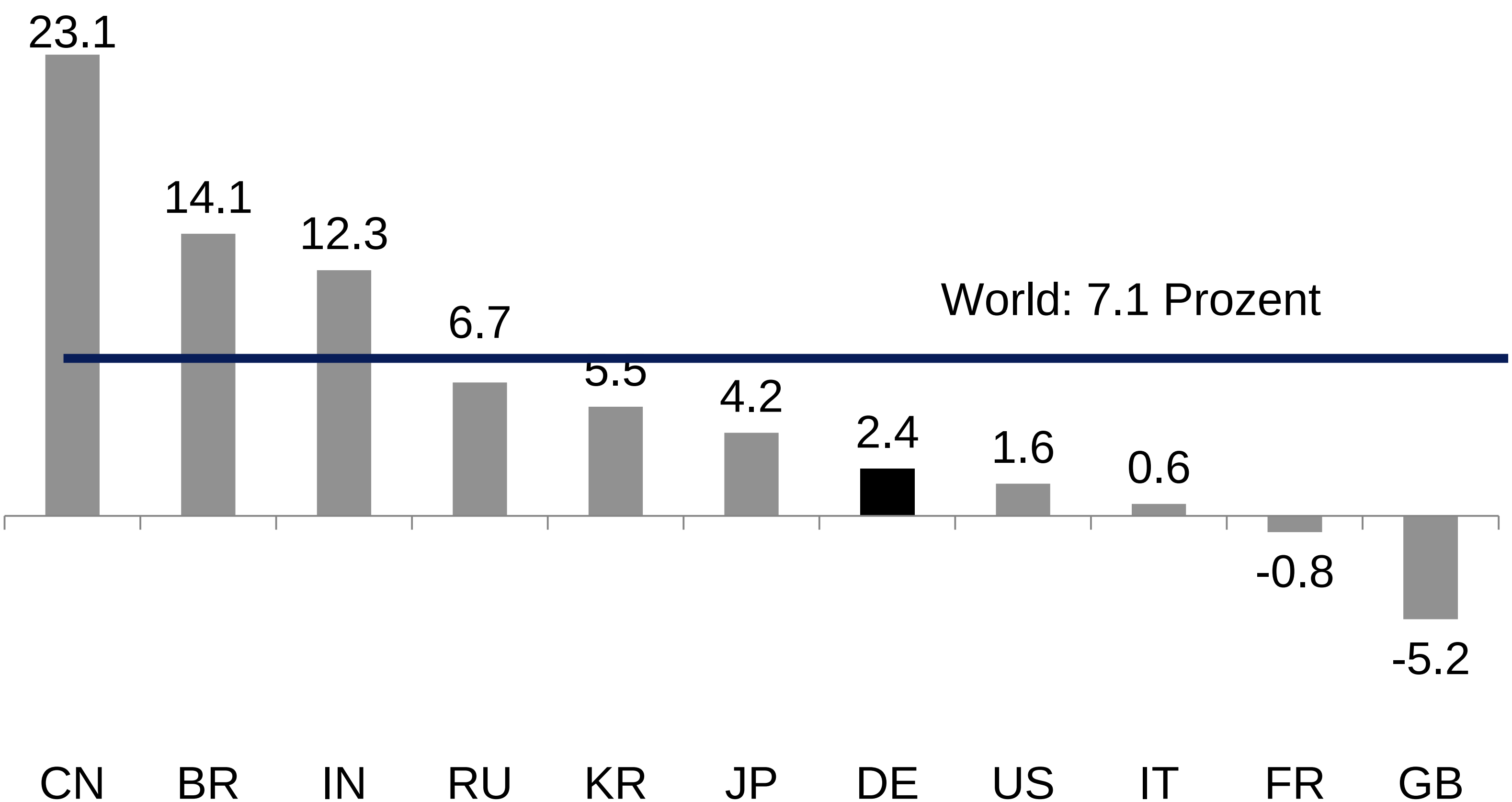
Growth poles are shifting towards developing countries

Growth rates of chemical consumption, large countries

Average annual growth rates 2005-2010, in percent

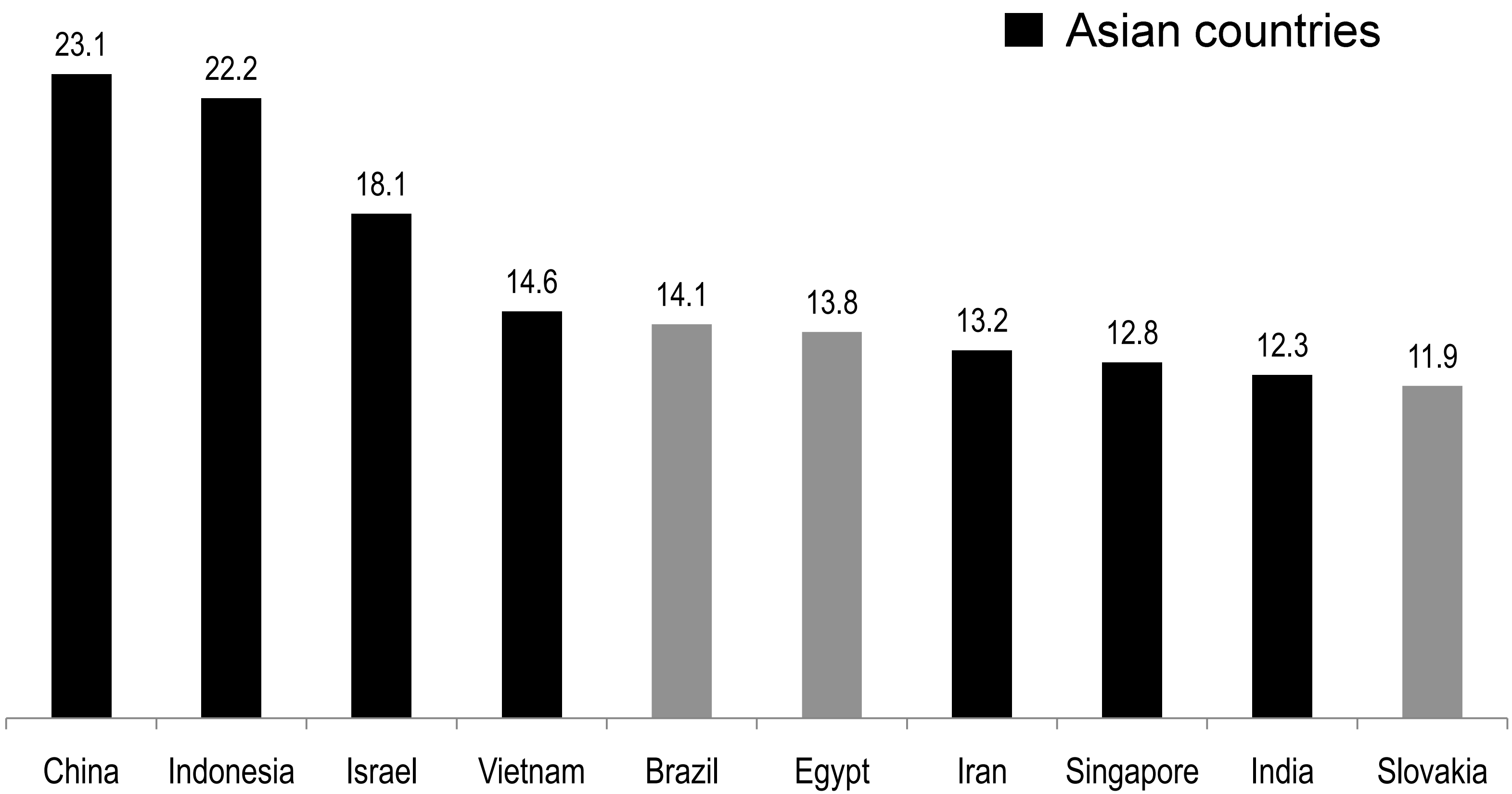


Source: Chemdata International ,VCI

Growth poles are shifting towards developing countries

TOP 10: Growth rates of chemical consumption

Average annual growth rates 2005-2010, in percent



Source: Chemdata International ,VCI

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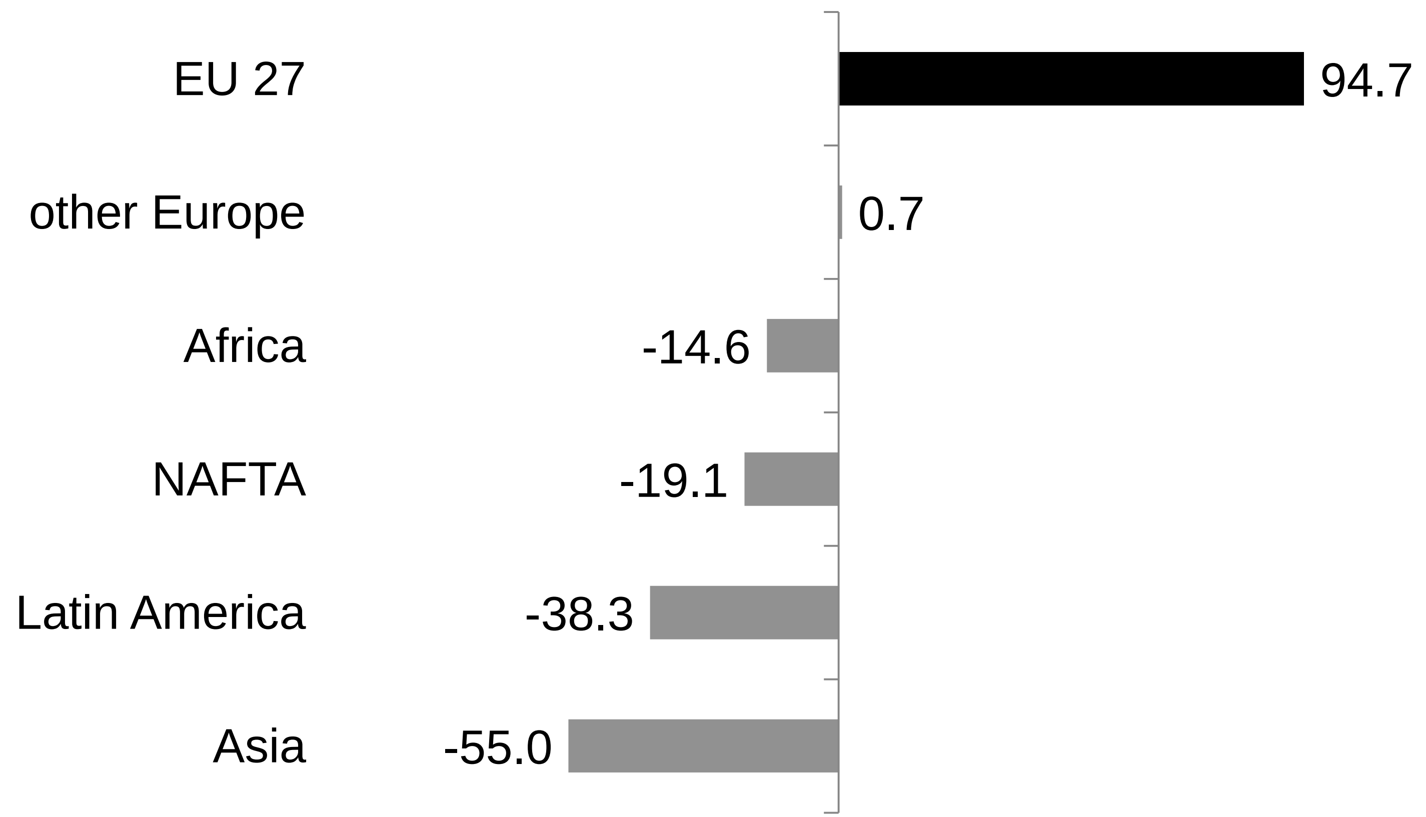
Europe: net-exporter of chemicals

Trade balance by regions

In bn Euro, 2010



Source: Chemdata International ,VCI

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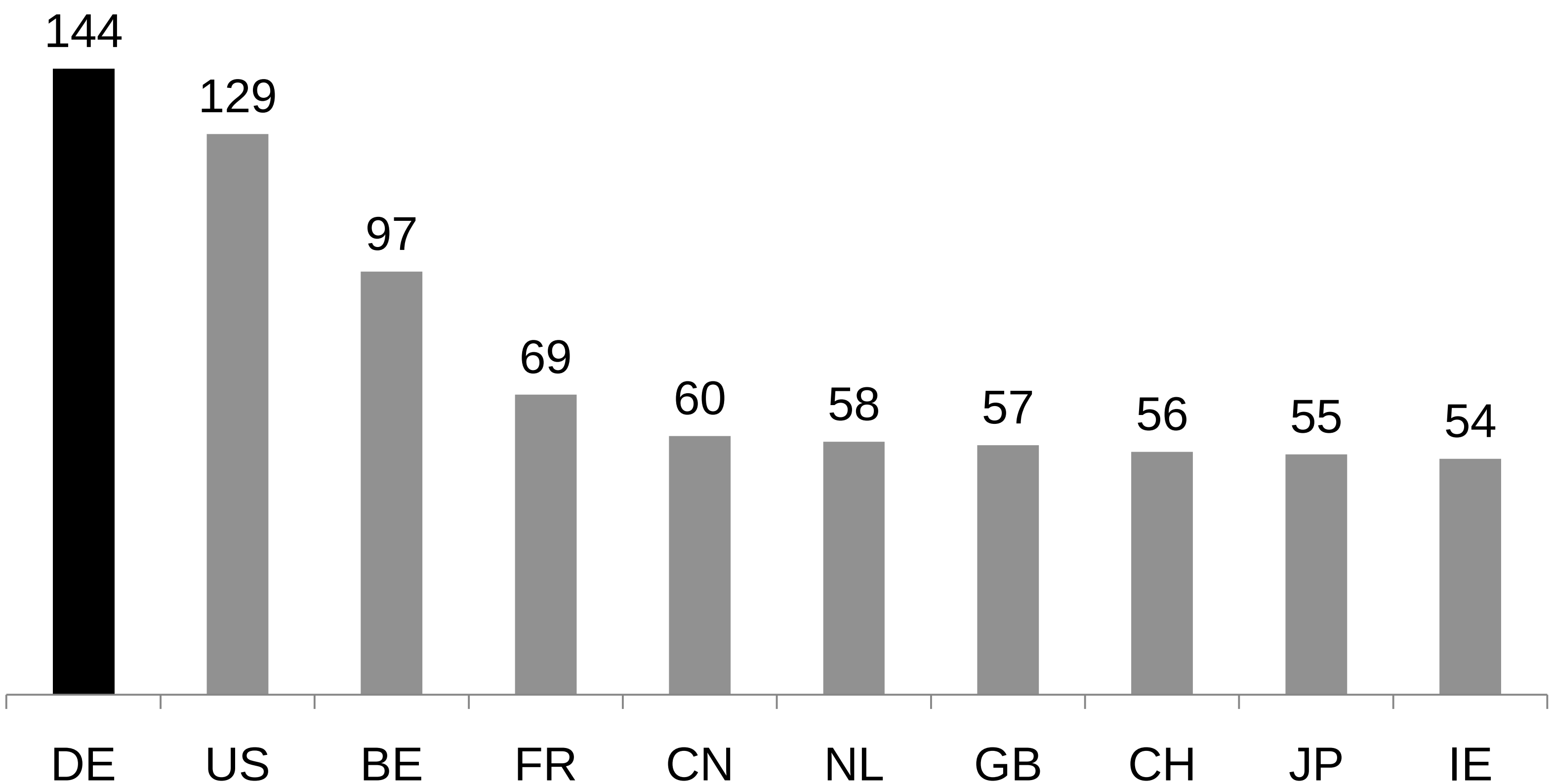
Germany: world champion of chemical exports

TOP 10: Chemical exports

In bn Euro, 2010

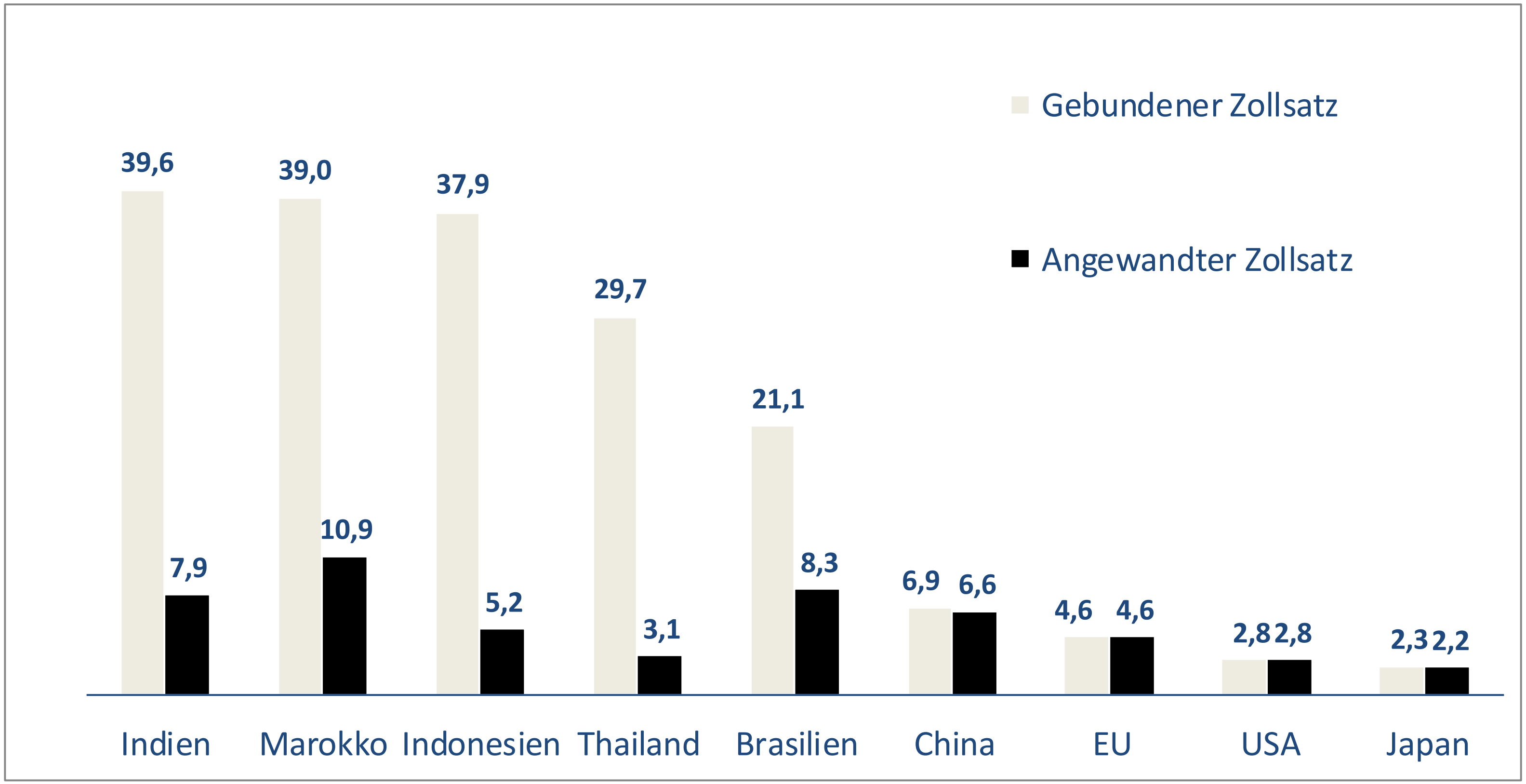


Source: Chemdata International ,VCI

Chemical tariffs in emerging markets

Import tariffs on chemical products

In %, 2010



Source: WTO / ITC / UN

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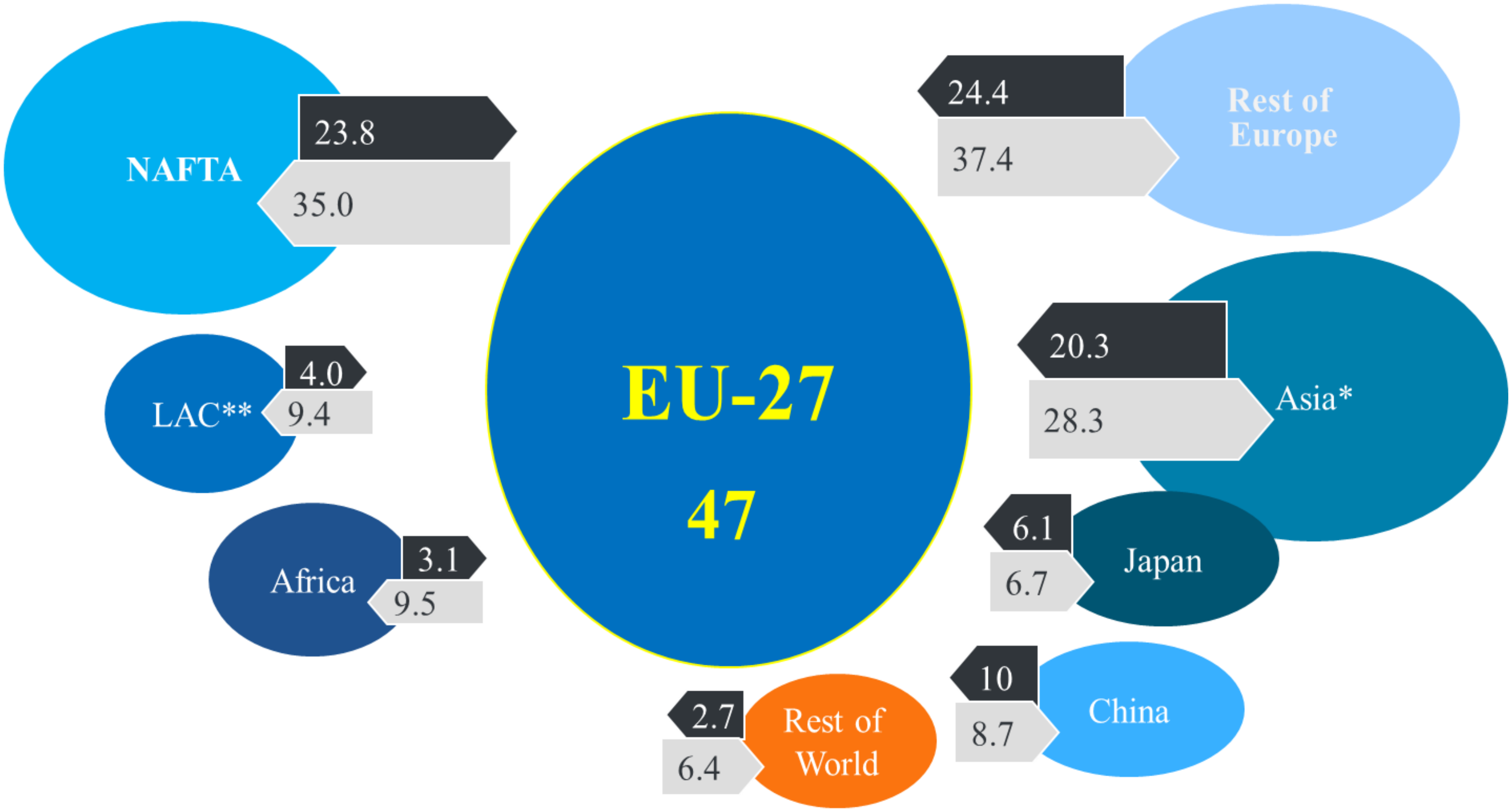
EU chemical exports and imports by regions 2010

Trade streams of EU chemicals in bn. Euro (2010)



* excludes Japan & China **Latin America and the Caribbean

Source: *Cefic Chemdata International*

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Let us recall: July 2008
- Lamy-Package for industrial tariffs (NAMA)

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- Tariff factor industrialized countries: 8, no exceptions!
- Factor developing countries: three alternatives
  - Factor 20 and many flexibilities: 14% of tariff lines flexible, plus 16% trade volume with half tariff cut or 6,5% of tariff lines flexible plus 7,5% trade volume with full exception of tariff cut
  - Factor 22 and average flexibilities: 10% of tariff lines flexible plus 10% trade volume with half tariff cut or 5% of tariff lines plus 5% trade volume with full exceptions of tariff cut
  - Factor 25 without flexibilities
- Anti-concentration provision: at least 20% of tariff lines or 9% of trade volume per chapter need to fall under tariff reduction formula
- Reference to sectoral agreements (i.e. chemicals, but „non-mandatory")

Let us recall: July 2008
- Assessment

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- NAMA compromise proposal from point-of-view of chemical industry:
  - Disappointing but acceptable because of the potential of a sectoral agreement
  - Not satisfactory without sectoral agreement because to big leeway for developing countries on basis of the three alternatives
- **Chemical industry wanted a sectoral agreement!**

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Let us recall: July 2008
- An Analysis of the Failure

- DDA: No clear definition of development status, the second D in DDA
- Strong position of emerging markets (India, China, Brazil)
- Too many unilateral concessions in NAMA towards emerging economies (less than full reciprocity); no recognition of competitiveness! GSP
- Agricultural Policy of developed countries still too protectionist
- Bilateral liberalization is no solution => too many exceptions („Spaghetti-Bowl")
- Solution: A real OECD Free Trade Agreement without exceptions (including in the area of agriculture). This would give developed countries a chance of initiative for new liberalizations. Emerging economies would have to respond.

2011 Developments

- Davos January 2011: yet another „window of opportunity"
- US/China discussions on sectorals
- Commission's compromise proposal
  - CTHA member: 0%
  - China: 2-3%
  - Non-CTHA members: CTHA members now (→ 0%; 5.5%; 6.5%)
- Rejection of the compromise proposal by USA, India, Brazil and China
- July 2011 → DDA in a „coma"

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Conclusion (I)

Sectoral agreements could be a way forward for the WTO **but not** chemicals

YES, BUT

→ Country coverage: countries with a viable chemical industry (3 bn turnover in chemicals)

→ approximately 30 countries (EU =1)

problems: China, India, Brazil, Gulf Co-operation Council

→ Product coverage: chapters 28 – 39 HS

problems: other products? - ethanol ch. 22

→ Exceptions: no exceptions but transition periods

NB: Environmental Goods – problem product coverage

Conclusion (II)

- No political will for a chemical sectoral tariff agreement
- **The problem: China**
- Answer:
  - No DDA agreement **BUT**
  - **Bilateralism**
    - EU – Korea
    - EU – ASEAN countries
    - EU – India
    - EU – GCC
    - EU – Mercusor
    - etc.
  - Yet FTAs seem to be nearly as difficult as WTO negotiations (exceptions)

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