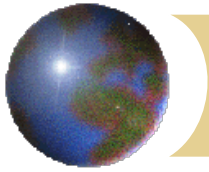


*Implications of the 2008
Agricultural and NAMA Modalities
for Developing Countries*

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der Mensbrugghe**

8 February 2010

This work represents the views of the authors alone



Why examine the Modalities?

- ✚ Masochism?
- ✚ To measure the pain?
- ✚ To measure the gain?



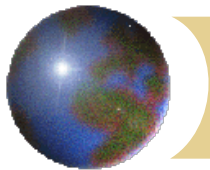
Issues

- ✚ Outline of the December 2008 Modalities
- ✚ Implications for tariffs levied & faced
- ✚ Implications for welfare
- ✚ Market access security



Agricultural Modalities

- ✚ Abolition of export subsidies
 - ▣ But current level is trivially low
- ✚ Limits on domestic support
 - ▣ Unclear to what extent they will bind
- ✚ Market access reform
 - ▣ Likely to bring about substantial reductions in tariffs in some countries



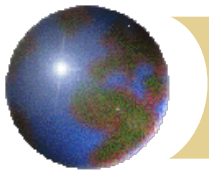
The Tiered Formula for Agriculture

	Developed		Developing	
<i>Band</i>	<i>Range</i>	<i>Cut</i>	<i>Range</i>	<i>Cut</i>
A	0-20	50	0-30	33.3
B	20-50	57	30-80	38
C	50-75	64	80-130	42.7
D	>75	70	>130	46.7
Average cut	Min	54%	Max	36%



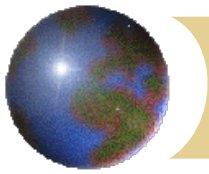
Deeper cuts

Tariff Escalation Products	Processed products subject to tariff escalation are moved into the next highest tier. Top tier– add 6% pts
Tropical and diversification products	Tariffs $\leq [25 \text{ or } 0] \rightarrow 0$ Higher tariffs put in top tier Products in top tier cut by 8% pts more



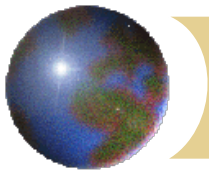
Country flexibilities

- ✦ Least Developed Countries
 - ▣ No cuts required. Contribute by raising bindings
- ✦ Small & Vulnerable Economies (SVEs)
 - Generally < 0.1% of world trade
 - Cuts generally 10% pts less than in other economies. Or an average-cut of 24%
- ✦ Recently-Accessed Members (RAMs)
 - Cuts reduced by 5% pts in 1st 2 bands; 10% pts in higher bands; zero cuts below 10%
 - Delay till 1 year after full implementation
 - 1/10th more Special Products
- ✦ Para 6 Countries (NAMA only)
 - <35% of tariffs bound
 - No cuts but must bind most tariffs



Product flexibilities: Sensitive Products

- ✚ Available to all members
- ✚ [4-6]% of lines for industrial countries; 1/3 more for developing; 2% more if >30% of bindings in top tier
- ✚ If formula cut reduced by 2/3, TRQ must be increased by 4% of domestic consumption
 - ▣ If cut reduced by 1/3, TRQ increase is 3.5-5.5% of consumption



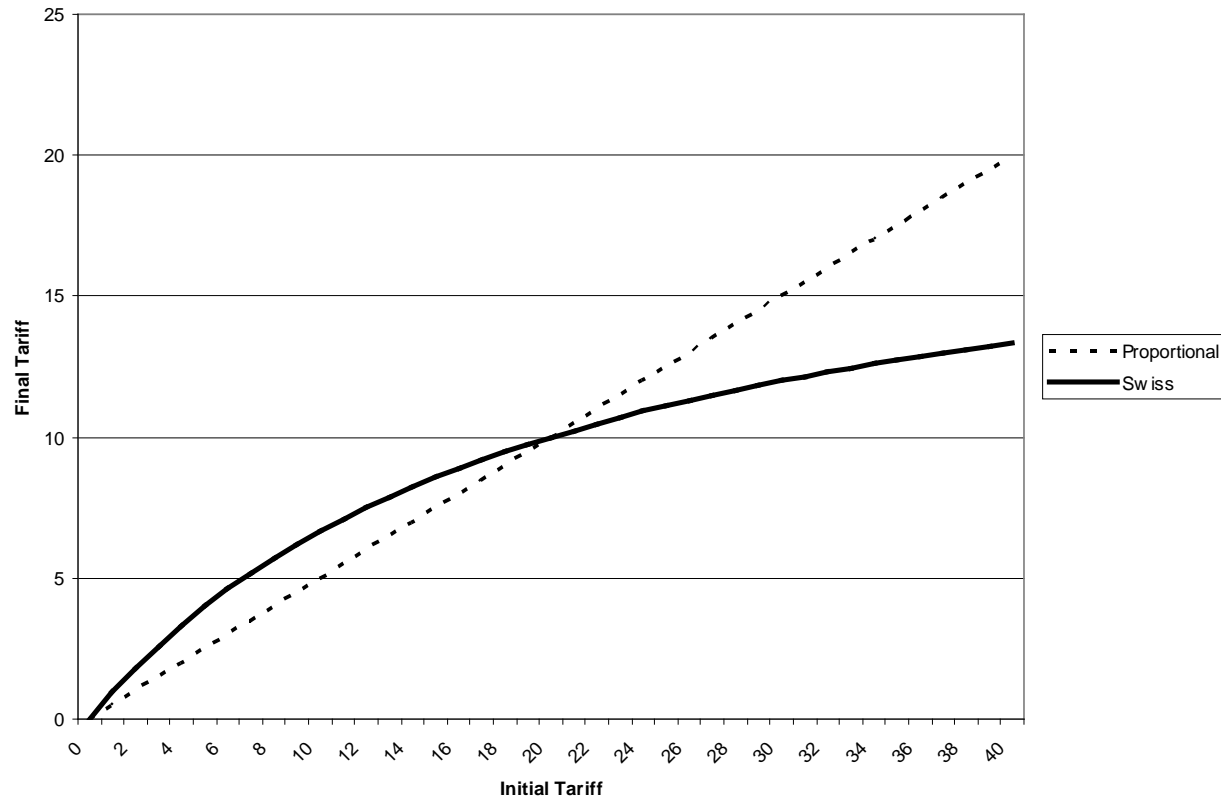
Product Flexibilities: Special Products

- ✦ Developing countries self-designate
- ✦ Between 8 and 20% of tariff lines
- ✦ Either 40% of these lines subject to zero cuts– or all subject to zero cuts
 - ▣ Remainder cut by an average of 15% with a minimum of 12% and a max of 20%



NAMA: Swiss Formula

$$t_1 = a_i * t_0 / (a_i + t_0)$$





Swiss Formula Coefficients

Developed

$$a = 8$$

Developing:

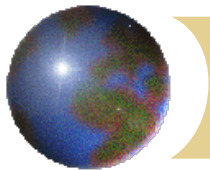
$$x = 20 \text{ with}$$

- (i) $\leq 6.5\%$ unbound on $\leq 7.5\%$ of imports, or
- (ii) $\frac{1}{2}$ cuts on 14% of lines $\leq 16\%$ imports, or

$$y = 22 \text{ with}$$

- (i) 5/5% of tariff lines/imports uncut, or
- (ii) 10/10% of lines/imports half of formula

$$z = 25 \text{ with no flexibilities}$$



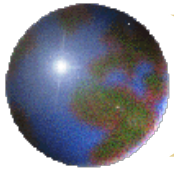
Selection for product flexibilities

- ❖ Highest tariff rule frequently used
 - ❖ Highest bound tariff includes many products with huge binding overhang and no need to cut
 - ❖ Many of the highest applied tariffs are on minor products
- ❖ Instead, we use a rule derived in Jean, Laborde and Martin (2010)-- based on political objective functions
 - ❖ Political-economy cost of tariff cuts → v. simple rule for cost of a particular product
 - ❖ $= \frac{1}{2} S_j \hat{p}^2$
 - Huge adverse impacts on efficiency. Much less on Access



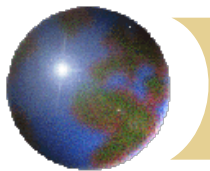
Approach to implementation

- ✦ Apply rules based on the modalities to bound tariff rates
- ✦ Include sensitive/special products
 - ▣ Search to ensure constraints not exceeded
- ✦ Check that agric tariff cuts meet minimum average-cut requirement for industrial countries/maximum average-cut for developing countries
 - ▣ Adjust cuts if needed



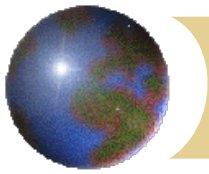
Tariff Scenarios

- ⊕ Base
- ⊕ B—Formula without flexibilities
- ⊕ D—Formula plus flexibilities



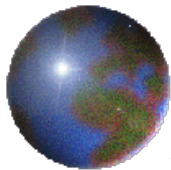
Agricultural tariffs levied, %

	Base	Formula	Flex
Australia NZ	2.5	1.5	1.9
Bangladesh	16.4	16.4	16.4
Brazil	4.8	4.7	4.8
Canada	10.7	5.1	8.6
China	7.8	5.3	7.5
EU-27	15.9	6.6	10.2
India	59.2	54.6	59.2
Indonesia	7.6	7.0	7.6
Japan	29.8	14.0	20.4
Korea and Taiwan Pr.	27.8	18.5	27.1
USA	4.8	2.1	3.0
WB Classification			
All countries	14.6	9.0	11.9
High income countries	15.5	7.5	11.1
LDCs	12.5	12.2	12.5



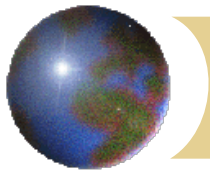
Agricultural tariffs faced, %

	Base	Formula	Flex
Australia NZ	17.3	10.2	13.9
Bangladesh	14.7	12.6	14.4
Brazil	18.8	9.8	13.7
Canada	9.0	5.2	6.8
China	16.8	9.7	13.8
EU-27	16.6	10.6	13.6
India	10.1	7.2	8.9
Indonesia	21.5	19.4	20.4
Japan	14.0	9.9	12.7
Korea & Taiwan	16.0	10.8	12.8
USA	14.0	8.5	11.3
WB Groups			
All countries	14.6	9.0	11.9
High inc.tries	15.1	9.3	12.3
LDCs	7.4	6.5	7.1



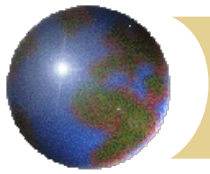
NAMA tariffs levied, %

	Base	Formula	Flex
Australia NZ	3.6	2.4	2.4
Bangladesh	18.3	12.5	18.3
Brazil	8.5	7.4	7.8
Canada	0.9	0.5	0.5
China	5.6	3.9	4.4
EU-27	1.8	1.0	1.0
India	12.9	11.7	12.0
Indonesia	3.9	3.5	3.9
Japan	1.3	0.7	0.7
Korea & Taiwan Pr.	4.0	2.8	3.1
USA	1.5	0.8	0.8
WB Groups			
All countries	2.9	2.0	2.3
Developing (non-LDC)	6.1	4.6	5.3
High income	1.6	1.0	1.0
LDCs	10.9	8.0	10.9



NAMA Tariffs Faced, %

	Base	Formula	Flex
Australia NZ	2.9	2.0	2.6
Bangladesh	3.7	1.7	1.8
Brazil	2.6	1.9	2.2
Canada	0.4	0.3	0.3
China	3.8	2.3	2.5
EU-27	3.6	2.7	3.0
India	4.6	3.1	3.6
Indonesia	3.4	2.2	2.5
Japan	4.5	3.0	3.5
Korea & Taiwan Pr.	3.8	2.6	2.9
Sub-Saharan Africa	2.1	1.4	2.0
USA	1.8	1.4	1.5
WB Groups			
All countries	2.9	2.0	2.3
Developing (non LDC)	2.9	1.9	2.1
High income	3.0	2.1	2.4
LDCs	2.8	1.5	1.8



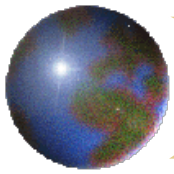
Welfare gains, optimal weights, \$bn

	Full	Formula	Flex
Australia/N Zealand	16.8	4.8	2.4
EU 27	180.4	58.7	39.3
USA	53.8	14.5	9.9
Japan	64.9	29.2	21.8
Korea & Taiwan	98.7	21.2	9.8
Bangladesh	0.2	-0.2	-0.2
Brazil	30.8	9.8	4.7
China	-8.6	9.7	8.9
India	24.3	6.1	2.4
Indonesia	3.9	1.5	1.0
Thailand	8.7	4.5	2.6
High income countries	484	140.6	90.7
Developing Countries	241.2	61.5	30.7
Sub Saharan Africa	30.4	6.6	0.6
World total	725.2	202.1	121.4

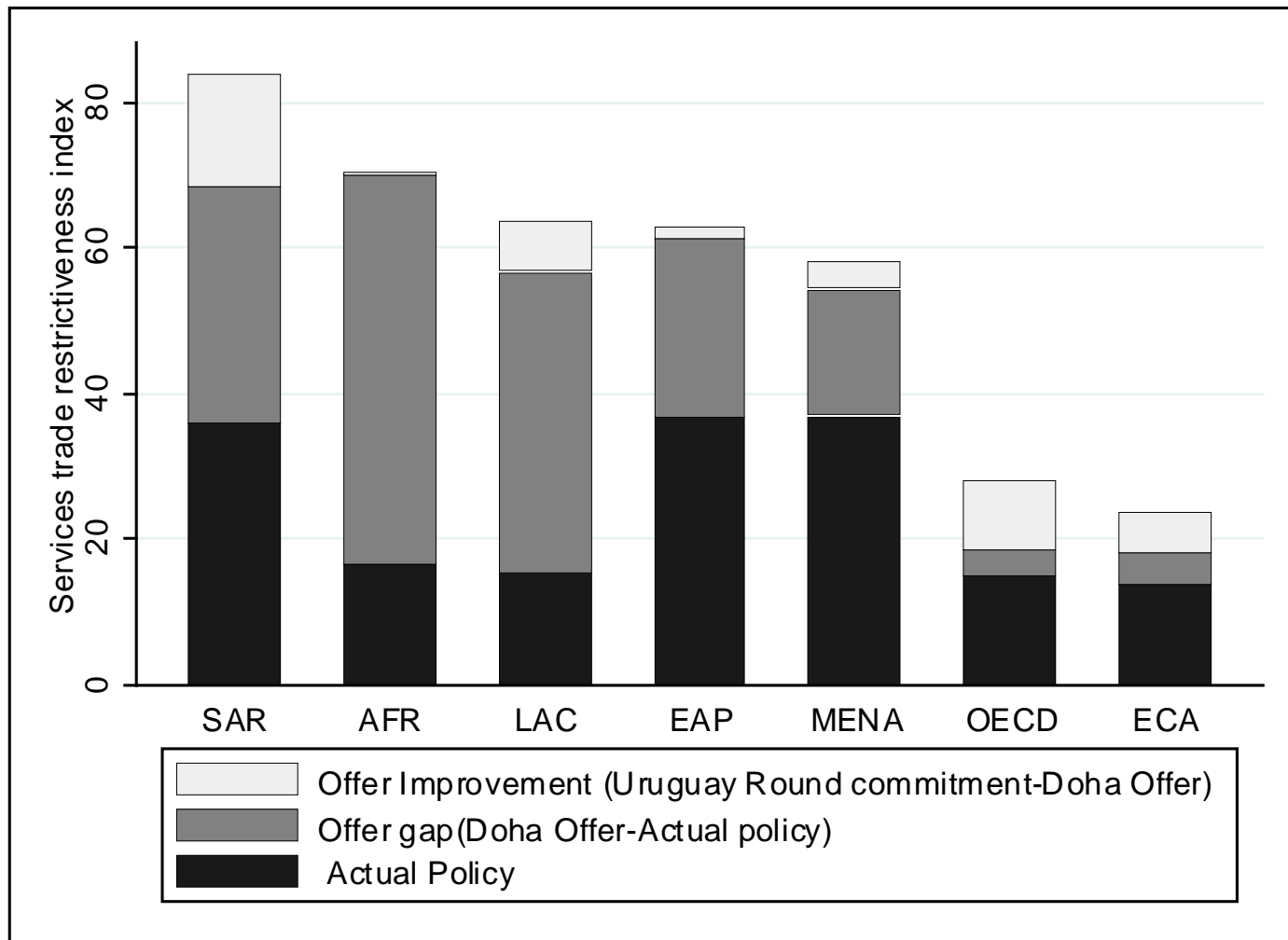


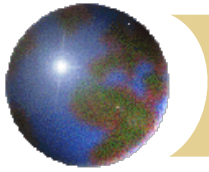
Doha Matters for many other reasons

- ✦ Increased security of market access
 - ▣ In agriculture
 - ▣ In NAMA
 - ▣ In services
- ✦ Initial steps on fishing subsidies
- ✦ Duty-free-quota-free access for LDCs
 - ▣ Although the 3% exceptions diminish



Tangible improvements in services





Conclusions

- ❖ Modalities involve deep cuts in tariffs with exceptions that reduce these cuts
- ❖ Appear to be manageable cuts in many/most countries, and some worthwhile remaining market access gains
- ❖ Flexibilities reduce the gains substantially, but leave some significant gains