

## Idea Paper Extension WTO Pharmaceutical Agreement

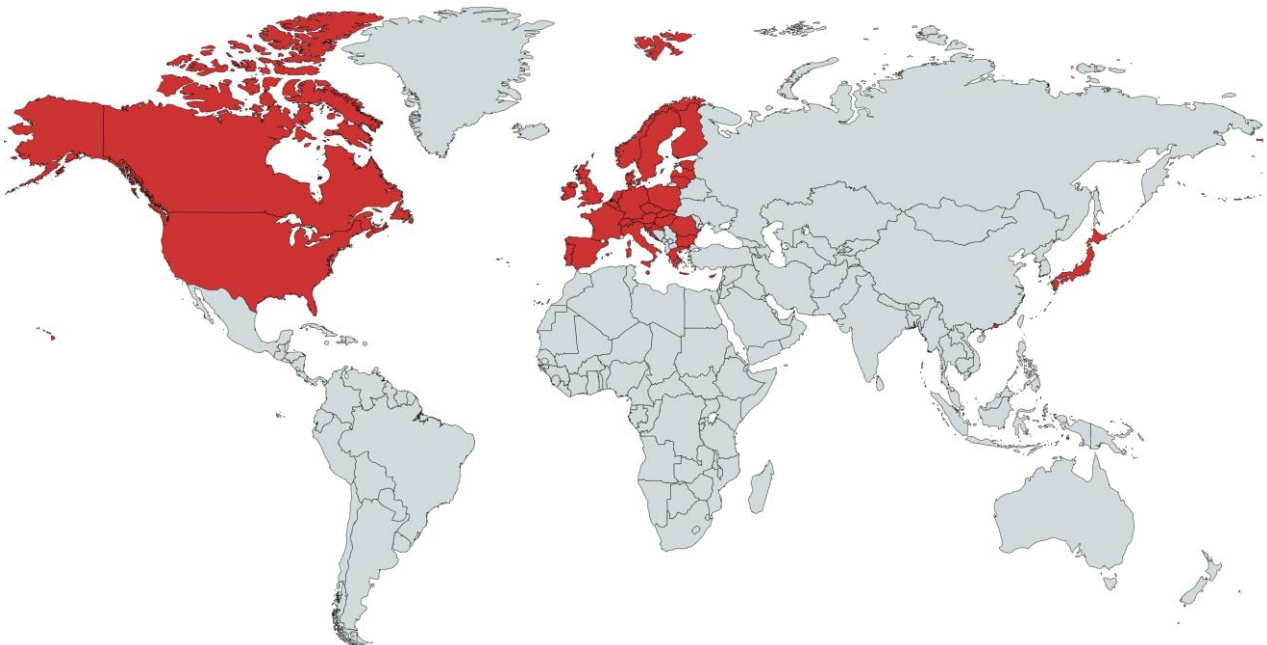
Tariffs, taxes and non-tariff barriers hamper urgently needed global trade in goods necessary to tackle the Corona-Crisis. During the crisis, trade in corona-relevant products increases and thus planning certainty becomes more important for business. All countries should abolish all tariffs and other barriers that affect the deployment of medical equipment, medicines and other essential goods and services. The extension of the WTO Pharma-Agreement can contribute significantly to the global fight against Corona.

### What is needed?

- Cross-border trade in health products should be developed without tariffs and additional customs bureaucracy. **All countries should join the WTO Pharmaceutical Agreement.**
- **So far, the agreement covers pharmaceutical goods. It should be extended to all health products and -services.**
- Transparency obligations for relevant regulation as well as best practice exchanges should be included in the agreement in order to prevent discriminatory trade barriers.
- Similar to other WTO-agreements, Least Developed Countries should receive special support to facilitate their participation (Trade Facilitation Agreement).

### Who is in so far?

34 members: Canada, 27 EU Member States and the UK, Japan, Norway, Switzerland, USA, Macau.



## Background

In 1995, 22 WTO members created the [WTO Pharma-Agreement](#) to eliminate tariffs on some 7,000 pharmaceutical products, their derivatives and certain chemical intermediates used in the manufacture of medicines. The now 34 members cover 65% of global pharma trade (2016). The agreement provides for the list of products concerned to be updated regularly to include new active substances and intermediate products. Four such updates have been carried out so far (1996, 1998, 2007, 2010).

## Overview for a possible extension

In 2019, global trade of medical products totalled \$2 trillion (5% of global goods trade). Trade of products described as critical and of those which are in severe shortage during the COVID-19 crisis totalled about \$ 597 billion (1,7% of world trade) in 2019.

### What are medical products?

Already covered by the Pharma-Agreement:

- **Medicines** (Pharmaceuticals) – including both dosified and bulk medicines

Not yet covered by the Pharma-Agreement:

- **Medical supplies** – refers to consumables for hospital and laboratory use (e.g. alcohol, syringes, gauze, reagents etc)
- **Medical equipment and technology**
- **Personal protective products** – hand soap and sanitizer, face masks, protective spectacles

### Global tariffs on medical products

The average WTO applied tariff on medical products is 4,8%. More than half of the WTO members levy tariffs of 5% or lower. The EU levies 1,5%, China 4,5% and the US 0,9%. The average WTO tariff for medicines is 2,1%, for medical equipment 3,4%, for medical supplies 6,2% and for personal protective products 11,5%. 54% of WTO members have tariffs on pharmaceuticals, 70% on medical devices, 77% on disinfectants, 95% on soap. A number of G20 countries maintain tariffs on medicines of over 8%. Since tariffs are often applied at the beginning of the value chain, they represent a cost factor that increases in importance and magnitude as a result of further taxes and processing.

**Medicine:** More than half of the WTO members levy no tariff, no member levels tariffs higher than 15%.

**Medical supplies:** The average WTO tariff is 6,2%.

**Medical equipment:** 19 WTO members levy no tariff; three members levy more than 10%. 80% of the products are covered by the expansion of the Information Technology Agreement (ITA II). ITA II members apply on average 0,4% tariffs compared to 4,1% for non-members. Important

products like respirators are not covered by ITA II. The average tariffs are 3,3% for these; 67 Members including the EU and US apply no tariffs.

**Personal protective products:** 29 members apply 5% or less, 47 members apply at least 15%. Hand soap average is 17%, some countries go above 50%. Face masks have an average WTO tariff of 9,1%.

### **Bound WTO-tariffs mean certainty for business**

75% of the medical tariffs have been bound through WTO-agreements. There is a large gap between bound and actually applied tariffs of WTO-Members: Many countries partially apply lower or no tariffs but have not bound them in WTO-agreements at this level. At short notice, these tariffs can thus be increased up to the tariff ceilings bound in WTO-agreements. 29 WTO-Members have an average bound of 50% or more. Extending the WTO Pharma-Agreement is important for business to have planning certainty in medical goods trade by reducing global tariff ceilings.

Source: <https://www.wto.org>