

## *Chapter 5*

# TARIFFS

### 1. OVERVIEW OF RULES

Tariffs are the most common kind of barrier to trade; indeed, one purpose of the WTO is to enable members to negotiate mutual tariff reductions. Before we consider the legal framework that disciplines tariffs, we must understand the definition of tariffs, their functions and their component elements (rates, classification, and valuation).

#### *Definition of “Tariff”*

Strictly defined, a tariff is a tax imposed on imported or exported goods.<sup>1</sup> In general parlance, however, it has come to mean “import duties” charged at the time goods are imported.<sup>2</sup>

#### *Functions of Tariffs*

Tariffs have three primary functions: (1) to serve as a source of revenue; (2) to protect domestic industries; and (3) to remedy trade distortions (as a sanction).

The revenue function simply means that the income from tariffs provides governments with a source of tax revenue. In the past, the revenue function was indeed a major reason for applying tariffs, but economic development and the creation of systematic domestic tax codes have reduced its importance in developed members. For example, Japan generates about 897.2 billion yen in tariff revenue per year, which represents approximately 1.9 percent of total tax revenue (based on Fiscal Year 2012). In some developing members, however, revenue generation may still be an important function of tariffs.

Tariffs are also a policy tool used to protect domestic industries by changing the competitive conditions, placing otherwise competitive imports at a commercial disadvantage. In fact, a cursory examination of the tariff rates employed by different members suggests that they reflect, to a considerable extent, the state of competitiveness of domestic industries. In some cases, “tariff quotas” are used to strike a balance between market access and protecting the domestic industry. Tariff quotas work by

---

<sup>1</sup> With regard to the scope of general most-favoured-nation (MFN) treatment, GATT Article I prescribes that MFN treatment includes “customs duties and charges of any kind imposed on or in connection with importation or exportation . . . .” It thus deals with not only tariffs on importation but also those on exportation.

<sup>2</sup> In Article 3 of Japan’s Customs Tariff Law, a tariff is defined as follows -- “Customs duty shall be imposed on imported goods on the basis of the value or quantity thereof taken as the basis for custom valuation.”; the Law explicitly limits tariffs to importation.

assigning low or no duties (in-quota duties) to imports up to a certain volume and then higher rates (out-of-quota duties) are applied to imports that exceed the initial volume.

Although the WTO generally bans the use of quantitative restrictions as a means of protecting domestic industries, it permits the use of tariffs for this purpose.<sup>3</sup> The reason for this is due to an understanding that tariffs are more favorable methods to protect domestic industries than quantitative restrictions. (See “3. Economic Aspects and Significance” below.)

Tariffs as sanctions may be used to remedy trade distortions resulting from practices of companies or members found to injure the domestic industry. For example, the Antidumping Agreement allows members to use “antidumping duties” to remedy proven cases of injurious dumping; similarly, the Subsidies Agreement allows members to impose countervailing duties when an exporting member provides its manufacturers with subsidies that, while not specifically banned, nonetheless injure the domestic industry of an importing member. (See Chapters 6 and 7 for further discussion.)

### ***Tariff Rates***

Obviously, one of the most important components of a tariff measure is the rate of the tariff. As noted in the tariff function discussion, above, additional tariffs can reduce the welfare of the world economy as a whole. Since 1947, the GATT has been the standard bearer in an on-going process of reducing tariff levels. During tariff negotiations (known as “rounds”, including the “Uruguay Round”, which finished in 1994), members set ceilings on their tariff rates for individual products and/or sectors. This is known as the “bound rate” and refers to the highest allowable rate a member may impose on imports of a specific product; the rate that is actually applied is referred to as the “applied rate.” The GATT has been successful in encouraging mutual reduction of these rates.

The Uruguay Round resulted in a final average bound rate for industrial goods (weighted average by trade volume) of 1.5 percent for Japan, 3.5 percent for the United States, 3.6 percent for the EU, and 4.8 percent for Canada. Japanese tariff rates are therefore comparatively low. In addition, since the conclusion of the Uruguay Round, there have been further efforts to reduce tariffs in specific sectors *i.e.*, Information Technology Agreement (ITA) and Duty-Free Treatment for Specified Pharmaceuticals. Figure 4-1, below, provides a detailed comparison of average bound rates under the Uruguay Round for major trading partners.

On the other hand, there are some items in the agricultural sector, for example, the tariffs of which are maintained so high that they are called “tariff peaks”; examples include peanuts in the United States, bananas in the EU, butter in Canada and manioc in Republic of Korea.

---

<sup>3</sup> GATT Article XI prescribes that “No prohibitions or restrictions other than duties, taxes or other charges . . . shall be instituted or maintained by any Member”. Article XI, therefore, clearly bans quantitative restrictions while leaving the door open for tariffs.

**Figure II-5-1 Changes of Average Bound Tariff Rates (Non-agricultural Products)**

		Japan	US	EU	Republic of Korea	Australia	Indonesia	Thailand	Canada	Malaysia	Philippines	India
Average Bound Tariff Rate (%)	Pre UR	3.8	5.4	5.7	18.0	20.0	20.4	37.3	9.0	10.2	23.9	72.2
	Post UR	1.5	3.5	3.6	8.3	12.2	36.9	28.0	4.8	9.1	24.6	32.4
Binding ratio (%)	Pre UR	98	99	100	24	36	30	12	100	2	9	12
	Post UR	100	100	100	89	96	92	70	100	79	66	68

Notes:

1. Japanese figures are based on Ministry of Economy, Trade and Industry calculations (excluding petroleum and forestry and fishery products). Average bound tariff rates for industrial sectors including forestry and fishery products are 1.7 percent.
2. GATT Secretariat calculations (excluding petroleum) are used for other members.
3. Average bound tariff rates are based on a trade-weighted average. The average bound tariff rate is calculated as the sum over each tariff line of import value multiplied by the bound rate, divided by the total import value of bound tariff lines multiplied by 100.
4. Scope of bindings rates is the trade-weighted average. Binding ratio equals total import value of bound tariff line divided by total import value.
5. "Pre UR" and "Post UR" refer to tariffs before and after implementation of Uruguay Round commitments.

**Figure II-5-2 Tariff rates of major Members**

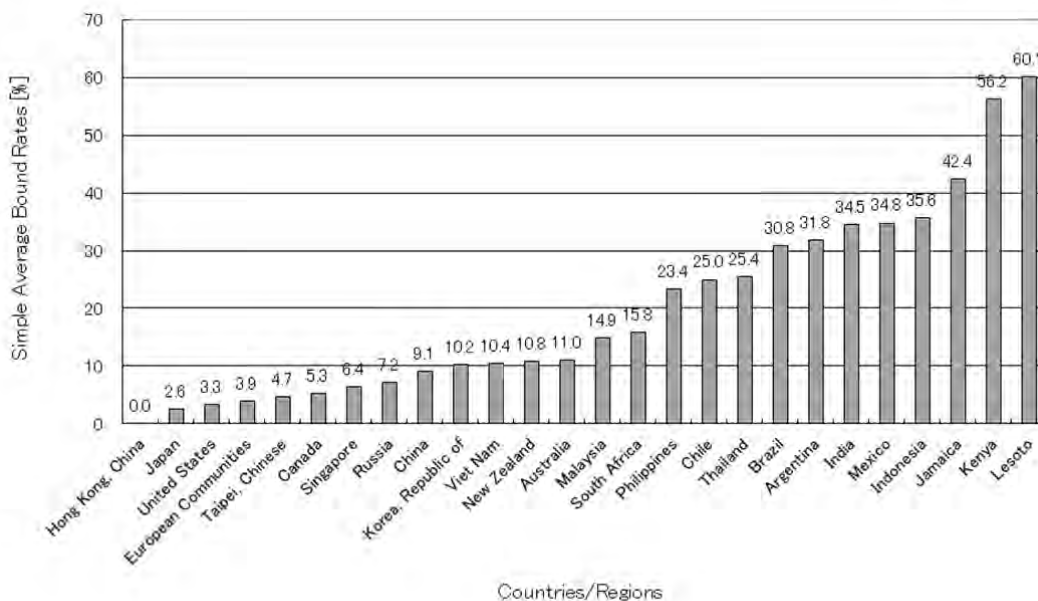
Names of countries and regions	Simple average bound rate (%)		Simple average applied rate (%)		Binding ratio (%)	
	Non-agricultural products	All products	Non-agricultural products	All products	Non-agricultural products	All products
Hong Kong	0.0	0.0	0.0	0.0	37.3	45.6
Japan	2.6	5.2	2.6	4.6	99.6	99.7
USA	3.3	3.5	3.2	3.4	100.0	100.0
EU	3.9	5.2	4.2	5.5	100.0	100.0
Chinese, Taipei	4.7	6.3	4.5	6.1	100.0	100.0
Canada	5.3	6.9	2.4	4.3	99.7	99.7
Singapore	6.4	10.2	0.0	0.2	65.1	69.7
Russia	7.2	7.8	9.4	10.0	100	100
China	9.1	10.0	8.7	9.6	100.0	100.0
Republic of Korea	10.2	16.6	6.8	13.3	93.8	94.6
Viet Nam	10.4	11.4	8.4	9.5	100	100
New Zealand	10.8	10.2	2.2	2.0	100.0	100.0
Australia	11.0	10.0	2.9	2.7	96.7	97.1
Malaysia	14.9	23.0	5.8	6.5	81.9	84.3
South Africa	15.8	19.0	7.4	7.6	95.8	96.4
Philippines	23.4	25.7	5.7	6.2	61.9	67.0

Names of countries and regions	Simple average bound rate (%)		Simple average applied rate (%)		Binding ratio (%)	
	Non-agricultural products	All products	Non-agricultural products	All products	Non-agricultural products	All products
Chile	25.0	25.1	6.0	6.0	100.0	100.0
Thailand	25.4	27.8	8.0	9.8	71.3	75.0
Brazil	30.8	31.4	14.1	13.5	100.0	100.0
Argentina	31.8	31.9	12.8	12.5	100.0	100.0
India	34.5	48.6	10.4	13.7	69.8	73.8
Mexico	34.8	36.1	5.8	7.8	100.0	100.0
Indonesia	35.6	37.1	6.9	7.0	96.1	96.6
Jamaica	42.4	49.6	6.0	7.6	100.0	100.0
Kenya	56.2	95.4	11.7	12.9	1.8	14.8
Lesotho	60.1	78.4	7.4	7.6	100.0	100.0

Source: World Tariff Profiles 2012

- Note:
1. Figures are defined at the tariff line level.
  2. Non-agricultural products are products other than those subject to the Agreement on Agriculture and include forest and fishery products.
  3. The simple average applied rate of some countries exceeds the simple average bound rate because the number of items used to calculate the simple average applied rate and the simple average bound rate are different. The figures do not necessarily indicate that the countries actually apply tariffs that exceed the bound rates.
  4. The bound rate 100.0 is 100% when rounded off to the first decimal place, and therefore 100 means that there are no unbound items.

**Figure 4- 3 Final bound rate of non-agricultural products**



Prepared by the Ministry of Economy, Trade and Industry based on the data of World Tariff Profiles 2013

### ***Tariff Classification***

Like tariff rates, tariff classification represents a basic component of the tariff system. The tariff schedule, which is the standard of each member's tariff system, consists of the tariff classification numbers assigned to each product and the tariff rates applicable to each of those products. The fair administration of this process is critical for proper application of tariff rates. For example, by intentionally classifying a certain product under a classification number with a higher tariff rate, tariff reduction negotiations become practically ineffective. Therefore, tariff classification is extremely significant for administering tariffs.

The GATT contains no rules regarding tariff classification. In the past, members maintained their own systems. As trade expanded, however, members recognized the need for a more uniform classification system, which resulted in the "Harmonized Commodity Description and Coding System" or "HS" system under the auspices of the Customs Co-operation Council (CCC; now known as the "World Customs Organization" or "WCO"). The HS was implemented on January 1, 1988, by the international HS Convention. As of May 2013, 147 members and regions around the world, including Japan, the United States, and the EU are Contracting Parties to the Convention. Members of the HS Convention must harmonize the lists of items included in their tariff and statistical tables with the list of items found in the annex to the Convention (6 digits). The tariff schedules and the export/import statistical tables attached to Japan's Customs Tariff Law and Temporary Tariff Measures Law conform to the Harmonized System.

Although the HS nomenclature is created to reflect the current state of international trade, technological advances continue to bring out new products and change the nature of international trade. The Harmonized System has been revised five times since 1988 (in 1992, 1996, 2002, 2007 and 2012) to accommodate these changes. In June 2009, parties to the General Meeting of the WCO agreed to add and modify some headings and sub-headings concerning environmental protections, etc. as part of the 2012 HS nomenclature revision. (The new HS nomenclature was approved by the WCO Council in June 2009 and took effect in January 2012.)

### ***Customs Valuation***

The final component of tariffs is the valuation of goods for tariff purposes. If members assign arbitrary values for tariff purposes, they render tariff rates meaningless. GATT Article VII and the "Agreement on Implementation of Article VII" (Customs Valuation Agreement) define international rules for valuation.<sup>4</sup>

---

<sup>4</sup> The Customs Valuation Agreement states that, "the primary basis for customs value under this Agreement is 'transaction value' as defined in Article 1...together with Article 8...adjustments." This is an explicit affirmation that the price actually paid is to be used as the basis for customs valuation. Article 2 of the Agreement provides for the transaction prices of similar goods to be used in exceptional cases. In addition, Article 7 of the Agreement bans certain determinations of customs value (e.g., the selling prices

## 2. LEGAL FRAMEWORK

The WTO bans, in principle, all quantitative restrictions, but allows the imposition of tariffs. It then attempts to reduce the barrier posed by tariffs through tariff negotiations among Members, whereby they agree to bind themselves to maximum rates inscribed in their tariff schedules (“bound rates”) for individual items (generally following the tariff classification nomenclature) and negotiate their progressive reduction.

### *GATT Disciplines*

GATT Article II obligates members to apply tariff rates that are no higher than their bound rates. GATT Article XXVIII specifies that when Members wish to raise their bound rates or to withdraw tariff concessions, they must negotiate and reach agreements with the Members with whom they had initially negotiated. In addition, they must enter into consultations with major supplying members that have a substantial interest in any change in the bound rate.

### *Disciplines on Tariff Classification*

Article 3.1 of the International Convention on the HS stipulates that the signatories “shall not modify the scope of the sections, chapters, headings, or subheadings of the Harmonized System.” This language ensures uniform administration of the HS. However, the HS Committee regularly reviews classifications in order to keep pace with technological development. The principle is that revisions of classification should not affect tariff bindings. If the classification of a good changes in such a way as to raise its bound rate, members must enter into negotiations under the terms of GATT Article XXVIII.

### *The Importance of “Binding”*

It should be obvious from the discussion so far that WTO rules do not preclude Members from setting high bound rates or not binding some items. The WTO rules therefore allow Members to raise their applied tariff rates up to the level of their bound rates and to raise tariff rates at will for unbound items. However, even if the rules allow such measures, sudden raises in tariffs will undoubtedly and inevitably cause adverse effects on trade.

Moreover, non-binding tariff rates are also contrary to the spirit of the WTO, which is based on the idea of using “binding” to reduce tariffs. Thus, the importance of binding cannot be overemphasized. As a result of the Uruguay Round, binding coverage (total number of bound tariff products / total number of products, %) of Japan, the United States, the EU, and Canada is now about 100 percent. The percentage of other members and regions is somewhat lower, and in some cases substantially lower. For example: the Republic of Korea (93.8 percent), Indonesia (96.1 percent), Thailand (71.3

---

in the member of importation of goods produced in such member and minimum customs values).

percent), Malaysia (81.9 percent), Singapore (65.1 percent), and Hong Kong, China (37.3 percent).<sup>5</sup>

When making concessions, Members should coordinate bound tariff rates and applied tariff rates wherever possible in order to improve predictability. The general practice among developing members, however, is to maintain a large disparity between bound and applied tariff rates. This practice allows a member to raise tariff rates at will up to the level of the bound rates. In terms of predictability, this poses a problem. The practice of binding tariff rates at such higher levels over the applied tariff rates must be corrected. Developed members seldom engage in this practice.

### 3. ECONOMIC ASPECTS AND SIGNIFICANCE

This section analyses some of the basic economic issues associated with tariffs. Specifically, it examines why tariffs are preferable to quantitative restrictions and why it is desirable that they be reduced. This section then considers the importance of international tariff-reduction negotiations under the WTO.

#### *The Effect of Tariffs*

The most basic effect of an import tariff is to raise domestic prices in the country imposing the tariff. In “small countries” (defined for our purposes as members that do not have an influence on world prices), the domestic prices will rise in equivalent to the amount of the tariff. In “large countries” (those that have an impact on world prices), the price increase is somewhat less than the amount of the tariff because the tariff will reduce demand, which reduces world prices.

The rise in domestic prices of the imported goods expands domestic production while at the same time, decreasing demand. Tariffs benefit competing domestic producers, but harm consumers. Obviously, the importing Member also generates tax revenues from the tariff.

Tariffs have different benefits and costs to different groups within an economy; the relative sizes of these benefits and costs create changes in the economic welfare of the importing Member as a whole. For “small members” with no influence on world prices, the imposition of a tariff necessarily reduces economic welfare, while for “large members” a tariff can improve economic welfare because world prices are depressed, improving the terms of trade. If tariffs are sufficiently low, the improvement in terms of trade will always be greater than the costs of the tariff; there exists in theory an “optimal tariff” that will maximize economic welfare. However, an improvement in one Member’s terms of trade corresponds to a deterioration in the terms of trade of other Members and, therefore, a reduction in the economic welfare of trading partners. This may cause frustration among the trading partners.

When goods are produced using imported raw materials, the tariff rate on the finished goods by itself does not generally constitute the level of protection that the finished goods enjoy. Tariffs on the raw materials must also be considered in terms of

---

5 Source : World Tariff Profiles 2013

overall trade. If the tariff on the raw materials is lower than the tariff on the finished product, the level of protection afforded the finished product is higher than the tariff rate on the finished product would suggest (protection rates that take account of tariffs on raw materials are called “effective protection rates”). It should be underscored, therefore, that even low tariff rates can provide full-fledged protection for domestic industries.

### ***The Effect of Quantitative Restrictions (see Chapter 3 “Quantitative Restrictions”, Part II)***

Quantitative restrictions take many forms, the most common being import quotas. Theoretically, the effect of quantitative restrictions is the same as that of import tariffs, *i.e.*, a reduction of the amount of goods imported and higher domestic prices for those goods (the “equivalence theorem”).

Quotas differ from tariffs because the importing Member’s government gains no revenue from quotas while the importers to whom the licenses are allocated obtain excessive profits (“rents”). (However, the importing Member government could obtain the same revenues as from tariffs if licenses were sold to importers by auction.)

It is generally understood that the “equivalence theorem” does not hold when the domestic market is not under perfect competition (*e.g.*, in the case of a monopoly), when the market is growing, or when there are changes in the price of the merchandise. In these cases, quantitative restrictions will usually have a more restrictive effect on the market than will tariffs.

### ***Why Tariffs are Preferable to Quantitative Restrictions***

As we have noted, the WTO Agreement generally bans all quantitative restrictions, but permits tariffs to be used to protect domestic industries. There are several reasons for this. Quantitative restrictions tend to lack transparency in their application (for example, decisions on license awards and their quantities may be arbitrary) compared to tariffs. Similarly, quantitative restrictions impose flat restrictions on imports regardless of changes in world prices and foreign-exchange rates. There is also no guarantee that import quota allocation will be fair. Finally, where tariffs are used, exporters can export by improving their efficiency.

### ***Justifications for Tariff Reductions***

The WTO Agreement permits tariffs as a means of industrial protection (unlike quantitative restrictions, which are generally banned), but also seeks to gradually reduce those tariffs through negotiations among members.

Reducing tariffs mitigates the “loss of efficiency” generated by the distortions to the price system that the tariff causes (the “dead weight loss”). Reducing the degree of market protection also expands the market, allowing producers and exporting members to enjoy economies of scale, bringing benefits to the economy as a whole.

There are also arguments against reducing tariffs. Tariffs have certain benefits because they improve the terms of trade for “large countries” (the “optimal tariffs”



argument). Similarly, when there are domestic market failures, tariffs might be seen as a means of increasing welfare.

However, these arguments are not necessarily convincing. Any increase in welfare through an “optimal tariff” is achieved at the expense of trading partners and reduces worldwide economic welfare relative to potential results in a free trade context. Even the economic welfare of the Member imposing the tariff is uncertain because retaliatory measures imposed by trading partners may ultimately result in reduced economic welfare. Thus, domestic market failures would be better addressed directly of domestic measures than through border measures such as tariffs.

### ***Income Redistribution and the Importance of International Negotiations***

From an economic standpoint, it would seem reasonable to conclude that tariff reductions are basically beneficial because they increase economic efficiency and are therefore indisputably desirable. It is rare, however, for Members to eliminate their tariffs completely. In practice, Members often impose tariffs not to increase overall welfare, but to redistribute income. This is a reflection of political will, as influenced by the lobbying activities of interest groups and others.

When tariffs are imposed for politically motivated reasons, it is difficult to achieve voluntary reductions merely because they will increase the economic welfare of the society as a whole. This domestic political reality is what makes international negotiations to reduce tariffs — the basic strategy of the WTO — so important. When international negotiations are conditional upon mutual benefits, governments are more likely to consent to tariff reductions and trade liberalization.

## **4. PREFERENTIAL TREATMENT FOR LDCs**

During the Lyon Summit of June 1996, the Director-General of the WTO advocated a tariff waiver program for least-developed members (LDCs). Subsequent Summits have also advanced declarations calling for studies on ways to improve LDCs' access to markets.

With these backgrounds, an initiative to provide duty-free and quota-free treatment to essentially all products from LDCs was proposed during the third WTO Ministerial Conference in December 1999 in Seattle. Unfortunately, an agreement could not be reached at that time.

In February 2000, the Director-General of the WTO again proposed this initiative as a confidence-building measure for developing members in preparation for the launch of the new round of negotiations. At a United Nations Conference on Trade and Development (UNCTAD) meeting in February 2000, then Japanese Prime Minister Keizo Obuchi declared his intention to promote the LDCs initiative and encourage the participation of other major members. By the end of March of that year, Japan, the EU, the United States and Canada reached an agreement that developed Members would provide least-developed Members with enhanced market access by according and implementing duty-free and quota-free treatment consistent with domestic requirements and international agreements for all essentially products originating in LDCs.

After this agreement, the initiative was formally announced by Director-General Moore at the WTO General Council in May 2000. At that time, Chile, the Czech Republic, Hungary, Iceland, the Republic of Korea, New Zealand, Norway, Slovenia and Switzerland expressed their intention to join.

The Chairman's statement in June 2000 APEC Ministerial Meeting also urged the participation of more APEC member economies in this LDC initiative. It was since then confirmed that Hong Kong, Australia and Singapore would join.

In May 2001, the Brussels Declaration issued by the Third United Nations Conference on LDCs noted that UN members "aim at improving preferential market access for LDCs by working towards the objective of duty-free and quota-free market

access for all LDCs' products in the markets of developed members," and a Programme of Action for LDCs was also adopted. The same course was reaffirmed in the G8 Communiqué issued by the Genoa Summit in July of the same year and in the 2001 Doha WTO Ministerial Declaration. The Brussels Declaration was also reaffirmed in: (i) the G8 Africa Action Plan adopted at the Kananaskis Summit held in Canada at the end of June 2002; (ii) the Plan of Implementation adopted at the WSSD (World Summit on the Sustainable Development) in South Africa at the end of August 2002; (iii) the Cooperative G8 Action on Trade committed at the Evian Summit in France in June 2003; and (iv) the G8 Official Document on Trade committed at the Gleneagles Summit in UK in July 2005.

In Japan, the Council on Customs, Tariff Foreign Exchange and Other Transactions submitted a recommendation in December 2002 on the revision of customs duties for Fiscal Year 2003. For the GSP scheme (Generalized System of Preferences), in particular, Japan, recognizing the discussions in the UN LDC Conference and in various summits, has substantially expanded duty-free treatment of agricultural products for LDCs (adding 198 agricultural items to the duty-free and quota-free list).

In December 2005 the Council on Customs, Tariff and Foreign Exchange and Other Transactions submitted a recommendation that East Timor, Djibouti, and Comoros be added to Japan's LDC preference system after Fiscal Year 2006.

Before the WTO Ministerial Conference in Hong Kong, Japanese Prime Minister Junichiro Koizumi introduced "Japan's Development Initiative" which included duty-free and quota-free market access for essentially all products from all LDCs, as well as certain capacity building initiatives.

The Hong Kong Ministerial Declaration provides that developed Members shall provide duty-free and quota-free market access on a lasting basis for all products, or at least 97% of all items in case of difficulty, originating from least developed countries. In addition, Members reached an agreement with respect to raw cotton and other S&D (Special and Different Treatment) measures for LDCs. Accordingly, Japan believes that the WTO Hong Kong Ministerial Conference achieved success in advancing meaningful results for developing countries.

In December 2006 the Council on Customs, Tariffs and Foreign Exchange and Other Transactions issued a recommendation for the expansion of duty-free and quota-free market access treatment for LDCs, as called for by the WTO Hong Kong Ministerial Declaration for the further support of LDCs. Based on this recommendation, the ratio of LDCs' products treated as duty-free and quota-free increased to approx. 98% from approx. 86% at number of products base since April 1, 2007.

In addition, at the 9th WTO Ministerial Conference held in Bali, Indonesia in December 2013, developed country Members, which did not achieve the ratio of 97% of the product base, agreed to make improvements by the time of the 10th WTO Ministerial Council meeting.

## **5. STATUS OF NEGOTIATIONS**

## **(1) Doha Round Non-Agricultural Market Access (NAMA) Negotiations**

### **1) Background of the discussion**

Trade in non-agricultural products (industrial goods and forestry and fishery products) accounts for 90% of world trade. Improvement in market access of non-agricultural products is the key to revitalization of the world economy. As a result of the past several rounds of GATT and WTO negotiations, although high tariffs remain on some items, tariffs in developed countries as a whole have come to a low level. On the other hand, many developing countries have high tariffs.

In the Doha Round negotiations have been carried out since 2001 for the reduction or elimination of tariff and non-tariff barriers to further improve market access.

Regarding tariff negotiations, the two issues of flat tariff reduction and elimination of tariffs by sectors have been addressed. Flat reduction of tariffs is the method of applying reduction (formula) uniformly to all items. There was disagreement between developed and developing countries regarding the core factors in the negotiation (coefficient of the formula, flexibility applied to developing countries, inflation of items free of tariff bindings), but in the fourth revised text of the Chairman of December 2008, a consensus was reached on many factors.

On the other hand, because the tariffs in emerging nations could not be sufficiently reduced by the formula, with the aim of further reduction in tariffs, negotiations were carried out for elimination of tariffs on products in specific sectors. These negotiations were intended to identify specific industrial sectors and eliminate tariffs in excess of those achieved by way of a formula-cut approach. Currently, 14 sectors, including electronics and chemicals etc., have been proposed. Recognizing the sensitivity and export interest of each country, negotiations have sought to establish flexible conditions for each product field. Discussions have been carried out with the aim of attaining the required critical mass (a portion of the world trade) agreeing to tariff elimination in a sector, but at this time, no tariff elimination proposal by sector has been agreed upon.

In addition, simultaneously with the sectoral tariff elimination negotiations, discussions on the elimination of non-tariff barriers (NTBs) were carried out. In the fourth revised text of the Chairman of December 2008, 13 proposals related to non-tariff barriers are discussed in the Annex. "Sectoral" proposals regarding national regulations, harmonizing conformity assessment procedures, and strengthening of transparency and "Horizontal" proposals that define the procedures to promote bilateral talks for the reduction of non-tariff barriers are included.

### **2) Current status**

Flat reduction of tariff has been discussed since the start of the Doha Round negotiations in 2001, and, the results were reflected in the fourth revised text of the Chairman of December 2008. Since then, discussions mainly have dealt with sectoral elimination of tariffs and non-tariff barriers. However, no conclusion has been reached.

Because of this situation, in order to maintain confidence in the multilateral trading system of the WTO, negotiations are underway outside the framework of the Doha Round negotiations to improve market access for sectors for which there is strong demand from industry. One of them is the Information Technology Agreement (ITA) expansion negotiation.

In the following, along with the summary of the Agreement, the status of expansion negotiations will be explained.

## **(2) Information Technology Agreement (ITA) Expansion Negotiation**

### **1) Background**

At the WTO Singapore Ministerial Conference in December 1996, 29 member countries (83% of world trade share) agreed to eliminate tariffs on information technology (IT) products and the ITA (Information Technology Agreement) went into effect in 1997. Currently, 78 countries and regions are participating in the ITA, though, because of the MFN principle the effect of tariff elimination will be applied to all member countries under the WTO agreement.

The ITA has contributed to the elimination of tariffs on 15 percent of the total world trade of applicable items. Initially when ITA was launched in 1996, the target trade volume was \$1.3 trillion and by 2011, it expanded about 3.5 times to \$4.8 trillion. The ITA contributes to the increase in productivity and growth of economies through IT by trade expansion of IT products. In particular, the international supply chain has developed most in the electrical and electronics sectors, the significance of its multilateral trade liberalization under the WTO is large.

* ITA participating countries and regions ( Total: 78 countries as of February 2014)			
Albania	Iceland	New Zealand	Singapore
Australia	India	Nicaragua	Switzerland
Bahrain	Indonesia	Norway	Tajikistan
Canada	Israel	Oman	Thailand
China	Japan	Panama	Turkey
Colombia	Jordan	Peru	Ukraine
Costa Rica	Republic of Korea	The Philippines	United Arab Emirates
Dominican Republic	Kuwait	Qatar	United States
Egypt	Kyrgyz Republic	Russian Federation	Viet Nam
El Salvador	Macao, China	Saudi Arabia	
European Union	Malaysia	Separate Customs	
Georgia	Mauritius	Territory of Taiwan,	
Guatemala	Moldova	Penghu, Kinmen, and	
Honduras	Montenegro	Matsu	
Hong Kong, China	Morocco		
* The EU consists of 28 countries, Switzerland includes Liechtenstein.			

### **2) Status of the negotiations**

#### **a) History until the launch of ITA expansion negotiations**

Technological advancements are rapid and every year new IT products are being released. However, no review of ITA products has been undertaken ever since the ITA came into effect in 1997. For this reason, there has been strong demand from the industry of each country to expand the list of applicable ITA products to include new products that have been released due to technological advancements. More specifically, in March 2011, 39 hi-tech industry groups from 17 countries and regions including Japan (later in May 2011, 41 groups from 18 countries) issued a joint statement requesting expansion of the ITA.

Encouraged by the views of the industry, Japan and the US led the launch of ITA expansion negotiations in mid-2011. More specifically, major countries and regions of the ITA

(including Japan, US, China, Malaysia, Republic of Korea, Taiwan but excluding the EU), which gathered at the APEC, formed a body with the intention of commencing the negotiations. At the Honolulu APEC summit in November 2011, it was agreed that "APEC economies will play a leadership role in launching negotiations to expand the product coverage and membership of the WTO Information Technology Agreement". In the wake of this, Japan and the US cooperated with major ITA countries and regions, and as a result each country and region has taken a positive stance favoring ITA expansion, and the desire to complete the negotiations have increased. On the other hand, discussions continued until the final phase of the launch of the negotiations between the EU, which strongly insisted that the tariff and non-tariff barrier negotiations should be linked to the ITA expansion negotiations, and other countries including Japan and the US which insisted on focusing on tariff negotiations in order to achieve quick results in response to the industry expectations while the Doha Round is stagnating. Japan and the US jointly lobbied each country against the EU and the EU finally agreed to delink the tariff and non-tariff barriers negotiations, which led to the launch of the negotiations.

At the symposium of the 15th anniversary of the ITA held at the WTO in Geneva in May 2012, taking into account the fact that there was a strong demand from industries for the ITA expansion negotiations, a majority of the countries and regions strongly supported the joint proposal by Japan, the US and other members on ITA expansion. The ITA Committee official meeting held on the next day resulted in the commencement of substantial negotiations.

### **b) Current status of the negotiations**

After May 2012, interested members, including Japan, the US, the EU, Republic of Korea, Taiwan and Malaysia, have held negotiations in Geneva once a month. They compiled and sorted items requested by each country and created a "Consolidated product list".

Since the fall of 2012, China, the Philippines, Singapore etc., have joined in the negotiations, where shortening of the "consolidated product list" and discussions on sensitive items of the respective countries took place. However, at the negotiation meeting in July 2013, no significant improvements were made in the broad sensitive items list of China and so the July meeting was suspended. Subsequently, as a result of continued efforts of the respective countries to urge China at a high-level by utilizing the opportunities at APEC, etc., negotiations were resumed in October 2013.

At the negotiation meeting in November 2013, while the respective countries made compromises toward reaching an agreement, China, etc. maintained a large number of sensitive items, and thus an agreement was not reached. At present, adjustments are being made between countries for early resumption of negotiations.

As of February 2014, so 55 countries and regions (including 28 countries from the EU) covering more than 90% of the world trade value of items subject to current ITA, are participating in the negotiations.

## **(3) Negotiations on Environmental Goods**

### **1) Background**

The launch of negotiations on "the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services" and establishment of

the Committee on Trade and Environment Special Session (CTESS) was included in the Doha Ministerial Declaration of 2001. At CTESS, discussions on a list of environmental goods subject to reduction/elimination of tariffs have been taking place (see Addendum-1 “Negotiation Progress on Doha Development Agenda”, Part II for details).

Subsequently, while the Doha Round negotiations were stagnating, discussions on reduction/elimination of tariffs on environmental goods took place within the framework of APEC. At the APEC Summit meeting in Honolulu in November 2011, it was agreed to reduce the applied tariff rate of environmental goods to 5% or lower by the end of 2015. At the APEC Summit meeting in Vladivostok in September 2012, it was agreed that 54 items should be subject to that reduction.

## **2) Current status**

In response to the agreement made at APEC with regard to tariff reduction on 54 items of environmental goods, discussions on how to proceed with negotiations on liberalization of environmental goods in the WTO were initiated in Geneva in November 2012 by “Environment Friends” countries, comprised of countries promoting trade liberalization of environmental goods (Japan, the United States, the EU, the Republic of Korea, Chinese Taipei, Singapore, Canada, Australia, New Zealand, Switzerland and Norway).

In June 2013, the United States released the “President’s Climate Action Plan”. In this Plan, the United States expressed its intention to launch negotiations at the WTO towards global free trade in environmental goods, including clean energy technologies such as solar, wind, hydro and geothermal, based on the APEC list of environmental goods, and to work towards securing participation of countries which account for 90% of global trade in environmental goods over the next year, etc.

It was then agreed at the APEC Summit meeting in Bali in October 2013 to seek opportunities to proceed with accelerated discussions at the WTO based on the APEC list of environmental goods. In January 2014, at the same time as the unofficial WTO Ministerial meeting in Davos, the United States took the initiative, and 14 interested countries and regions (Japan, the US, the EU, China, the Republic of Korea, Chinese Taipei, Hong Kong, Singapore, Canada, Australia, New Zealand, Switzerland, Norway, and Costa Rica) made a statement supporting the launch of WTO negotiations on environmental goods. More concretely, they welcomed the APEC Leaders' Declaration in Bali and expressed their intention to broadly expand items that contribute to Green Growth using the APEC list of environmental goods as the basis and to seek the ultimate goal of eliminating tariffs for the purpose of protecting the global environment and strengthening multilateral trade systems.

Japan will cooperate with other concerned countries and make active efforts in promoting these negotiations from the point of view of strengthening competitiveness of Japanese industries, contributing to global environmental improvements, and revitalizing WTO negotiations.