

# WORLD TRADE ORGANIZATION

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Negotiating Group on Market Access

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## MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

### Tariff Liberalization in the Chemicals Sector

*Communication from Canada, Japan, Norway, Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu, Singapore, Switzerland, and the United States*

The following communication, dated 1 July 2005, is being circulated at the request of the Delegations of Canada, Japan, Norway, Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu, Singapore, Switzerland, and the United States.

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#### I. GLOBAL TRADE IN CHEMICALS

1. The global chemical industry is essential to a broad range of manufacturing and agricultural industries, with virtually every product – from automobiles to zippers – using chemical inputs. Worldwide, the output of this industry is valued at \$1.9 trillion annually. Of that output, forty percent -- \$792 billion -- is traded globally, accounting for more than 10 percent of world merchandise exports in 2003. The chemicals industry also employs more than 7 million people worldwide.

2. Due to the ability of the chemicals industry to globally migrate state-of-the-art technology and facilities, chemical industries in countries at all levels of development can be internationally competitive. According to UNCTAD, developing countries' share of trade in world chemicals exports grew from 16.5% in 1990 to 20.7% in 2000.<sup>1</sup> During the same period, global chemicals trade nearly doubled from \$296 billion in 1990 to \$566 billion in 2000.

3. Chemicals are inputs into products across a broad range of sectors. High tariffs on chemicals translate into costs that significantly raise the prices of intermediate and finished goods. Chemicals also comprise a significant percentage of the value of goods exported by developing countries. For example, chemicals comprise 35 percent of the value needed to produce and package footwear products, 16 percent of the value of material inputs to motor vehicles, and 15 percent of the value of material inputs to jewelry. Liberalization in this sector would continue to ensure that these and other chemical inputs can be supplied at a low price globally, thus enabling other industry sectors to diversify and to produce finished goods at lower costs.

#### II. BUILDING A CHEMICAL SECTORAL INITIATIVE USING CRITICAL MASS

4. In the Uruguay Round, a group of WTO Members agreed to harmonize tariffs on a broad range of chemical goods to promote liberalization in this sector and to develop a more predictable and transparent

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<sup>1</sup> United Nations Conference on Trade and Development, Trade and Development Board, Commission on Trade in Goods and Services, and Commodities: Expert Meeting on New and Dynamic Sectors of World Trade, Geneva, 7 February 2005, "Strengthening participation of developing countries in dynamic and new sectors of world trade: Trends, issues and policies", Document TD/COM.1/EM.26/2; 15 December 2004.

global tariff structure for a growing industry. The result was the Chemical Tariff Harmonization Agreement (CTHA), which led to a substantial reduction and harmonization of chemical tariffs in the signatory countries. Participants in the Agreement agreed to harmonize tariffs at three levels: zero, 5.5 percent, and 6.5 percent. Basic organic and inorganic chemicals were harmonized at 5.5 percent, with more highly-processed goods such as cosmetics and plastics harmonized at 6.5 percent. Additionally, tariffs on pharmaceutical products in Chapter 30 and some primary petrochemicals in Chapter 29 were eliminated. Since the Uruguay Round, 14 Members have chosen to participate in the CTHA as part of their accession to the WTO.

5. Tariffs on chemicals in some countries not participating in the CTHA remain as high as 60%. Such charges impose unnecessary costs which significantly raise the prices of intermediate and finished goods for both manufacturers and consumers.

6. A chemical sectoral initiative in the Doha Development Round should build on the success of the CTHA and include WTO Members who are key traders and producers of chemicals. Such an agreement would also encourage further growth in global chemical exports, which have already grown by more than 90 percent between 1994 and 2004, as compared to a cumulative increase of 75 percent in all industrial global exports.

7. Building on the CTHA, Members should look to expand participation in the harmonization initiative, and then seek the elimination of tariffs as discussions move forward in this new initiative. Interested Members would determine how critical mass would be defined in this sector and discuss which Members should participate in order to make liberalization as meaningful as possible.

8. Participating Members would also decide which products should be included in the initiative and what form of liberalization (e.g. harmonization, elimination) would be expected. This approach encourages all interested Members to participate in the negotiation of a chemical sectoral initiative, including Members that may not currently be major traders, but see future opportunity for economic growth and investment in this sector.

### **III. PRODUCT COVERAGE:**

9. A chemical sectoral initiative should be as comprehensive as possible. Using the model of the CTHA, product coverage should include HS chapters 28-39. These chapters cover products including inorganic and organic chemicals, fertilizers and pesticides, soaps and cosmetics, and pharmaceuticals and plastics.

Ch. 28	Inorganic chemicals, organic or inorganic compounds of precious metals such as: chlorine, fluorine, sulfur, alkaline, hydrogen chloride
Ch. 29	Organic chemicals such as: ethane, butane, propane, octane
Ch. 30	Pharmaceutical products
Ch. 31	Fertilizers
Ch. 32	Tanning or dyeing extracts
Ch. 33	Essential oils
Ch. 34	Soap, organic surfacing agents, lubricating preparations, artificial and prepared waxes, candles, etc.
Ch. 35	Albuminoidal substances; modified starches; glues; enzymes such as: adhesives
Ch. 36	Explosives
Ch. 37	Photographic or cinematographic goods
Ch. 38	Miscellaneous chemical products such as: pine oil, herbicides, insecticides
Ch. 39	Plastics and articles thereof such as: resins and polymers

The list could also include additional products of interest to participating Members.

#### **IV. SPECIAL AND DIFFERENTIAL TREATMENT**

10. A variety of flexibilities could be employed to account for the needs of developing countries. Possible options might include the following:

- \* Longer implementation periods for all chemical products
- \* Longer implementation periods in certain products/sub-sectors
- \* Zero for “x”
- \* Participation in certain sub-sectors

11. Varied implementation periods were used successfully during the CTHA to provide appropriate adjustment to participating Members based on their tariff rates. Implementation periods used in the CTHA are provided for Members’ reference: tariffs greater than 25% received 15 year staging; tariffs greater than 10 percent and less than 25 percent received 10 year staging; and tariffs less than 10 percent received 5 year staging.

#### **V. CHEMICAL TARIFF LIBERALIZATION AND ECONOMIC DEVELOPMENT**

12. The participation of WTO Members who produce and trade chemicals in a Doha sectoral initiative is important not only for the liberalization of global trade, but also in terms of economic development. For example, high chemical tariffs can make crop protection and other chemical-based agricultural inputs cost prohibitive for farmers. These products can ultimately increase crop yields and facilitate control of diseases and insects. Countries with high chemical tariffs are also potentially undermining the export competitiveness of downstream manufacturers by keeping tariffs on raw and intermediate goods high, thus hindering their own economic development, and discouraging foreign direct investment that tends to flow to low-tariff economies.

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