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MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Tariff Liberalization in the Chemicals Sector

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

The following communication, dated 12 May 2006, is being distributed at the request of the delegations of Canada, Norway, Singapore, Switzerland, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu and the United States.

I. INTRODUCTION

1. As proposed in the previous communication of 4 July 2005 (ref. TN/MA/W/58), tariff elimination in the chemicals sector is an important component of a successful outcome of the Doha Development Agenda. The participation of Members who produce and trade chemicals is important not only to advance the liberalization of global trade, but also to promote economic development. This initiative would produce substantial benefits for both developed and developing countries, increasing the competitiveness of not only the chemicals sector, but also many downstream industries. According to UNCTAD, developing countries' share of trade in world chemicals exports grew from 16.5% in 1990 to 20.7% in 2000.[1] During the same period, global chemicals trade nearly doubled from $296 billion in 1990 to $566 billion in 2000.

2. The global chemical industry is essential to a broad range of manufacturing and agricultural industries. 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. Liberalization in this sector would continue to ensure that these inputs can be supplied at a low price globally, thus enabling other industry sectors to diversify and produce finished goods at lower costs.

Chemicals Value Added in Selected Industries	
Carpets and Rugs	47%
Footwear	35%
Agriculture	30%
Clothing	28%
Medical Equipment	28%
Office Furniture	21%
Motor Vehicles	16%
Jewellery	15%
Computers	12%

[1] 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.

II. CRITICAL MASS

3. 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 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 primary petrochemicals in Chapter 29 were eliminated. Since the Uruguay Round, many new Members have chosen to participate in the CTHA as part of their accession to the WTO. There are currently nearly thirty WTO Members participating in the CTHA.

4. A chemical sectoral initiative in the Doha Development Round should build on the success of the CTHA and include WTO Members that are key traders as well as producers that have the potential to impact international markets through trade. Critical mass will be attained when sufficient Members agree to participate in this initiative such that their combined total trade reaches a threshold to be determined by Members. Recognizing the importance of participation by key producers, and the limitations of cross-national production data, Members should work with their own industries to identify key producers, which will then be targeted for participation.

III. PRODUCT COVERAGE

5. 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. Japan has proposed the addition of semi-processed rubber (HS 4002-4008) to the product coverage. Additional products of interest to participating Members may be added to the list for consideration. The ultimate decision on product coverage rests with the participants in the agreement.

CTHA Product Coverage	
Ch. 28	Inorganic chemicals, organic or inorganic compounds of precious metals such as: chlorine, flourine, 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
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

*Please Note: Four subheadings from Chapter 29 (2936; 2937; 2939 and 2941) and all of Chapter 30 are also being discussed as proposed product coverage in another sectoral initiative on pharmaceuticals and medical devices. Depending on final participation in each sectoral, clarification of the appropriate modality for countries participating in both initiatives may be required.

IV. SCOPE AND PACE OF TARIFF ELIMINATION

6. A chemical sectoral initiative in the Doha Round should build on the success of the CTHA such that all participants eliminate bound tariffs on chemical products immediately. Such tariff elimination would begin when a critical mass of WTO Members commit to a program of tariff elimination. Developing countries may be afforded special and differential treatment for their process of elimination as outlined below.

V. SPECIAL AND DIFFERENTIAL TREATMENT

7. Additional tariff elimination options, based on current CTHA participation, may be employed to account for the needs of developing countries. These options may be tailored with longer implementation periods for certain highly sensitive products to form a special and differential treatment package unique to each developing country. Reduction and staging commitments under this sectoral initiative should be no less ambitious than those brought about by the formula modality under the Doha Round.

8. Developing Members Participating in the CTHA. Developing Members already participating in the CTHA may elect to eliminate chemical duties based on the following two-step process: First, each Member must fulfil CTHA harmonization according to its previously negotiated staging schedule and CTHA end rates (see table A below). Second, Members must eliminate bound tariffs over 5 years in 5 equal, annual instalments after the previously negotiated end rate is attained.

9. Developing Members Not Participating in the CTHA. Developing Members that do not currently participate in the CTHA may elect to eliminate chemical duties according to a staging schedule no less ambitious than what was agreed to by the CTHA (as reflected in table B below).

10. We welcome additional proposals for special and differential treatment and will consider them in the context of discussions on overall participation and product coverage in the sector.

Table A. CTHA End Rates

Chapter	**Subheading**	**End Rate**
Chapter 28	All	5.50%
Chapter 29	2901-2902	0.00%
Chapter 29	2903-2915	5.50%
Chapter 29	2916-2942	6.50%
Chapter 30	All	0.00%
Chapter 33-39	All	6.50%

Table B. CTHA Staging Schedule

Tariff Rate	**Implementation Period**
>25%	15-year staging
>10% and <25%	10-year staging
<10%	5-year staging

VI. IMPLEMENTATION

11. The results of this negotiation will be incorporated into each participating Member’s schedule of commitments.