Economic Commission for Africa

African Trade Policy Centre

BRIEFING NOTE ON US PROPOSAL ON AGRICULTURE MARKET ACCESS NEGOTIATION

IMPACT FOR AFRICAN COUNTRIES[1]

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[1] The views expressed are those of the authors and do not necessarily reflect those of the United Nations.

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Highlights:

i. *The US Formula, which is one of the tiered formula groups, proposes linear reductions per tariff band, with a final impact that is very similar to that of the Swiss formulas.*

ii. *This formula has the overall effect of harmonising equally tariff structures. The formula is more modular and readable than an "ordinary" Swiss formula, insofar as a simple adjustment of bands can greatly modify the formula, results.*

iii. *With respect to African countries concern with tariff peaks, once implemented, the US proposal leads to a more pronounced reduction in tariff peaks and eliminates a large proportion of tariff peaks.*

iv. *As a result, the US proposal could have greater impact on high tariffs which is rather good news for African exporters due to the formula's efficiency in dealing with tariff peaks, and hence limiting the dispersion of a country's tariffs and having a harmonizing effect of member countries' tariff structures.*

v. *The economic implications of the substantially reduced and harmonised tariffs are very sensitive to the treatment of sensitive and special products. The simulation of these potential impacts using a global economic model shows that retention or failure to eliminate sensitive products have the effect of eroding any benefits that the tariff cuts proposed by the US could have.*

vi. *Yet the retention of special products does not have any significant impacts on the welfare gains that other regions could derive with the tariff cuts in the US proposal and elimination of sensitive products. Implying that special products for developing countries remain a non-costly way for introducing special and differential treatment in support of imports-sensitive sectors in developing countries.*

Key Recommendations

(a) The African Group needs to be cautious and conscious about the sensitive products. It seems that there is a consensus from different groupings that a successful Doha Round may not be realised without ambitious reforms in agriculture trade. From our different studies, the persisting result and conclusion is that any level of ambition is going to be eroded by high levels of sensitive products. Having deep tariff cuts and retaining the sensitive products for Africa is like giving with the right hand and taking it away with the left. Africa will lose through sensitive products what it is supposed to gain from the ambitious tariffs cut.

(b) Another recommendation is the need for Africa Group to re-emphasise the need to strengthen the special and differential treatment. There are two reasons why this is important. First, special and differential treatment both in terms of depth of the tariff cut and the phasing-in period will help African countries to provide appropriate protection to local production. This will create some policy space to African countries to deepen the development of their agricultural sector. A second but obviously a more mundane reason but which can easily be downplayed, is that special and differential treatment will give to African countries a better market access to developed countries markets.

1. Methodology

The objective of this note is to assess the impact of the US proposal on agriculture market Access on African Countries. We first explore the impact of this formula on the tariff structure. Then we try to simulate what could be the consequences of the new tariff structure resulting from this formula on African economies.

The US proposal

The US proposal is summarised in Table 1 below. On market access pillar, the United States has proposed four tiers for tariff reductions, with a progressive formula to be applied within each tier. The US has proposed that tariff lines should be divided into four bands for the purpose of setting tariff cuts. The bands would run as follows:

Table 1: The US proposal

Modalities parameters used in simulations		
	US PROPOSAL	
	Developed and developing countries (4 band reduction formula)	
	From 0-20 percent	Tariff cuts inside the bands would be 55-65 percent: For our simulation, a=60%
	20 < tariff < 40 percent	Tariff cuts inside the bands would be 65-75 percent For our simulation, a=70%
	40 < tariff < 60 percent	Tariff cuts inside the bands would be 75-85 percent For our simulation, a=80%
	Above 60 percent	Tariff cuts inside the bands would be 85-90 percent For our simulation, a=87.5%
TRQ:	Out of quota, 50% cut; In quota 0%	
Domestic support:	In our simulation, 50% of domestic support is eliminated	
Export subsidies:	Eliminate	
Tariff Cap	75% developed, 100% developing	

2. Impact on the tariff structure

Using GTAP version 5.4 databases, we have tried to show the impacts of the US proposal on existing tariffs. It is important that the focus in interpreting these results is on the picture of the new tariff structure that is likely to result and one should not pay too much attention to the actual tariff numbers[2] shown.

Looking at the figures in the annexe of this note, we see that the US proposal could have greater impact on high tariffs which is rather good news for African exporters. Indeed, this formula is very efficient in dealing with tariff peaks, limiting the dispersion of a country's tariffs and creating a homogenizing effect on member countries' tariff structures.

However, unless significant[3] special and differential treatment is integrated, in the case of developing countries and more particularly African countries, the US proposal's application implies stronger commitments than those induced by a strict linear formula, and is thus an important constraint. There is a double impact, which African countries will need to think more deeply about. Firstly, the African countries are in favour of reducing tariff peaks and tariffs escalation particularly to their export of labour intensive products. However, they will need to be conscious of how best to ensure that they do not suffer from this proposal from failing to take appropriately into account their objective to defend their emerging and import-sensitive sectors. Without significant lesser cuts and sufficiently long phase-in periods the US proposal will obligate them to widely open their borders to major agricultural exporters**.**

3. Impact on the African economies: Aggregate results

In order to understand the likely impacts of the US proposal on the African economies, we undertook three scenarios (simulations) using the GTAP model and database. The three simulations differ in the way they treat both sensitive and special products. We are aware that the US proposes a limit of the tariff lines

[2] The initial tariffs are based on GTAP version 5.4 which we had used in a previous study of the same issue. That is why we would like to caution that the focus be on the story of the effect the US proposal is likely to have on existing tariffs rather than on the new tariff rates themselves. In any case, the aggregation of the countries and commodities does introduce some impreciseness but the larger picture remains the same.

[3] It is important to note that the US proposal argues for *slightly lesser cuts and (probably slightly) longer phase-in periods* for developing countries.

subject to sensitive product treatment to 1% of total dutiable tariff lines. The proposal does not mention special products, which are part of the July Framework, and so we have assumed they will form part of the special and differential treatment elements in the final outcome. How did we determine the sensitive and special products in our analysis? We did this by excluding those lines that are currently highly taxed, as probable candidates for exclusion by Member States.

In each of our scenarios, we cut tariffs in accordance to the four bands proposed by the US but we treat the sensitive and special products in different ways in each of the scenarios:

(a) **Scenario I:** In this scenario we applied the US proposal, which include the sensitive and special products. But for each of these categories, 5% of the lines were excluded from any tariff reduction. By treating this scenario as a reference point, we hope to demonstrate what inclusion of the sensitive products does to the potential economic impacts of deep tariff cuts.

(b) **Scenario II:** In this scenario, we exclude the sensitive products but we retain the special product. Essentially, in this proposal we are trying to measure the impact of the sensitive products only. By comparing this scenario to the first one we are trying to uncover whether there could be any interesting information concerning the impact of the special and differential treatment offer to the developing countries.

(c) **Scenario III:** In this scenario we do not have any sensitive and/or special product. Essentially, this scenario tells us the implication/impact of the sensitive and special products on the market access arising out of the tariff structure in the US proposal. So we apply the US proposal for all the lines without any exclusion.

- ***What are the possible trade effects of the new tariff structure as proposed by the US?***

The simulation results, again based on GTAP version 5.4, show that in all the three scenarios, the African countries would remain as net importing countries with deteriorations in their trade balance. However, this is only one side of the story as we look at the impacts on some of the other economic aggregates. Developed countries, among them Japan, Cairns developed countries, EU-25 and USA would benefit more than the others. They would actually enjoy significant

improvements in their trade balances. The Cairns developing countries, China and Japan will also experience an improvement in their terms of trade (see Table 3).

Table 2: Change in trade balance ($ US Millions)

	Scenario I	Scenario II	Scenario III
Sub-Sahara Africa (SSA)	-2343.06	-2472.89	-2449.41
North Africa	-3219.97	-1395.64	-3521.67
Japan	5793.65	4673.43	5357.9
China	-7857.81	-8038.78	-7505.26
EU-25	10336.29	11502.76	11953.69
USA	19017.68	19000.3	19439.36
Cairns developing	-5935.19	-6377.37	-6252.54
Cairns developed	1428.68	998.2	1136.59
ROW	-17220.2	-17890.01	-18158.6

Source: Simulation from GTAP 5.4, October 2005

Table 3: Change in the terms of trade (% deviation from initial situation)

	Scenario I	Scenario II	Scenario III
Sub-Sahara Africa (SSA)	-1.13	-0.68	-0.66
North Africa	-2.09	-1.33	-2.33
Japan	0.66	0.63	0.6
China	0.12	0.58	0.73
EU-25	0.11	-0.02	0.05
USA	-0.35	-0.4	-0.37
Cairns developing	0.27	0.22	0.22
Cairns developed	-0.14	0.32	0.31
ROW	-0.12	-0.08	-0.19

Source: Simulation from GTAP 5.4, October 2005

- ***What are the possible welfare effects of the new tariff structure as proposed by the US?***

The balance of trade and terms of trade changes showed in Tables 2 and 3 indicate that there will be no major improvements for the African countries. This picture however changes when one considers the welfare implications of the US proposal and in particular taking note of the sensitivity of the results to the

treatment of sensitive and special products (see Table 4). Results from scenario I show that except for sub-Sahara Africa and the US, all other regions including North Africa gain in terms of welfare. It is worth noting here that our simulation foresees the full elimination of export subsidies. Therefore, the fact that SSA welfare is negatively affected in this scenario could be explained by this removal of all kind of export subsidies. The removal of exports subsidy does concern a number of African countries. The price of the imports by these concerned African countries would increase sharply compared to the evolution of their exports because they are net food imported countries.

But it is the story that emerges from the treatment of sensitive and special products that is most interesting and African countries may need to pay particular attention to these results. The welfare of sub-Sahara African countries improves under scenarios II and III. Clearly, the largest impact occurs in scenario II and this can be attributed to the elimination of both the sensitive and special products. The difference between scenarios III and II indicates that the existence of special products (which are retained in scenario II) is not very significant. Consequently, sensitive products have by far the most significant ***benefits-erosion effect***. Yet the retention of special products does not have any significant impacts on the welfare gains that other regions could derive with the tariff cuts in the US proposal and elimination of sensitive products.

Table 4: Welfare variations (US$ million)

	Scenario I	Scenario II	Scenario III
Sub-Sahara Africa (SSA)	-29.52	564.26	613.92
North Africa	1240.25	1094.74[a]	3917.61
Japan	14693.94	16360.31	16230.33
China	5818.39	7445.3	7897.24
EU-25	11289	11305.05	13272.37
USA	-2308.77	-2638.08	-2176.24
Cairns developing	5114.03	5213.01	5289.56
Cairns developed	183.71	1858.94	1814.55
ROW	21374	23574.06	24416.77

Source: Simulation from GTAP 5.4, October 2005

[a] A closer examination of the results for North Africa of what appears like a contradiction reveals that tariff dispersion is greatest in North Africa under scenario II, while scenario III has the effect of harmonising the tariff rates and hence maximising on allocative efficiency gains.

- ***Possible impacts of US proposal on GDP?***

The welfare impact outcome is replicated in the results related to incomes. The simulations results show that Africa, as a whole, would experience an expansion in the growth of its GDP under all the three scenarios. It is worth pointing that while SSA's GDP does not appear to be very sensitive to the variation in the scenarios that of North Africa is sensitive to the elimination of sensitive products. In fact, the North Africa GDP declines under scenario II with the removal of sensitive products but the positive impact of the US proposal doubles under scenario III (when both sensitive and special products are removed) compared to the outcome in scenario I (see Table 5).

Table 5: GDP impacts (% deviation from the initial solution)

	Scenario I	Scenario II	Scenario III
Sub-Sahara Africa (SSA)	0.35	0.39	0.39
North Africa	1.3	0.95	2.7
Japan	0.27	0.31	0.31
China	0.63	0.69	0.7
EU-25	0.1	0.14	0.14
USA	0.02	0.02	0.02
Cairns developing	0.22	0.24	0.24
Cairns developed	0.05	0.07	0.07
ROW	0.55	0.58	0.64

Source: Simulation from GTAP 5.4, October 2005

The North Africa's results needs to be understood in the following context as noted in footnote (a). If we do not exclude both sensitive and special product from any tariff reduction, both SSA and North Africa will enjoy better gains (scenario III). In other words, ambitious tariff liberalization would lead to greater gains for Africa. The simulations also show that if we retain the special products, the positive gains are more important for SSA than North Africa. This result could have two explanations. Firstly, we have carried out our simulations at a highly aggregated level. It is reasonable to expect that the possibility to identify the sensitive products at a HS6 digit level could affect the final result. But the most

important reason is that the tariff structure of the North African region is less homogeneous than the SSA one (particularly for Algeria and Libya). Therefore, excluding only the sensitive product could slightly affect the North African group. The decrease of the North Africa's GDP in scenario II compared to the reference scenario I is explained essentially by the deterioration in the allocative efficiency.

Besides the improvements in GDP and welfare that are conditioned on the treatment of the special and sensitive products, the US proposal will also have some significant impacts on the value added in different sectors. In Table 6, we indicate results of our simulations on the value added for SSA and North African economic sectors. The removal of sensitive products will have significant impacts (see scenario II) in sub-Sahara Africa in the sectors relating to sugar, oilseeds, and meat. These possible gains in value added are not undermined in any way by the retention of special products that is captured in scenario III. The US proposal it is worth noting will have more positive impacts (in terms of number of sectors) in sub-Sahara Africa than in North Africa. However, the North African countries will experience rapid and significant expansion in the sectors related to rice and meat.

Table 6: Sectoral value added changes (% deviation from initial position)

	Scenario I		Scenario II		Scenario III	
	SSA	N. Africa	SSA	N. Africa	SSA	N. Africa
Rice	-0.33	25.15	-0.04	28.48	-0.06	29.22
Cereals	-1.15	-1.73	-1.18	-1.55	-1.21	-2.4
Other cereals	2.81	-10.38	1.91	-11.53	1.73	-12.17
Vegetables	2.05	0.62	2.01	0.79	1.95	0.89
Sugar	1.09	-4.11	26.63	-3.58	26.19	-4.62
Oilseeds	8.22	-5.68	9.82	-6.54	13.1	-7.6
Milk	3.81	-0.68	1.52	-1.27	0.98	-2.56
Fishing	0.79	1.66	0.94	1.66	1.01	1.96
Vegetable_oil	-5.72	-0.68	-6.64	-7.7	-6.89	-6.27
Meat	-0.87	145.5	12.38	231.69	15.69	571.66
Manufactures	-1.31	-0.44	-2.41	0.87	-2.48	0.37
Services	0.3	1.68	0.42	0.94	0.42	2.58
Food	-0.35	-7.41	0.05	-7.84	0.19	-15.82

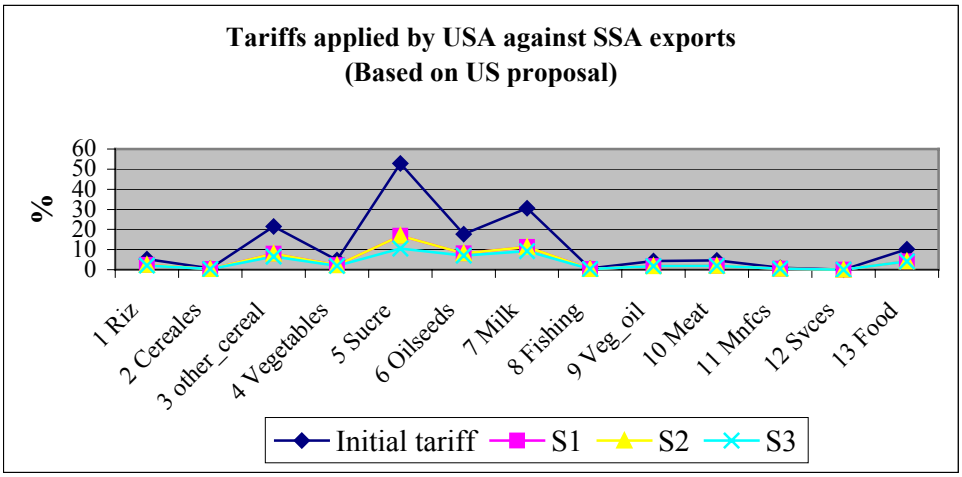
Source: Simulation from GTAP 5.4, October 2005 (A positive number indicates an improvement in the value-added and vice-versa)

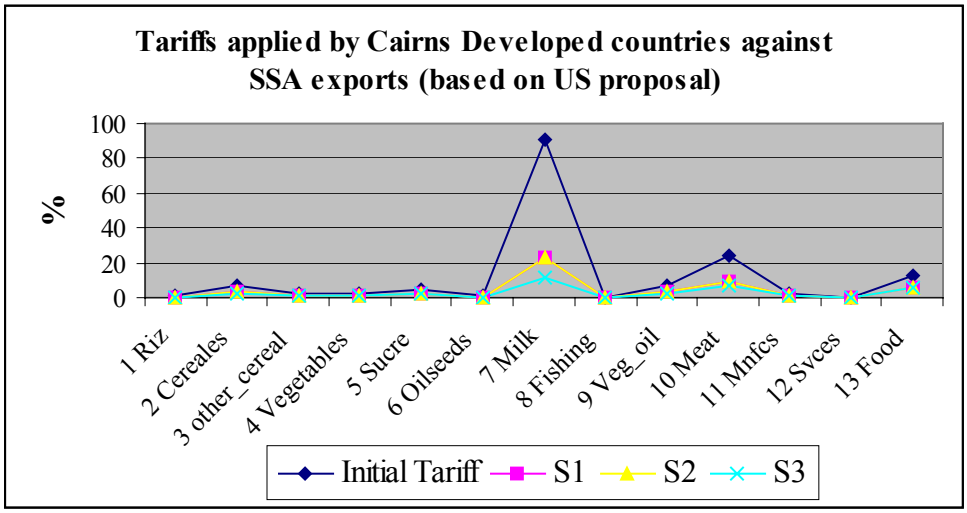
4. Conclusion

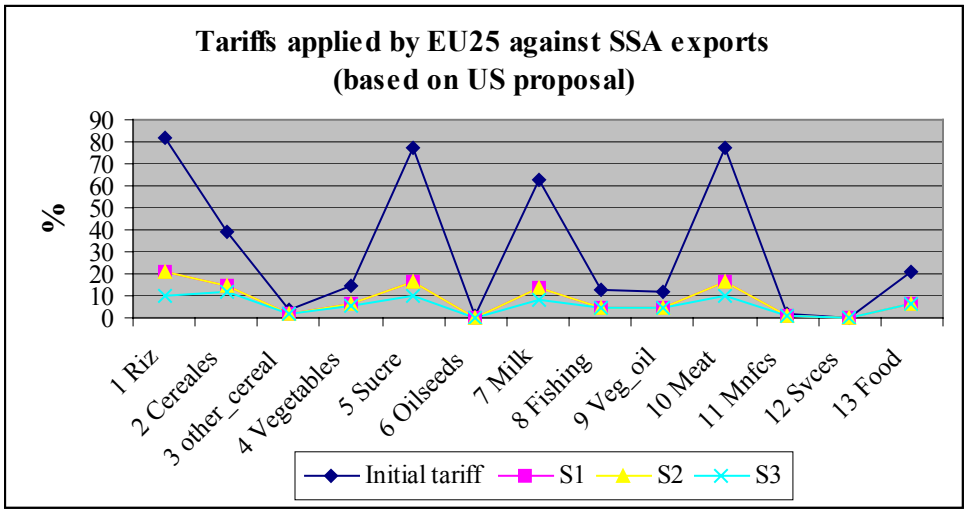
The US proposal has the potential of leading to improved agricultural market access. The new tariff structure associated with the proposal will lead to greater openness as it deals with tariff peaks. However, the economic consequences will depend to a large extent on the treatment of sensitive products. The gains for African countries are only positive if there are no sensitive products defined by the developed countries. Failure to eliminate the sensitive products will fully erode any potential gains from the deep tariff cuts that appear possible under the US proposal. Yet, the special products guaranteed in the July Framework have an insignificant effect on the benefits likely to be derived from the deep tariff cuts and elimination of sensitive products. This means that the retention of special products could be an effective but non-costly way of integrating special and differential treatment. The special and differential treatment will have to be strengthened since this US proposal in some way is like a double-edged sword. Whereas it results in harmonisation of tariffs and elimination of high tariffs and tariff peaks, the only way it can deal with the import-sensitive sectors in African countries is for it to allow for significantly less proportionate cuts in each band for these countries and allow for reasonable phase-in period.

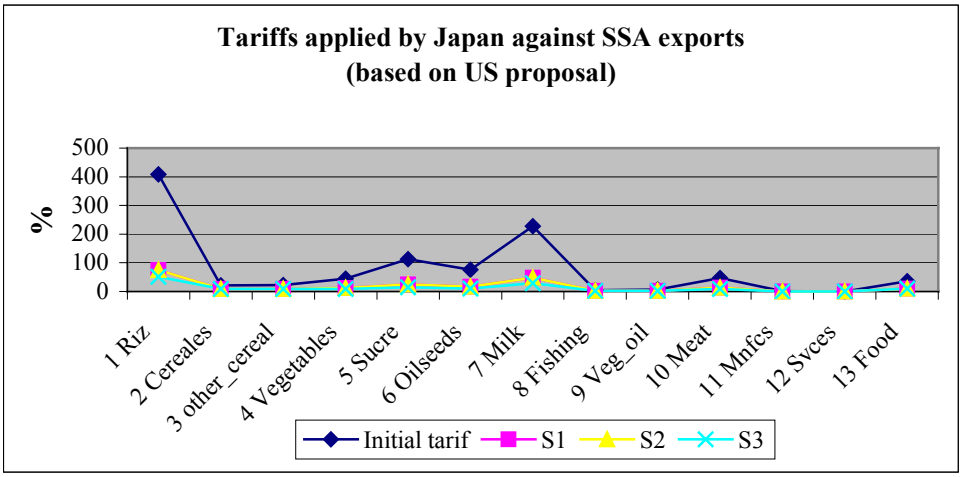
ANNEX: THE HARMONISING NATURE OF THE US PROPOSAL AND THE IMPACTS ON HIGH TARIFFS AND TARIFF PEAKS

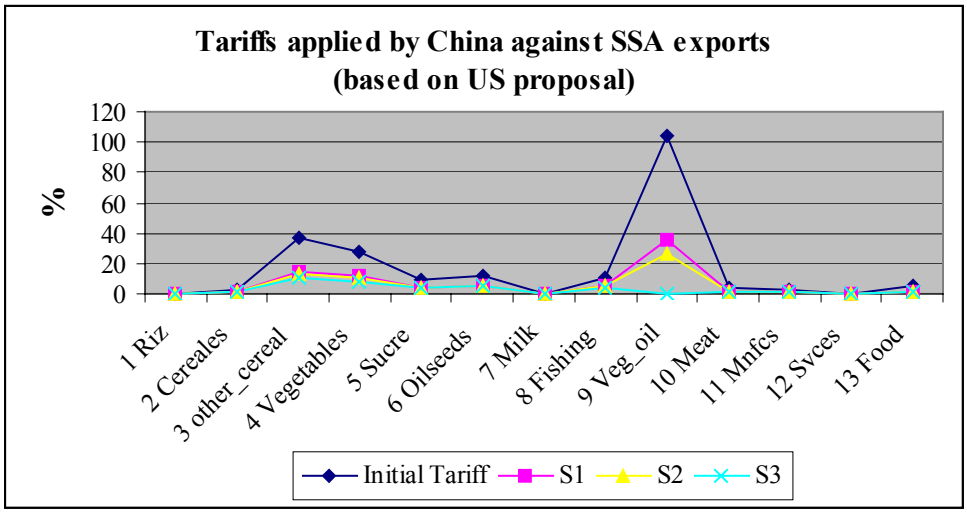
Tariffs applied by various countries against SSA exports (Based on US proposal)






Tariffs applied by EU25 against SSA exports
(based on US proposal)
%
90
80
70
60
50
40
30
20
10
0
1 Riz
2 Cereales
3 other_cereal
4 Vegetables
5 Sucre
6 Oilseeds
7 Milk
8 Fishing
9 Veg_oil
10 Meat
11 Mnfcs
12 Svces
13 Food
Initial tariff
S1
S2
S3


Tariffs applied by Japan against SSA exports
(based on US proposal)
%
500
400
300
200
100
0
1 Riz
2 Cereales
3 other_cereal
4 Vegetables
5 Sucre
6 Oilseeds
7 Milk
8 Fishing
9 Veg_oil
10 Meat
11 Mnfcs
12 Svces
13 Food
Initial tarif
S1
S2
S3


Tariffs applied by China against SSA exports
(based on US proposal)
%
120
100
80
60
40
20
0
1 Riz
2 Cereales
3 other_cereal
4 Vegetables
5 Sucre
6 Oilseeds
7 Milk
8 Fishing
9 Veg_oil
10 Meat
11 Mnfcs
12 Svces
13 Food
Initial Tariff
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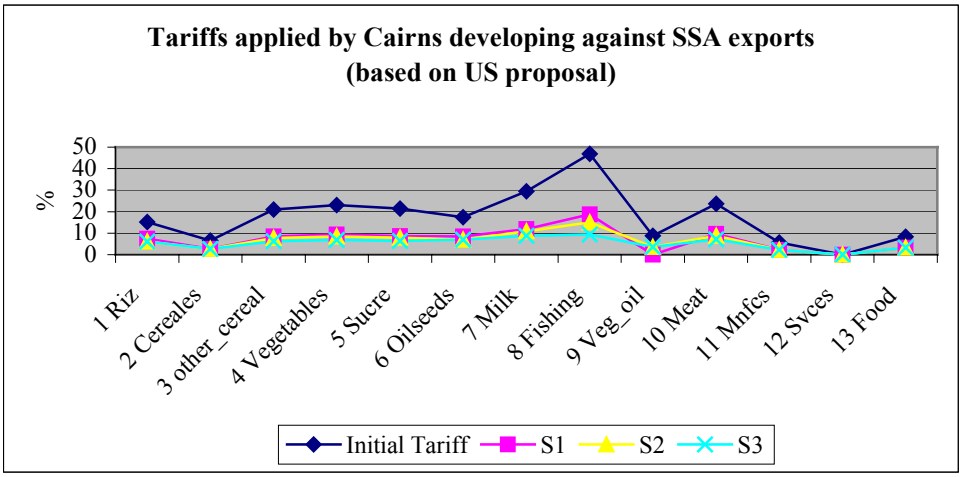
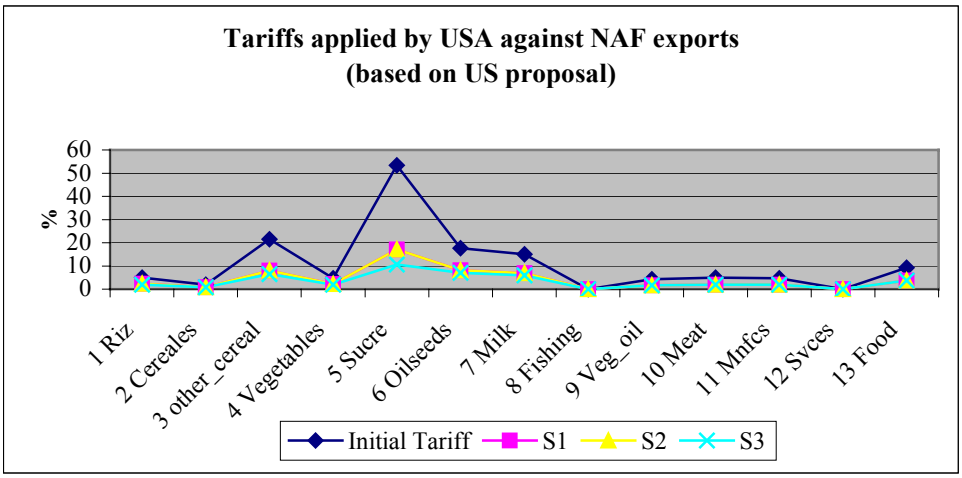
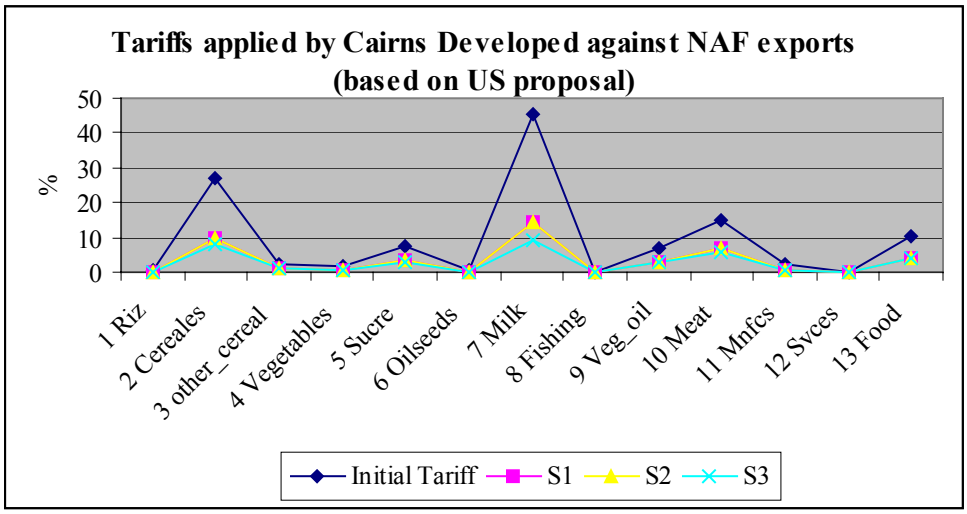
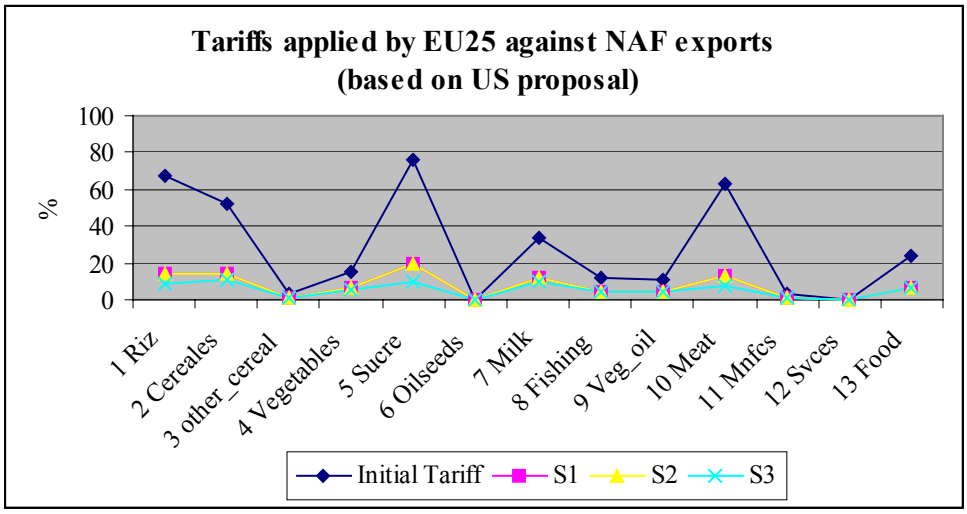
S2
S3

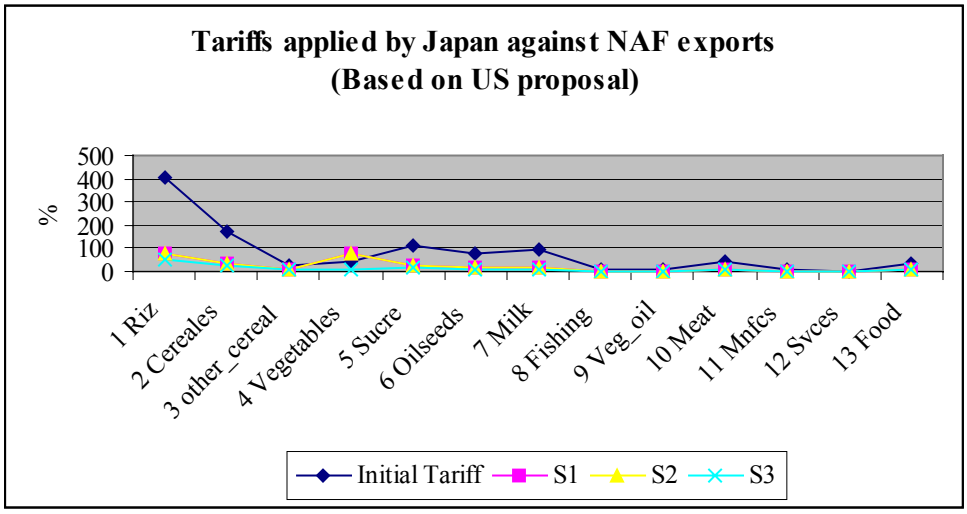

Tariffs applied by Cairns developing against SSA exports
(based on US proposal)
%
50
40
30
20
10
0
1 Riz
2 Cereales
3 other_cereal
4 Vegetables
5 Sucre
6 Oilseeds
7 Milk
8 Fishing
9 Veg_oil
10 Meat
11 Mnfcs
12 Svces
13 Food
Initial Tariff
S1
S2
S3

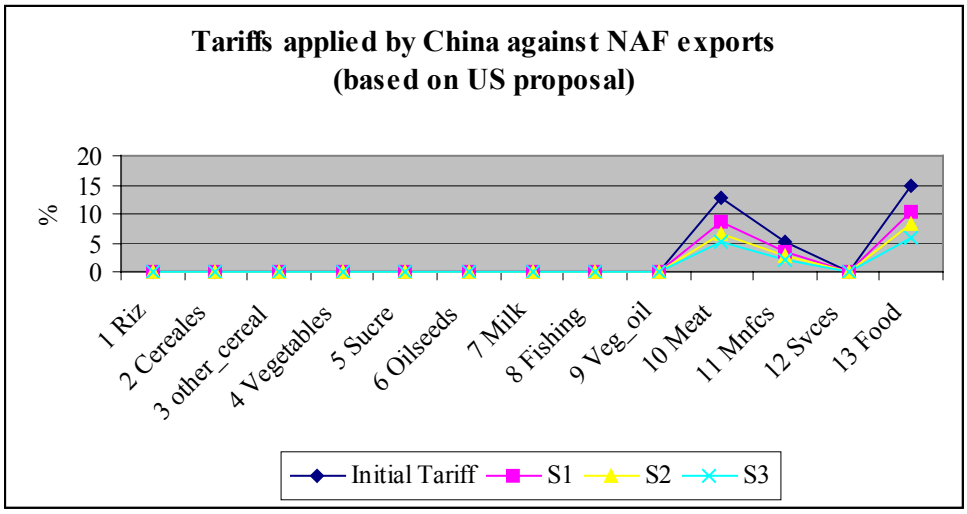
Tariffs applied by various countries against North Africa (NAF) exports (Based on US proposal)

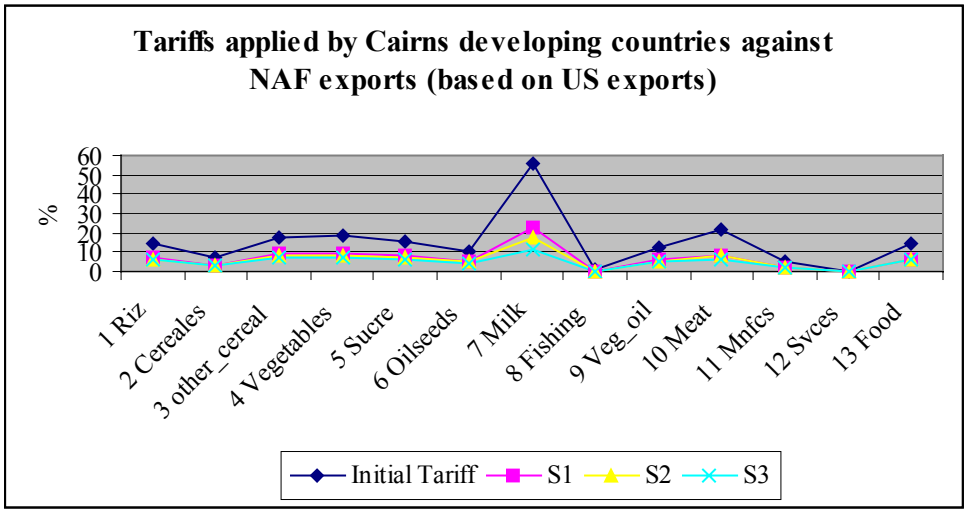





Tariffs applied by EU25 against NAF exports
(based on US proposal)
%
100
80
60
40
20
0
1 Riz
2 Cereales
3 other_cereal
4 Vegetables
5 Sucre
6 Oilseeds
7 Milk
8 Fishing
9 Veg_oil
10 Meat
11 Mnfcs
12 Svces
13 Food
Initial Tariff
S1
S2
S3


Tariffs applied by Japan against NAF exports
(Based on US proposal)
%
500
400
300
200
100
0
1 Riz
2 Cereales
3 other_cereal
4 Vegetables
5 Sucre
6 Oilseeds
7 Milk
8 Fishing
9 Veg_oil
10 Meat
11 Mnfcs
12 Svces
13 Food
Initial Tariff
S1
S2
S3





Source: Authors' simulations using GTAP 5.4 data