

Tariff Reform within the Free Trade Area of the Americas

John Wainio and Paul Gibson

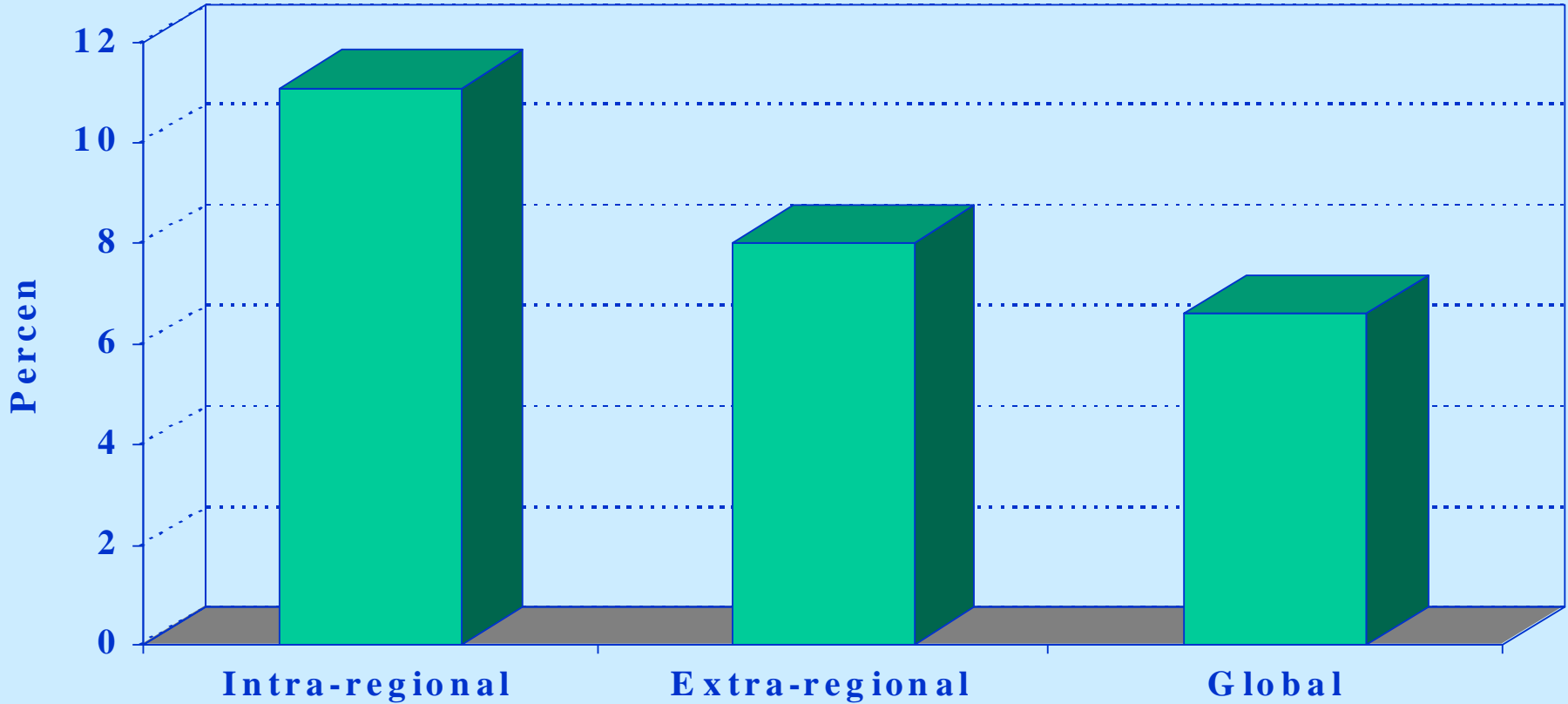
Paper presented at Conference on Free Trade Area of the Americas,
the WTO and New Farm Legislation

May 23-24, 2002

The FTAA Negotiations

- Would create common trade and investment rules in hemisphere.
- When completed in 2005, will cover an estimated 800 million people, \$11 trillion in production, and \$3.4 trillion in trade.
- Build on over a decade of trade and investment ties in the region.

Growth in Trade, 1990-99



Source: Inter-American Development Bank

Tariff Cutting Negotiations

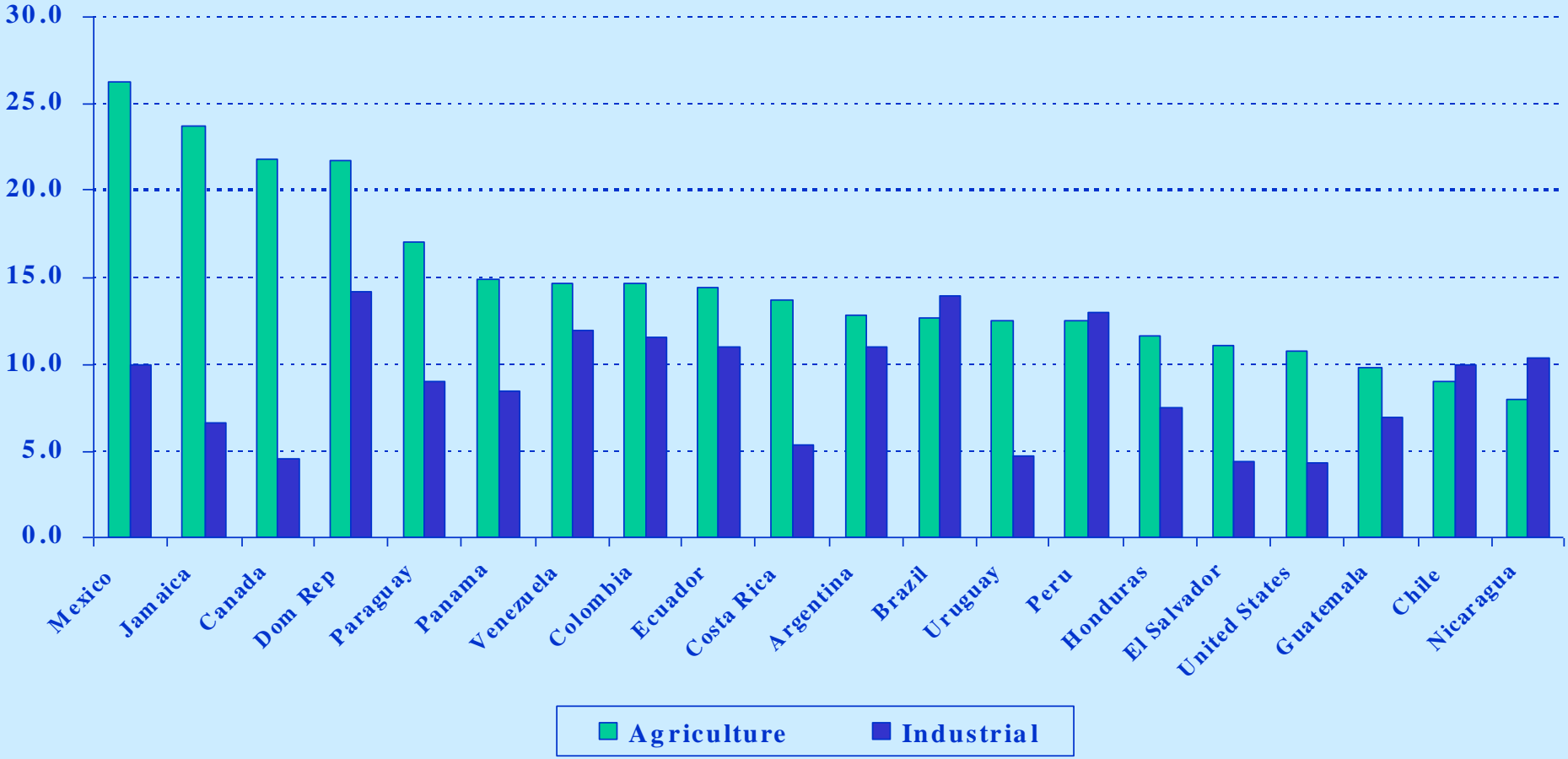
- One of the main goals is to progressively eliminate tariffs on “substantially all trade” within the region
- Eliminating agricultural tariffs has already proven to be one of the most hotly debated issues in the negotiations
- The NGAG is negotiating tariff reductions for agricultural products

Tariff Modality Issues

- **Base period**
- **Pace of tariff reductions**
- **Treatment of sensitive commodities**

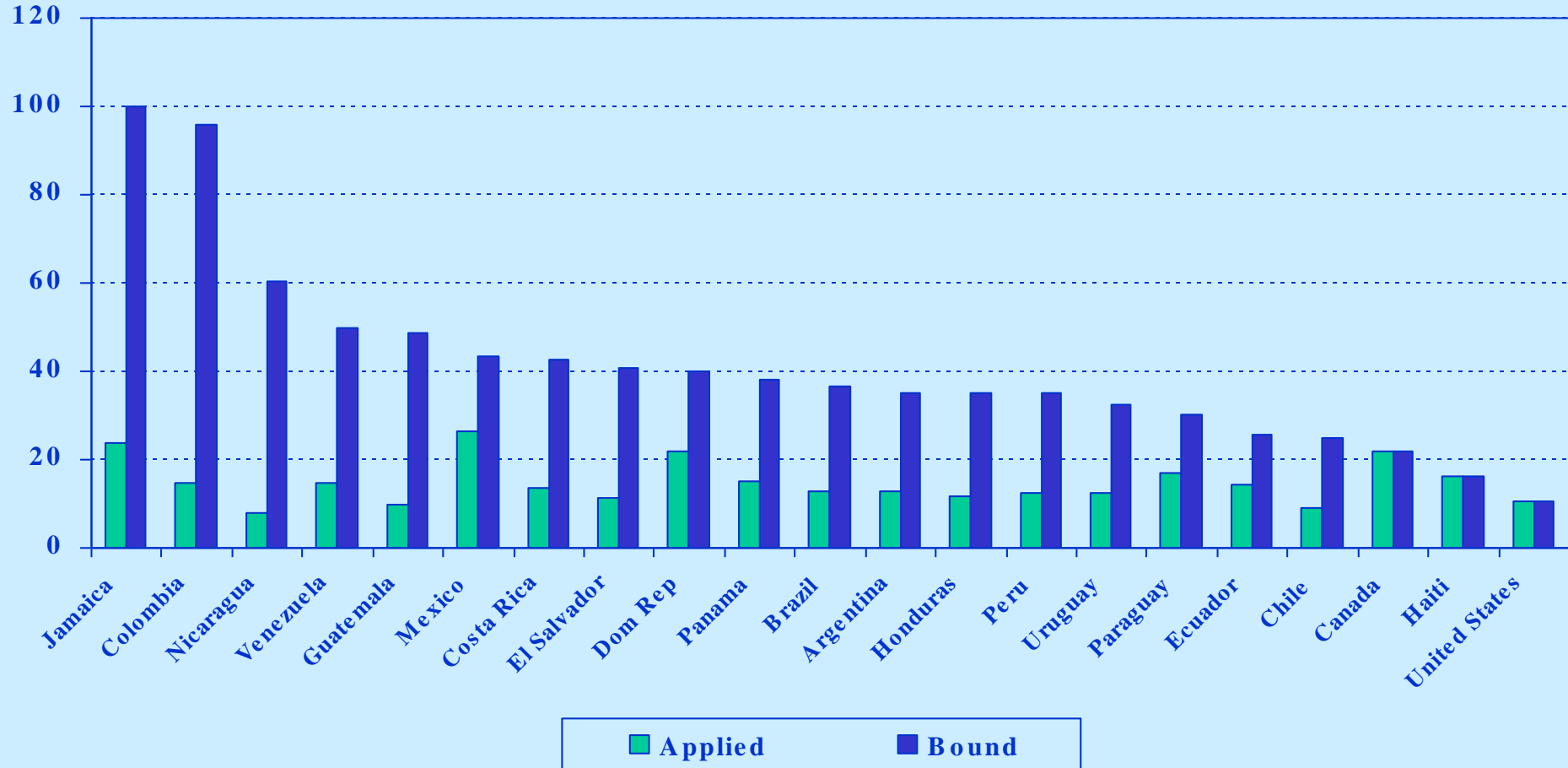
MFN Applied Tariff Means in FTAA

Agriculture vs Industrial Goods

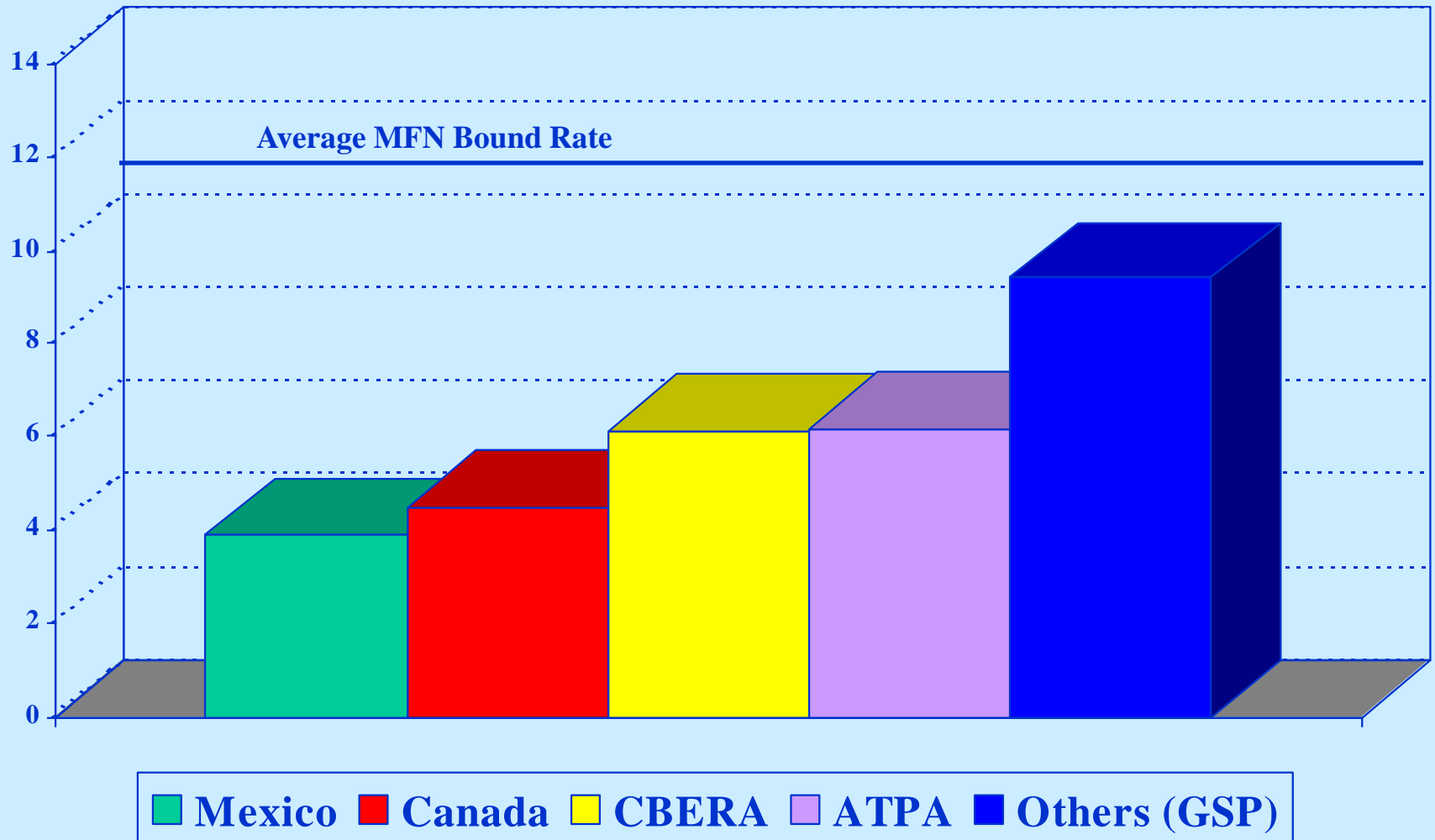


Source: U.S.General Accounting Office and USDA-ERS

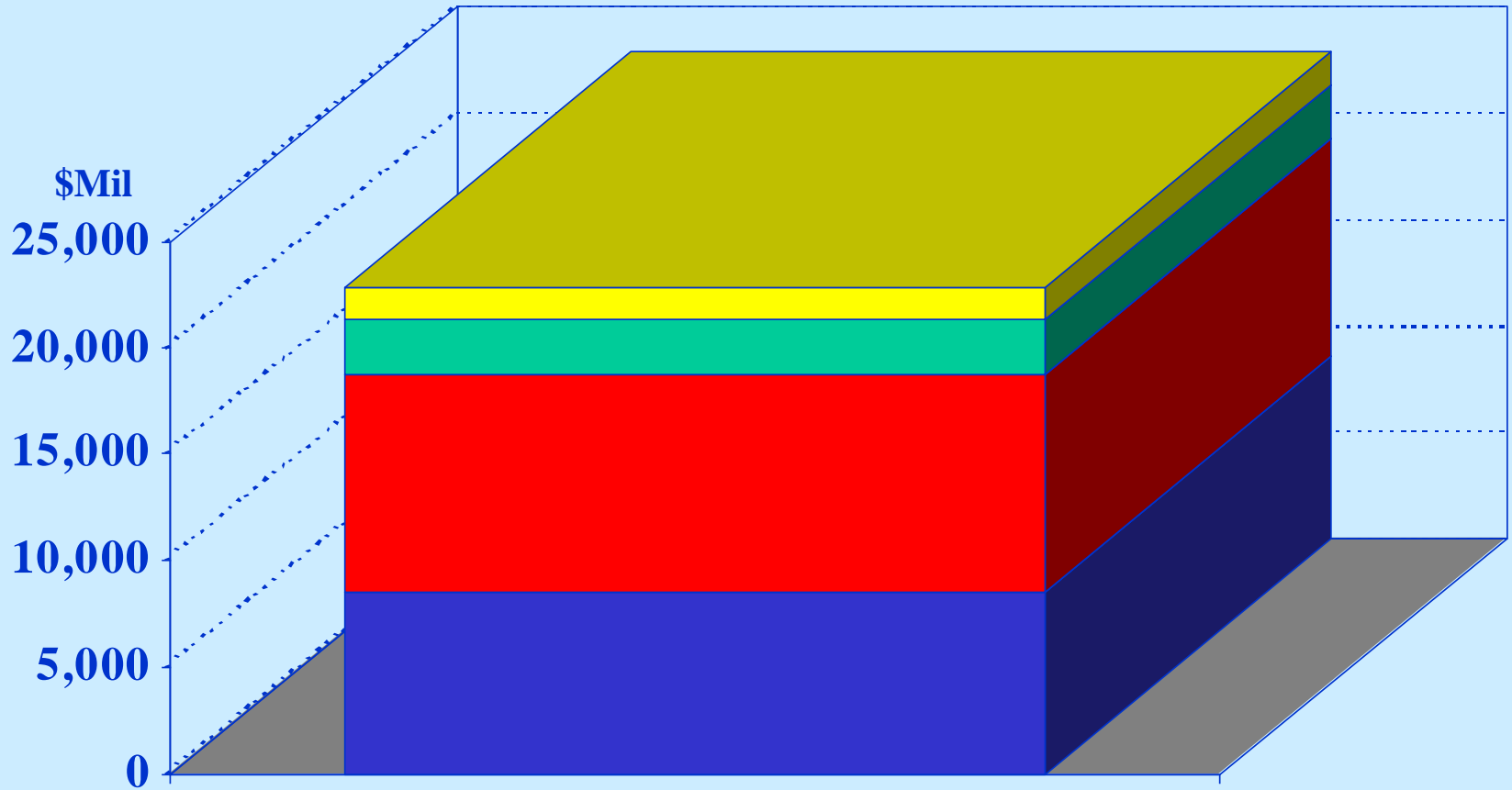
MFN Applied vs Bound Tariffs in Selected FTAA Countries



US Bound vs Preferential Rates

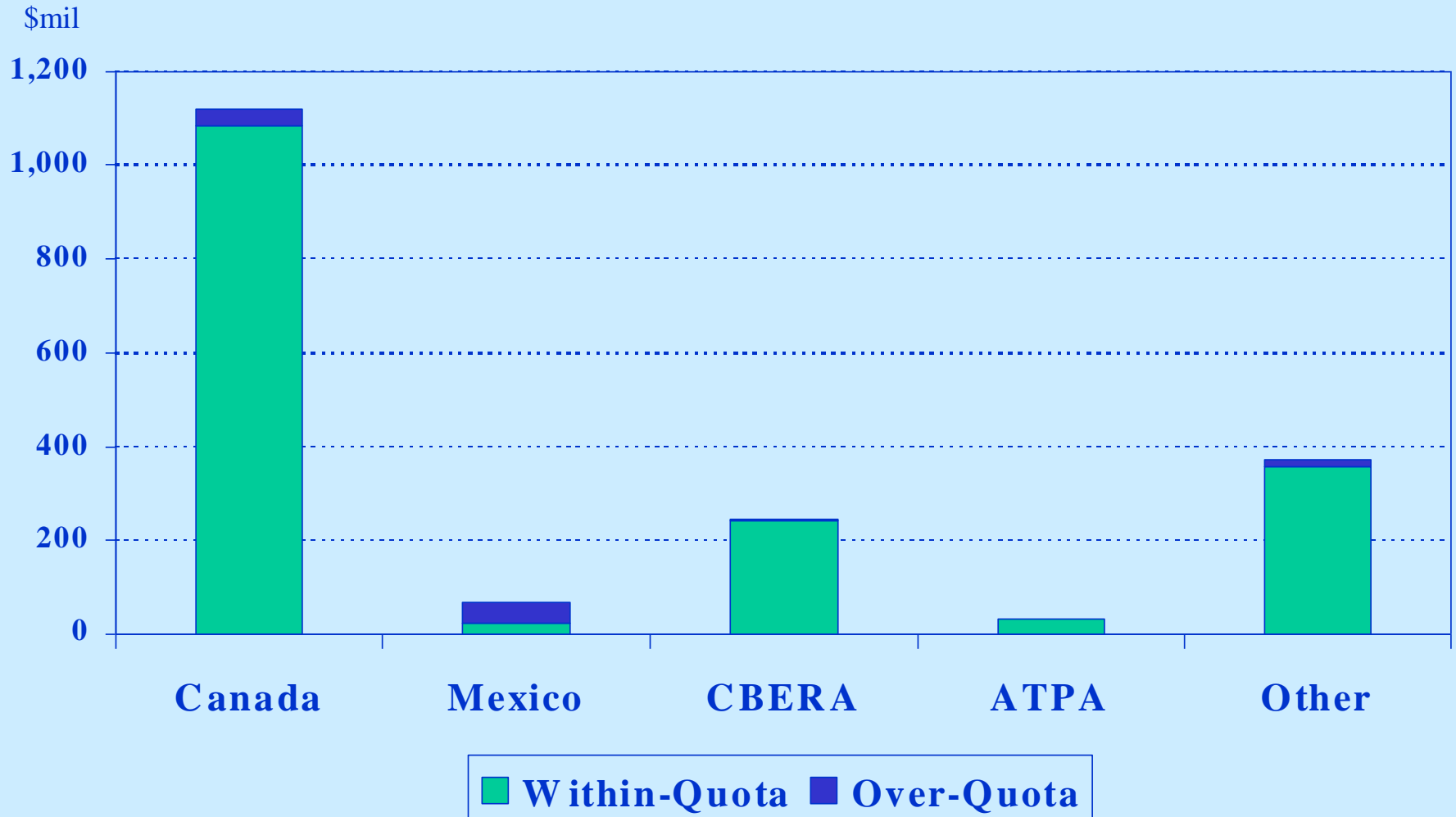


Duties Paid on FTAA Imports - 2000



■ MFN Duty-free ■ Preferential Duty-free ■ NAFTA ■ Duty paid

Imports from FTAA of Products Subject to U.S. TRQs



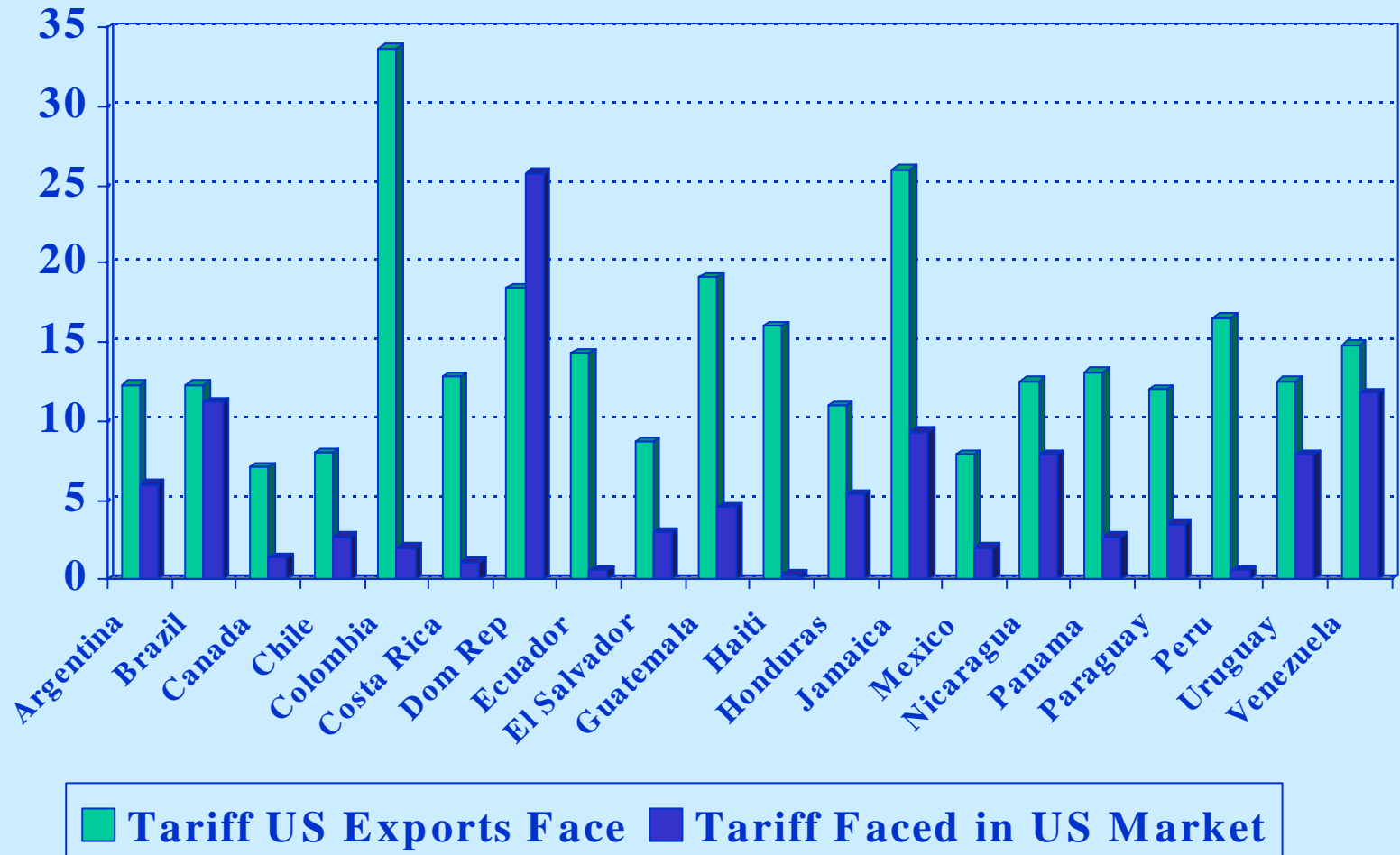
Comparing Tariff Protection Between Trading Partners

- Most common measure is simple average
- Easy to calculate but gives equal weight to all goods
- Weighted tariff means are attempt to emphasize some tariffs over others
- All approaches have biases and may not provide information an exporter needs to evaluate the actual protection faced in each trading partner's market

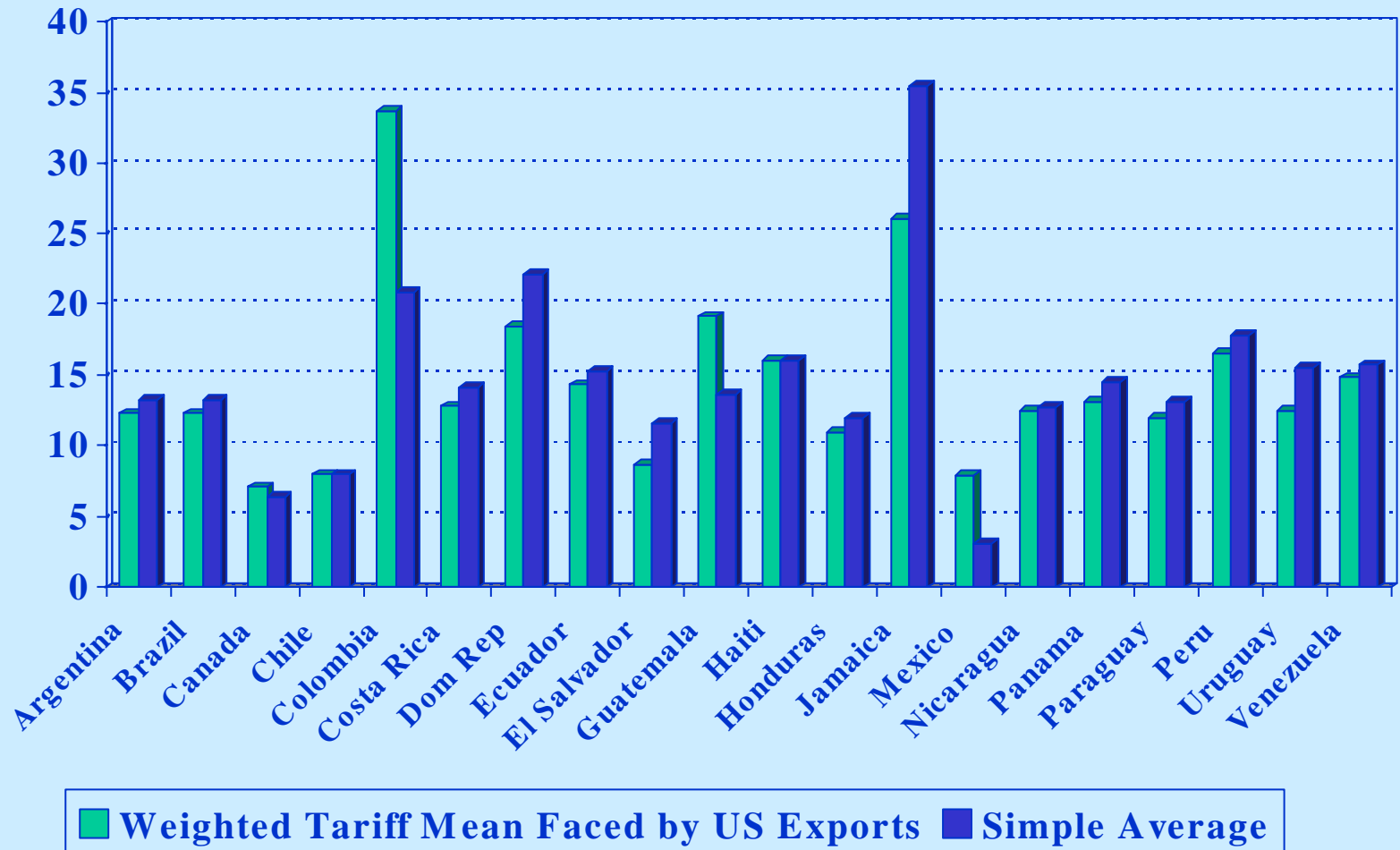
Export-weighted Tariff Mean

- Average tariff faced by exporter depends on both the importer's tariff and the composition of its exports
- Sandrey's Relative Tariff Ratio Index - Export weighted Tariff measure
- Weighting scheme uses exporter's **total exports**
- Puts greatest emphasis on those tariffs in importing country that are of greatest importance to exporting country

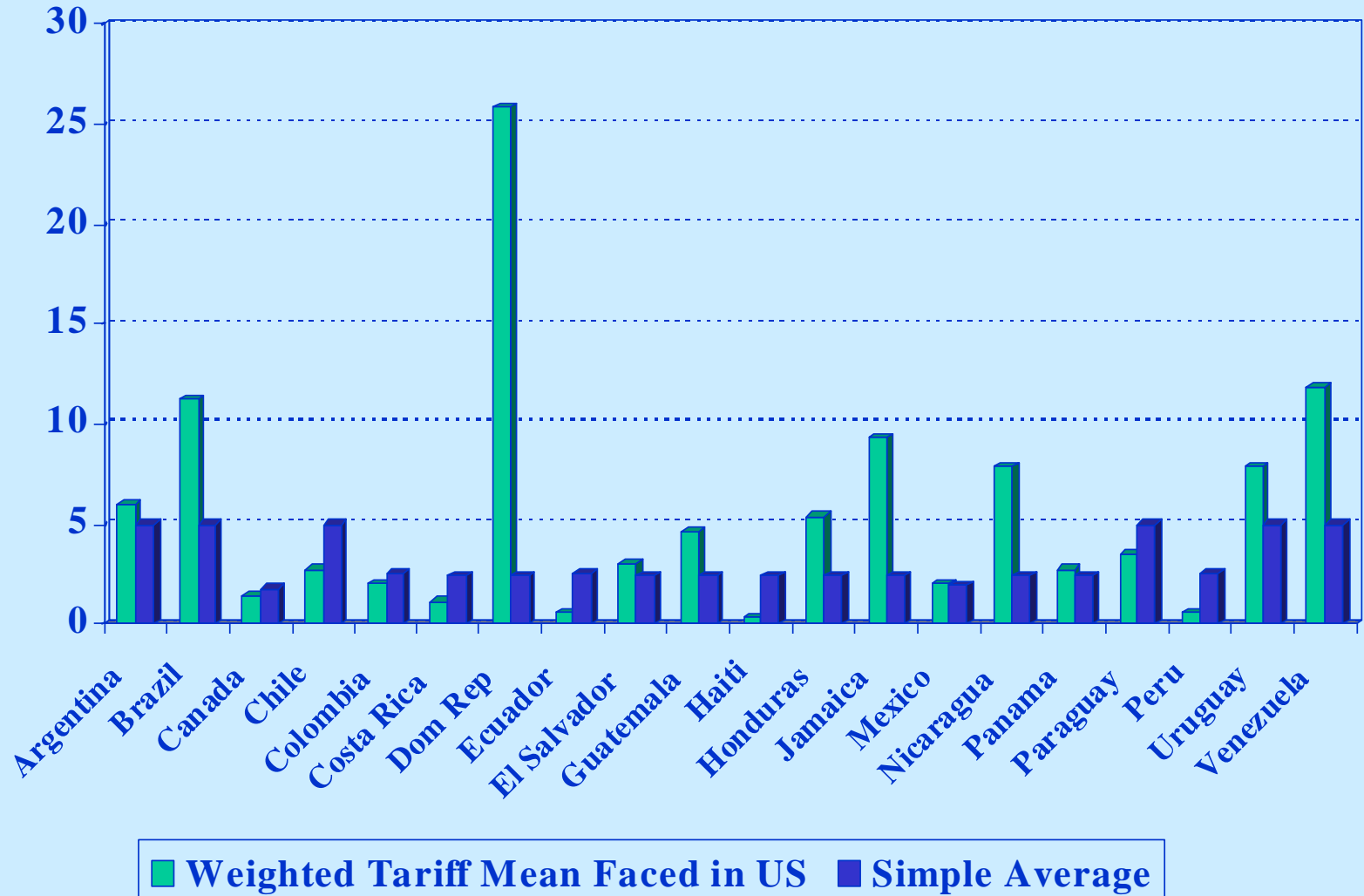
Export-weighted Tariff Means



Export-weighted vs Simple Tariff Means Faced by US Exports

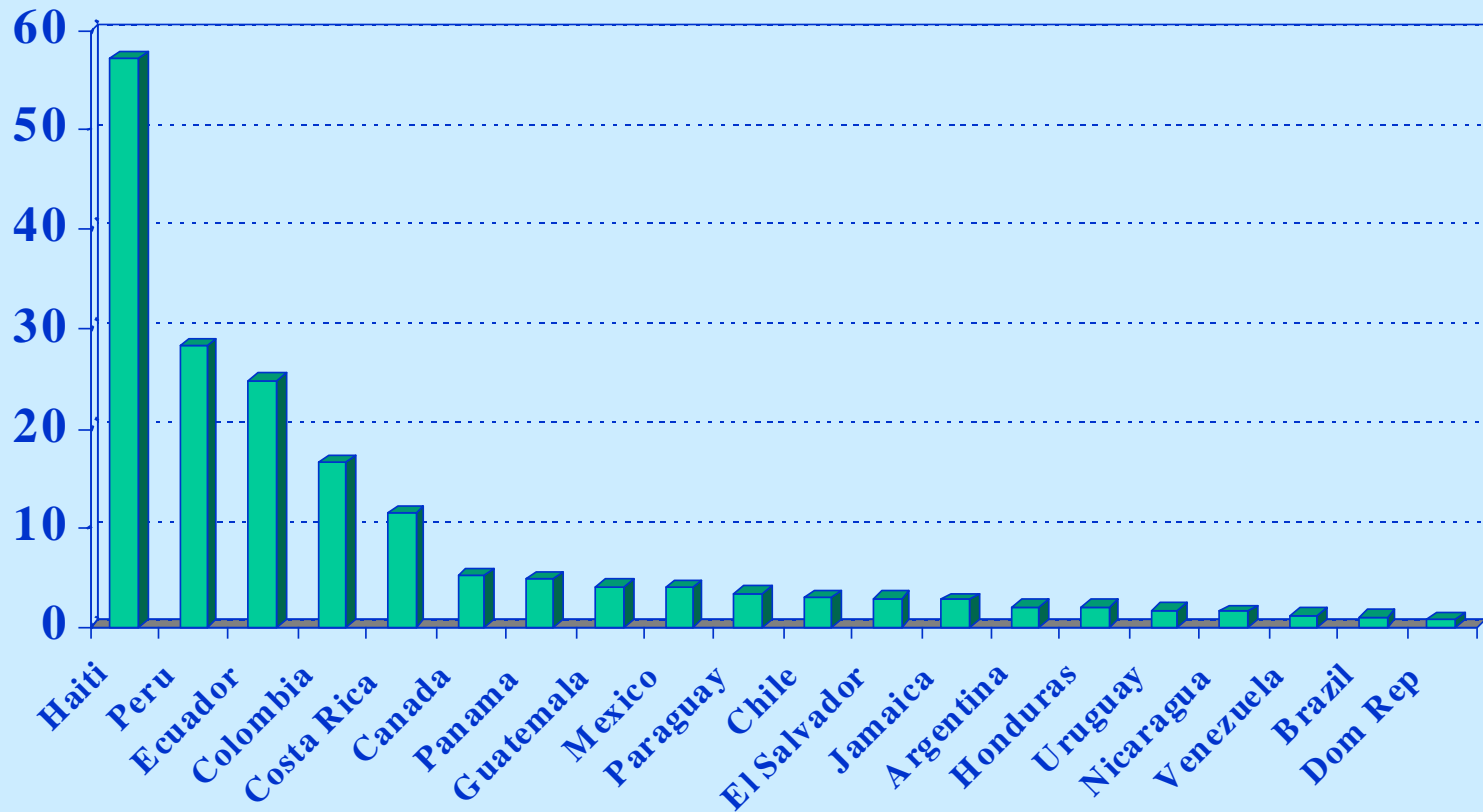


Export-weighted vs Simple Tariff Means Faced in US



Relative Tariff Ratio Index

US and FTAA Trading Partners



Conclusions

- The RTR Index is a useful tool for measuring and comparing relative levels of tariff protection between trading partners
- Using the exporter's global export mix as a weighting scheme reveals that FTAA countries tend to face higher average tariffs in the U.S. than a simple average would suggest
- In general, the average level of tariff protection faced by U.S. exports exceeds that faced by FTAA countries in the U.S.