

The RTA Template

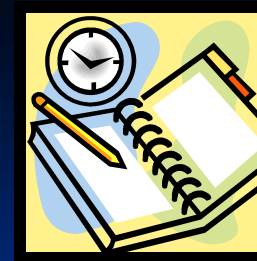
Measuring preferential market access
in goods

Outline

Measuring Preferential Market Access in goods:

- Types of market opening
- Indicators of market opening
- Trade Creation/Trade Diversion
- Rules of Origin

Features of RTA market access in goods



Scheduling tariff commitments

1. Negative list:

The RTA rules related to trade liberalization apply to all products except as specifically indicated by each party

- Example: EC-CARIFORUM EPA

2. Positive list

Trade liberalization only applies to the products listed by the parties

- Example: U.S.-Singapore FTA

3. Mixed list

A combination of 1 & 2 – i.e. industrial goods may be subject to 1 and agricultural goods to 2

- Example: EFTA-Egypt FTA

Features of RTA market access



Timing and types of commitments

1. “big bang”

- Example: Singapore-New Zealand, EFTA's FTAs

2. Linear or specific reductions

- Example: Japan-Indonesia

3. Frontloading vs backloading, e.g. EC-CARIFORUM

4. Asymmetric transition periods & liberalization commitments e.g. Thailand-New Zealand

Indicators to measure market access

- Proportion of fully liberalized tariff lines – tradeable goods
- Proportion of imports at duty-free rates – traded goods
- Margin of Preference
- Treatment of Agricultural vs. Industrial Goods
- Incidence of TRQs
- Existence of Tariff Peaks
- Products excluded from tariff liberalization

Features of RTA market access

Measuring market access (I)

1. Proportion of fully liberalized tariff lines - tradeable goods
2. Share of imports at duty-free rates - traded goods

- Example: China's commitments in China-New Zealand FTA

Duty phase-out period	Number of lines	% of total lines in China's tariff schedule	Value of China's imports from New Zealand (2005-2007) in million US\$	% of China's total imports from New Zealand 2005-2007
MFN duty free (2008)	639	8.4	349.2	25.9
2008-2011	1,204	15.7	100.9	7.5
2012	5,100	66.7	414.7	30.8
2013-2015	437	5.7	1.2	0.1
2016	32	0.4	70.5	5.2
2017-2018	7	0.1	38.8	2.9
2019	4	0.1	210.5	15.6
Remain dutiable	223	2.9	161.9	12.0
Total	7,646	100.0	1,347.7	100.0

Features of RTA market access (2)

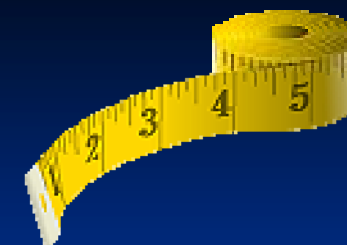
- Example: New Zealand's commitments in China-New Zealand FTA

Duty phase-out period	Number of lines	% of total lines in New Zealand's tariff schedule	Value of New Zealand's imports from China (2005-2007) in million US\$	% of New Zealand's total imports from China 2005-2007
MFN duty free (2008)	4,190	57.6	1,264.8	37.4
2008-2011	415	5.7	60.5	1.79
2012	1,967	27.1	1,237.0	36.58
2013	86	1.2	5.4	0.16
2014-2015	466	6.4	148.6	4.39
2016	146	2.0	665.5	19.68
Total	7,270	100.0	3,381.7 ^a	100.0

Measuring market access (II)

3. Margin of preference

- Example: China's concessions to New Zealand



Origin of goods	Year	ALL PRODUCTS			Agricultural products ^a			Non-agricultural products		
		Average applied tariff		Share of duty-free tariff lines (%)	Average applied tariff		Share of duty-free tariff lines (%)	Average applied tariff		Share of duty-free tariff lines (%)
		Overall (%)	On dutiable (%)		Overall (%)	On dutiable (%)		Overall (%)	On dutiable (%)	
MFN	2008	9.8	10.7	8.4	15.3	16.4	6.9	8.9	9.7	8.6
New Zealand	2008	7.3	9.7	24.1	12.1	14.1	13.9	6.6	8.9	25.8
	2009	5.7	7.5	24.1	9.8	11.4	13.9	5.0	6.8	25.8
	2010	4.0	5.3	24.1	7.5	8.7	13.9	3.5	4.7	25.8
	2011	2.4	3.1	24.1	5.1	6.0	13.9	1.9	2.6	25.8
	2012	0.7	7.9	90.8	2.8	13.0	78.6	0.4	5.4	92.8
	2013	0.5	13.9	96.5	2.2	24.6	91.0	0.2	7.8	97.4
	2014	0.5	13.7	96.5	2.2	23.9	91.0	0.2	7.8	97.4
	2015	0.5	13.4	96.5	2.1	23.3	91.0	0.2	7.7	97.4
	2016	0.5	14.9	96.9	2.1	31.8	93.6	0.2	7.9	97.5
	2017	0.5	15.3	97.0	2.0	35.3	94.2	0.2	7.9	97.5
	2018	0.5	15.3	97.0	2.0	35.2	94.2	0.2	7.9	97.5
	2019	0.5	15.6	97.1	2.0	37.6	94.6	0.2	7.9	97.5

4. Industrial vs. agricultural goods

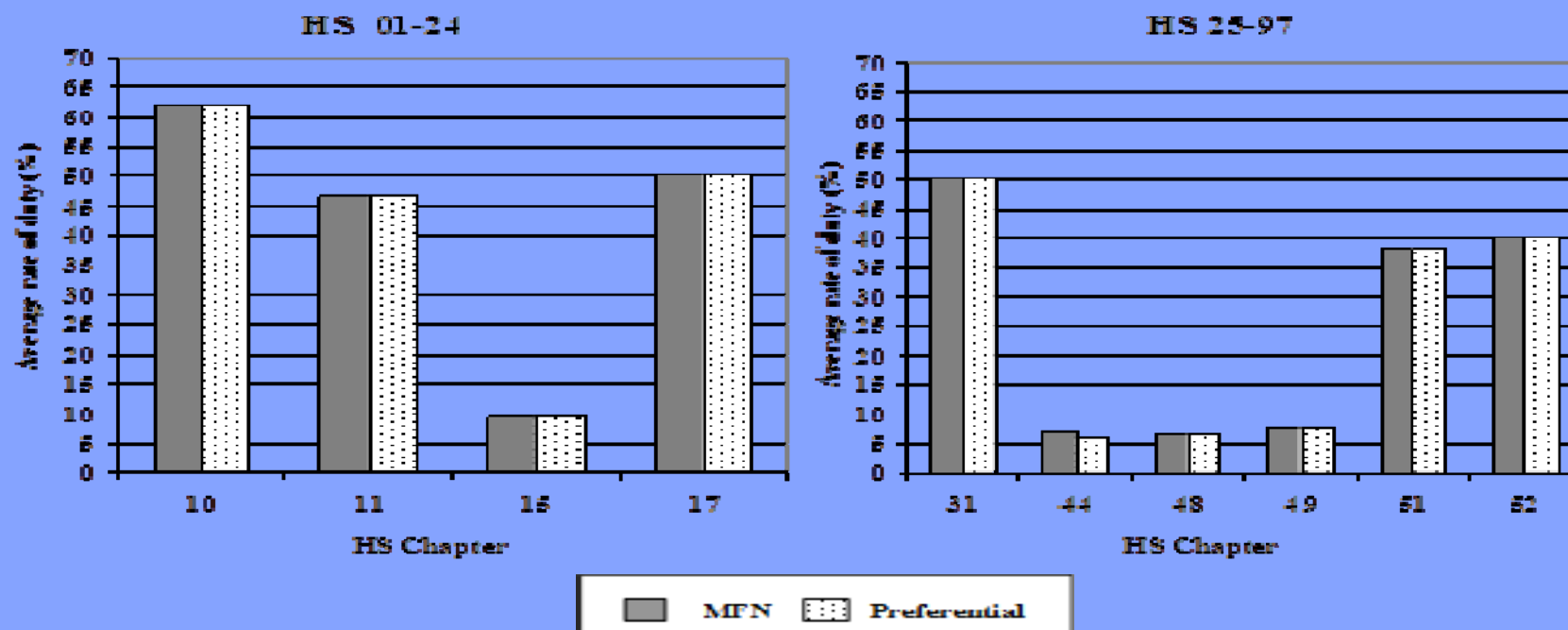


HS section	MFN average. %	Total No. of lines	MFN 2008	Number of duty-free lines									No. of Remain dutiable lines	Avg. Final Tariff (Dutiable)
				2008- 2011	2012	2013- 2015	2016	2017- 2018	2019					
I Live animals and animal products	12.3	377	44	6	284	14	18	7	4					
II Vegetable products	14.5	457	48	36	304	38	6			25	55.8			
III Animal or vegetable fats and oils	12.9	53		1	30	3				19	9.3			
IV Prepared foods etc.	18.0	279	1	41	150	78	3			6	50.0			
V Minerals	3.7	199	37	116	46									
VI Chemicals and chemical products	6.6	1,189	9	195	967	15				3	50.0			
VII Plastics and rubber	9.5	263	1	6	248	8								
VIII Hides and skins	12.3	106		15	86	1	4							
IX Wood and articles	4.3	189	72	31	45					41	6.0			
X Pulp, paper etc.	5.3	160	35		7					118	6.7			

Incidence of Tariff Peaks on Excluded Products

Chart III.2

China: Average of remain dutiable rates, by HS Chapter

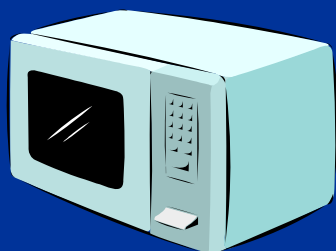


Source: WTO Secretariat estimates based on data provided by China and WTO-CDS.

Trade Creation

Trade creation

domestic production of a product is displaced by imports from a RTA partner where the good is produced at lower cost



Production prices

Made in A - \$240

Made in B - \$220

Made in ROW - \$200

A and B form an RTA. A will apply zero tariff to its imports of ovens from B

Net gain (consumer) = \$20

Trade creation

MFN tariff on ovens = 30%

Price of imports of ovens into **A**

Made in A	Made in B	ROW
\$240	\$286	\$260

No imports into A



Post-RTA - Price of imports into **A**

Made in A	Made in B	Made in ROW
\$240	\$220	\$260

A imports from B

Trade Diversion

Trade diversion:

imports from a low cost country outside the RTA are displaced by imports from a higher cost RTA partner



Production prices

No domestic production

Made in B - \$400

Made in ROW - \$300

A and B form an RTA. A will apply zero tariff to its imports of computers from B

Net loss = \$100

(consumer +\$20 Revenue -\$120)

Trade diversion

MFN tariff on computers=40%

Price of computer imports into **A**

Made in A Made in B Made in ROW

----- \$560 \$420

A imports from ROW



Post-RTA - Price of imports into **A**

Made in A Made in B Made ROW

----- \$400 \$420

A imports from **B**

Trade Creation/Diversion

How can the risk of trade diversion be minimized?

- Unilaterally reduce tariffs - the lower the margin of preference granted under an RTA, the lower the risk of trade diversion
- Analyze your RTA partners' competitiveness



Production prices
No domestic production
Made in B - \$400
Made in ROW - \$300

A and B form an RTA. A will
apply zero tariff to its imports of
computers from B

No change in import sourcing

MFN tariff on computers=10%

Price of computer imports into A

Made in A Made in B Made in ROW

----- \$440 \$330

A imports from ROW



Post-RTA - Price of imports into A

Made in A Made in B Made ROW

----- \$400 \$330

Rules of origin: Purpose and Importance



- To determine the economic origin of a good
- To enable customs authorities to determine whether or not a good is eligible for preferential tariff treatment
- In an FTA, rules of origin are essential to prevent trade deflection, i.e. goods entering the country with the lowest tariffs
- In a fully implemented customs union preferential rules of origin are not necessary



Rules of origin: Effects

- Can insulate industry from the possible trade liberalization effects of an RTA
- Production costs may increase due to technical requirements or need to source from intra-RTA partners
 - Administrative costs may rise due to certification requirements, both for exporter and customs officials
 - Restrictive RoO may result in trade diversion.

Rules of Origin (II)



2. Rules of Origin: trade diversion

