# CRS Insights

Expansion of WTO Information Technology Agreement Targets December Conclusion

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On July 24, 2015, the United States and 80 other World Trade Organization (WTO) members reached tentative agreement to expand the Information Technology Agreement (ITA) and eliminate tariffs on 201 goods not included in the original 1996 ITA. While global trade covered by the original ITA has more than tripled to $4 trillion, the agreement had not been expanded to include more recent technology innovations. The newly added products account for approximately 7% of total global trade, or $1.3 trillion per year. While the original ITA includes products such as calculators, computers, ATMs, monitors, transistors, and certain machine parts and accessories, the expanded agreement will cover more recent innovations including U.S. exports such as next generation semiconductors, Global Positioning System (GPS) devices, Magnetic Resonance Imaging (MRI) machines and Computed Tomography (CT) scanners, and a large selection of medical devices.

Unlike free trade agreements such as the proposed Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership, the ITA does not require congressional approval; it is covered by residual tariff negotiating authority under the WTO Uruguay Round Agreements Act (P.L. 96-618). (See CRS Report R42344, *Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis* and CRS Report R43387, *Transatlantic Trade and Investment Partnership (T-TIP) Negotiations*.)

What is the ITA?

The ITA is a tariff-cutting agreement focused on trade in information technology goods, and does not include services or software; the agreement does contain a commitment to address non-tariff barriers, but without specifics. However, because it is a "plurilateral" agreement—*i.e.* one negotiated among a subset of WTO members—it is subject to a "free rider" problem since all WTO members would benefit when the expanded agreement is concluded. Under WTO most-favored nation principles, the non-participating WTO members are able to benefit from the concessions made by other countries while maintaining their own tariffs. In order to minimize the free rider problem, the ITA requires a threshold 90% of global trade coverage to come into force. There are currently 81 participants in the original ITA, including the United States, the 28 members of the European Union (EU), and key East Asian trading partners Japan, South Korea, China and Taiwan.

Initial efforts to expand the coverage of the ITA to include new technology products began in 2012 and its conclusion marks the first tariff-cutting agreement in the WTO in 18 years. Prior negotiations had hit an impasse over China's request for extensive exclusion of some goods from tariff cuts and long phase-out periods for others, but these were settled in bilateral U.S.-China consultations in November 2014 (see CRS Report IF10002, *The World Trade Organization at 20*). The final set of unresolved issues were worked out in July through a complex set of trade-offs and concessions among the United States, EU, China, and South Korea: the EU and China agreed to exclude items of approximately equivalent value; and South Korea decided not to seek additional tariff reductions from Beijing in exchange for the EU and the United States allowing Seoul to preserve tariffs on specific types of medical devices.

Some members did not immediately sign on to the updated agreement. Colombia, Mauritius, and Turkey continue work through domestic procedures before being able to sign, while Taiwan needed first to complete a consultation process with local industrial associations, including the flat-panel display manufacturers who did not get the exclusion they had sought. Taiwan's accession was crucial, as without its support, the risk remained that the agreement would not meet the threshold of 90% of world trade required since Taiwan alone accounts for 7% of ITA-covered trade. A similar hurdle occurred when the original agreement was concluded in December 1996, with the original participants falling short of the 90% percent threshold, reaching it only when additional members joined in April 1997.

## Implications for the United States

According to the U.S. Trade Representative, the U.S. accounts for more than $100 billion of the over $1 trillion in annual trade of information and communications technology products covered by the expanded ITA.

The more expansive product list covered by the ITA could lower costs for consumers and businesses, and it may lead to increased U.S. exports by providing greater market access for certain U.S. manufacturing and technology industries. The elimination of tariffs, however, could adversely impact U.S. domestic industries that face import competition. Some of the tariff reductions are substantial. For example, tariffs on next generation semiconductors and solid state drives, are scheduled to drop to zero from 25% or 30% in some countries.

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### Case Study: Semiconductors

The new ITA agreement would help liberalize tariffs on semiconductors, a major U.S. export. Not only is the United States the number one producer of semiconductors worldwide, but semiconductors are the number three manufactured export of the United States with sales of $172.9 billion in 2014. While semiconductors and semiconductor manufacturing equipment were included in the original WTO ITA, newer technologies such as multi-component semiconductors (MCOs), which power GPS and medical devices, were not envisioned at the time. As an Intel Corp. official commented, "[MCOs] weren't part of the original ITA because they hadn't been dreamt up in 1996." Global tariff savings from MCOs are projected to be $150-$300 million annually. One industry association claims that the industry directly employs 250,000 U.S. workers and supports many more in other parts of the economy.

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## What's Next?

In September, the members will begin to finalize the timetables and stages for tariff elimination. The staging process will allow countries to gradually phase in tariff reductions for specified products, with countries taking longer or shorter timelines depending on specific product sensitivities. This is important because, as an ITA participant, a member must reduce to a zero tariff level all other duties and charges for all products listed in the Declaration with no exceptions to product coverage. The hope is to conclude all negotiations before the WTO 10th Ministerial Conference, which will be held in Nairobi, Kenya, in December 2015, and for the agreement to go into force by July 2016. The draft declaration agreed to will be the main legal instrument giving force to the agreement, and contains a review clause to ensure that the participants reconvene in 2018 to consider further expansion.