



## The Case for the E-Commerce Moratorium

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- ▶ The Moratorium on applying customs duties on electronic transmissions is up for renewal at the forthcoming 12th Ministerial Conference of the WTO.
- ▶ The customs revenue implications of the Moratorium are likely to be small and outweighed by important gains from ensuring that electronic transmissions remain tariff free.
- ▶ On the basis of existing evidence, there is a strong case for renewing the Moratorium.

### What's the issue?

Since 1998, governments have regularly extended the Moratorium on applying customs duties on electronic transmissions, enabling a stable environment for growing digital trade, especially important during the COVID-19 pandemic (OECD (2020) and (2020)). At the forthcoming WTO Ministerial Conference (MC12), scheduled to take place on 12-15 June 2022, WTO members will, once again, discuss whether or not to renew this Moratorium. This brief provides an overview of the issues at stake, looking at the existing empirical evidence and making the case for the Moratorium.

### What is the impact of the Moratorium on fiscal revenues?

There is no official WTO agreement or definition of what electronic transmissions refer to, which is why assessing the economic impact of the Moratorium can be difficult. It requires making a range of assumptions about the amount of trade that has been digitised to date, what trade could be digitised in the future and what the scope of the Moratorium is (i.e. what tariffs could be charged absent the Moratorium). To avoid divisive arguments about assumptions, it is useful to begin discussions on the impact of the Moratorium by taking the highest estimates of this potential impact on fiscal revenues and putting these into perspective (see [Andrenelli and López González 2019](#)) - Table 1.

The higher bound estimates in [Banga \(2019\)](#) suggest that the Moratorium could lead to foregone government revenue of about USD 8 billion for developing countries. Notwithstanding concerns with the methodology used to calculate these estimates, in particular the use of bound

instead of applied rates, this amounts to, on average, 0.08% to 0.23% of total government revenues. Moreover, as shown by [Andrenelli and López González \(2019\)](#), foregone revenue would concentrate in countries that rely least on customs revenue for overall government revenue. Sixty-nine percent of the estimated foregone revenue would occur in countries that have already agreed not to charge customs duties on electronic transmissions in at least one of their trade agreements (calculations based on [Burri & Polanco \(2020\)](#)). In addition, higher tariffs are likely to be associated with “higher prices and reduced consumption, which would in turn slow GDP growth and shrink tax revenues” (corporate income taxes, consumption or value-added taxes, and personal income tax) ([Lee-Makiyama & Narayanan, 2019](#)). Overall, “the fiscal policy case for abandoning the Moratorium on customs duties on electronic commerce does not stand up to scrutiny” ([Evenett, 2021](#)).

### What are the benefits associated with the Moratorium?

Moreover, the fiscal policy case is just one part of the equation. There are considerable benefits from digitalisation for trade across all sector of the economy and for countries at different levels of development ([Lopez Gonzalez & Ferencz, 2018](#)). In the specific case of the Moratorium, there are benefits to being able to conduct trade electronically ([Andrenelli & López González, 2019](#)), whose significance has been echoed by industries across both developed and developing countries ([Global Industry Statement, 2022](#)).

- **Electronic transmissions reduce trade costs.** Being able to digitise goods is tantamount to a reduction in transport costs - which can be as much as 20-30%





## The case for renewing the e-commerce Moratorium

The highest estimates of revenue loss from the Moratorium are small when put into perspective

Duty type	Average total revenue losses					
	million USD		% of total customs revenues		% of total government revenues	
	Developed countries	Developing countries	Developed countries	Developing Countries	Developed countries	Developing countries
<b>Applied rates</b>	123.8	2,788.5	0.16	1.58	0.00	0.08
<b>MFN duties</b>	212.2	3,482.9	0.24	2.00	0.00	0.10
<b>Bound rates</b>	212.2	8,043.9	0.24	4.35	0.00	0.23

Note: Values taken from Table 4 in Banga (2019) and put into perspective using estimates of total customs and government revenue obtained from the World Bank's World Development Indicators (WDI).

Source: adapted from Andrenelli & López González (2019).

of overall trade costs. These costs tend to be highest for developing countries, meaning that electronic transmissions offer new opportunities to overcome their trade cost disadvantage.

- **Imposing tariffs is welfare reducing.** Any customs revenue gain from applying tariffs on electronic transmissions would be offset by higher losses in consumer welfare. The imposition of customs duties, in the absence of the Moratorium, is not a tax on foreign firms; it is a tax on domestic consumers and firms. Its lapse would reduce welfare. Indeed, if all goods that could be digitised were to become digitally transmitted today, consumer welfare would increase by more than USD 900 million.
- **Empirical evidence suggests that the use of foreign business services is key for export competitiveness.** The lapse of the Moratorium is likely to create uncertainties about what tariffs can be charged on what items, affecting the ability of firms to source digital inputs, in turn reducing export competitiveness. This is especially the case of firms in lower income countries where there are fewer domestic substitutes.
- **SMEs that use digital tools such as webpages or the internet for digital deliveries are more likely to become exporters** giving rise to new opportunities to grow. Moreover, duties applied by other countries on electronic transmissions, including content, would affect the ability of domestic SMEs to export. The lapse of the Moratorium would jeopardise these benefits, exacerbating existing inequalities.

### Will the rise in new technologies like 3D printing affect the Moratorium debate?

Some have argued that the fiscal implications of the Moratorium will be exacerbated by the rise in new technologies, such as 3D printing, which could lead to the substitution of physical trade by electronic transmissions (Kozul-Wright and Banga, 2020). However, where the technology has found widespread application, such as in the hearing aids industry, it has resulted in more – not less – international trade in goods (Freund, Mulabdic, &

Ruta, 2019). Recent evidence also suggests that there is a positive relationship between imports of 3D printers and trade in a wide range of 3D printable items, including orthopaedic appliances, aircraft parts, medications and machine parts (Andrenelli & López González, 2021). This suggests that the wider adoption of 3D printing is likely to lead to more trade in goods, at least in the short to medium term, meaning that the wider adoption of 3D printing is unlikely to result in foregone tariff revenue.

### What does this mean for policy?

When WTO Members consider whether or not to extend the Moratorium, they should take into consideration the wider benefits of the Moratorium and not focus solely on the potential customs revenue implications. Analysis shows that the revenue implications of the Moratorium are likely to be small relative to overall government budgets and that its lapse would come at the expense of wider gains in the economy, including in terms of consumer welfare and export competitiveness. Moreover, new technologies like 3D printing are unlikely to have wider implications for the Moratorium, at least in the foreseeable future.



#### Further reading

- Andrenelli, A., & López González, J. (2019). Electronic transmissions and international trade - shedding new light on the moratorium debate. doi:<http://dx.doi.org/10.1787/57b50a4b-en>
- Andrenelli, A., & López González, J. (2021). 3D printing and International Trade: What is the evidence to date? In OECD Trade Policy Papers. Paris: OECD Publishing. doi:<https://doi.org/10.1787/0de14497-en>
- Banga, R. (2019). Growing Trade in Electronic Transmissions: Implications for the South. In *UNCTAD Research Paper*. UNCTAD, Geneva.

