FATE OF SOUTH'S INDUSTRIES AT STAKE AT WTO NEGOTIATIONS

A Review of Different Positions in the WTO talks on Non Agricultural Market Access (NAMA)

By Martin Khor (Third World Network)

General

With the WTO negotiations resuming in September 2005, among the first issues on the agenda will be non-agricultural market access (NAMA). There will be a "NAMA Week" on 19-23 September with the NAMA negotiating group scheduled to formally meet on 21-23 September.

NAMA has been a poor cousin to agriculture in the recent negotiations in July, during which much of the focus and negotiating energy has been on agriculture. "NAMA is being held hostage to agriculture" was a saying heard in the WTO corridors. The common thinking is that only after the level of commitments is known in agriculture will the major countries show their cards or the numbers in them in NAMA.

However, if developing-country policymakers ignore the intricacies of the NAMA issues, they do so at their own peril. The negotiations are already quite advanced. If there are signs of serious movements in agriculture, the major players could well try to wrap things up in NAMA quickly - with serious consequences for the developing countries' industries.

This is what happened during the July 2004 General Council meetings. Most of the negotiations were conducted over several days by the "Five Interested Parties" (the US, the EU, Brazil, India, and Australia) in agriculture. When they concluded a deal and passed it on to the others to accept, the Chairman's draft on NAMA (which had been very controversial and was opposed including by Ministers from the Group of 90 countries just a few weeks previously) was rushed through in a few hours at a "Green Room" meeting.

At the WTO General Council and Trade Negotiations Committee (TNC) meetings on 27-29 July, the Chair of the NAMA negotiating group, Ambassador Stefan Johannesson of Iceland, reported that there was no agreement among WTO members on key aspects.

He tried, however, to report "broad acceptance" and "increasing convergence" around modalities favoured especially by developed countries. In response, some delegations of developing countries objected or came up with positions that

contradicted him. This indicated that the NAMA talks are in a tighter logjam than the Chair liked to portray, and that some members have less confidence in his assessment of where the negotiations stand.

Several issues have dominated the NAMA negotiations, including the nature of the tariff-reduction formula; the treatment of unbound tariffs; flexibilities for developing countries; how to deal with erosion of tariff preferences; the sectoral approach for accelerated tariff elimination; and non-tariff barriers.

Throughout, the developing countries have insisted on special and differential treatment, including through "less than full reciprocity" in liberalization commitments, but the meanings or manifestations of these principles have been disputed. The developed countries on the other hand have been aggressive, even merciless, in their attempts to drastically bring down the bound and applied tariffs of the developing countries.

Indeed, there are many double standards in the developed countries' treatment of liberalization in agriculture and NAMA.

In agriculture, where the developed countries are on the defensive in wanting to protect their farms and agri-businesses, the EU and particularly the Group of 10 (G10) developed countries (which includes Norway and Japan), are asking for a "lenient", "Uruguay Round" tariff-reduction formula, where only the average tariff is cut, leaving countries the flexibility to select different reduction rates for specific products.

Also, they ask for "linear cuts" and not the aggressive non-linear Swiss formula, where the cuts will be greater, especially for tariffs at the higher end. True, the agriculture tariff-reduction formula will have "tiers", with higher bands having to have higher rates of reduction. Nevertheless, the formula overall tends to be much more lenient than the Swiss formula that the developed countries insisted, successfully, to apply in NAMA.

The main reason for this double standard is that the developed countries have offensive interests in NAMA. Excepting for some tariff peaks and high tariffs, the developed countries have relatively lower bound industrial tariffs as compared to the higher bound tariffs of developing countries. Some developing countries have also bound only some of their tariff lines.

The richer countries have thus combined to demand a programme of massive tariff cuts for developing countries, comprising cuts through a Swiss formula for bound tariffs; binding of all or almost all presently unbound tariff lines, after subjecting their applied tariff rates (with a little mark-up) to the same Swiss formula; and the accelerated elimination of tariffs in selected sectors.

This onslaught, if successful, will dramatically narrow the existing policy space that developing countries still have to apply tariffs to shield their infant and nascent local industries from the full force of global competition.

The developed countries, after making use of tariff protection and subsidies to boost local firms during their industrialization phase, would have succeeded in preventing the developing countries from using the same policy tools, under the guise that exposure to full competition is the best or only way for local industries to learn to be efficient.

As development economists and experts such as Yilmaz Akyuz (former chief economist of UNCTAD), Ha Joon Chang (Cambridge University economist) and Mehdi Shafaeddin (senior economist at UNCTAD) have pointed out, the rapid and steep across-the-board reduction of industrial tariffs through the current WTO exercise will damage and (in some affected countries) even decimate local industrial firms and sectors.

Through Annex B on NAMA in the "July 2004 package", the developing countries (including those that had protested against the NAMA text) had accepted that bound tariffs would be cut by a non-linear formula, and that almost all unbound tariffs would also be subjected to a formula cut after calculating the base values from which the cuts would be applied.

Paragraph 1 of Annex B had given developing countries some leeway to re-negotiate these main points, as it states that the Annex contains the "initial" elements and "additional negotiations are required to reach agreement." However, in the year since July 2004, they have not made use of this leeway to challenge the basics that there would be a non-linear formula, that it would apply on a line-by-line basis (and not on an average basis as in the Uruguay Round approach), and that it would also apply to unbound tariff lines.

Annex B made exceptions for LDCs (in para 9) and for countries with less than 35% binding coverage from having to apply the formula. However, the latter have to bind all their NAMA tariff lines at an average not exceeding the overall average of developing countries' bound tariffs (which is about 29% as a simple average).

Para 8 gives some flexibilities for the remaining affected developing countries, but these are very limited: longer implementation periods; applying less than formula cuts to up to 10% of tariff lines (but the cuts must be at least half the formula cuts and the tariff lines cannot exceed 10% of the total value of imports), OR keeping tariff lines unbound or not applying formula cuts for up to 5% of tariff lines, provided they do not exceed 5% of the total value of imports.

Such extremely restricted definitions and applications of "special and differential treatment" (SDT) are grossly inadequate in enabling developing countries the use of tariffs as the last remaining policy instrument (since subsidies and industrial

upgrading through reverse engineering have been mostly prohibited by other WTO rules) to protect existing industries or to nurture future industries.

Even these inadequate SDT-proposed provisions are sought to be whittled away by proposals from some developed countries, which ask developing countries to choose between making use of them (and having to apply a stricter formula coefficient with deeper tariff cuts) or giving them up (and earning "credits" enabling the use of a slightly more lenient coefficient and thus less steep tariff cuts).

A few developing countries (mainly from Latin America) have joined in the developed countries' insistence of rapid liberalisation by developing countries. However, several developing countries have put forward proposals and positions calling for a more moderate approach.

While not challenging the non-linear formula, they have proposed that the coefficients for countries be different according to certain criteria - such as the present level of a country's average bound tariff, as in the Argentina, Brazil and India (ABI) proposal; or this factor plus other "development factors" such as autonomous liberalization, dependence on tariff revenue and vulnerability of local industries, as in the Caribbean countries' proposal.

Other countries have also asked for a different treatment of unbound tariffs. In particular, some "Para 6" countries, that have less than 35% binding coverage, have proposed that they bind unbound tariffs at the rates of their choice to meet their development needs. Malaysia has proposed that for non-Para 6 countries, unbound tariffs be bound at an average of 25% (with a ceiling of 40%), and not be subjected to formula cuts.

The following, in brief, are the positions of some of the major developed and developing countries and entities, and in some cases their responses to the NAMA Chair's assessment of the state of play.

In general, the developed countries all take an aggressive offensive stance, asking for the application line-by-line of a Swiss formula to cut tariffs, the binding of all (or almost all) unbound tariff lines at very low levels (using an approach based on the current applied rates), and restricting flexibilities to very narrow spaces, which some countries seek to reduce even further.

Positions on the tariff-reduction formula

On the issue of a formula for tariff reduction, several papers were presented in March by members that had "high ambition".

These included proposals by the United States for a Swiss formula with two coefficients (for developed and developing countries); the European Communities for a Swiss formula with a single coefficient but developing countries could earn "credits" by not making use of flexibilities; Norway for a Swiss formula with two coefficients as well as "credits" for eligible developing countries; and Mexico, Chile and Colombia proposing different sets of options with each set designed to achieve "high ambition", also involving trade-offs.

The US proposal involves a Swiss formula with dual coefficients, one coefficient for developed countries and another for developing countries. However, the US also placed two conditions: the coefficients must be "within sight of each other" and the two-coefficients approach would be an alternative to flexibilities for developing countries contained in para 8.

The EC proposed that developing countries be given a choice between two options. Both involve a trade-off between the reduction rate in the formula and the use of "flexibilities". In the first option, there would be a Swiss formula with only one coefficient (for both developed and developing countries) and developing countries can use the exceptions in para 8. In the second option, developing countries can earn "credits" by not making use of the para 8 exceptions, and the credits are used to increase the coefficient (which would lower the tariff-cutting rate).

Norway proposed a non-linear formula with two coefficients that includes an element of credits. Credits are earned by members for participation in sectoral components, applying the formula to all tariff lines or having full tariff bindings. The credits would lower the reduction rates.

Chile, Colombia and Mexico said that developing countries should have recourse to alternatives to meet their different sensitivities such as difficulty to bind all tariff lines or to fully apply the formula to some sensitive tariff lines. They proposed a "menu of options" which would represent trade offs. For example, Members that decide not to use exceptions to the formula can have longer implementation periods and/or a softer coefficient in the formula. If any country takes some advantages in some areas, it should pay by giving up advantages in other areas. Each country thus would have to reach the "high ambition" level.

At a NAMA meeting in April, Argentina, Brazil and India (widely termed as the ABI) made a proposal that it said incorporated the "less than full reciprocity" principle (i.e. with higher coefficients for developing countries compared to developed countries, resulting in higher percentage reductions for developed countries) and which was in opposition to the "harmonisation of tariffs" (i.e. bringing down higher tariffs at steeper rates so as to be much nearer to lower tariffs). As the bound industrial tariffs of developing countries are generally higher, "harmonisation" would result in greater reductions in developing countries' tariffs.

They proposed a Swiss 'type' formula incorporating each country's tariff average. The final bound rate of a product (after the reduction exercise) would be a function of a coefficient B to be multiplied by the country's current average bound rate and multiplied by the product's present bound base rate, and then divided by B multiplied by the average bound rate plus the bound base rate.

This formula (termed "Swiss type" in contrast to the "simple Swiss" proposed by developed countries) enables countries with a higher average bound tariff to reduce their tariffs less steeply than countries with a lower average bound tariff from the same starting point (i.e. the same present tariff).

Developing countries with relatively high bound tariffs prefer the Swiss type formula. The developed countries object to it for not delivering enough market access.

The paper states that B is a coefficient whose value or values are to be determined by the participants. Moreover, the coefficient 'B' will be modulated to reflect the ambition in other areas relevant to market access agreed to for this Round. This implies that the "level of ambition" or the steepness of the reduction would be influenced by the agriculture negotiations.

The proponents said theirs was an equitable formula as it takes into account the present tariff commitments of Members, and it removes the shortcoming in the simple Swiss formula that imposes much greater reduction requirements on developing countries.

The ABI proposal came under fierce attack from the developed countries, which said that it was not equitable as it rewarded those with high tariffs while punishing countries with low tariffs. They insisted on the "simple Swiss" formula. The Chair of the NAMA negotiations also indicated irritation if not opposition to the ABI proposal, at one stage concluding that it was blocking consensus.

With time, the ABI concept gained ground. In March, some Asian countries (including the Philippines and Indonesia) indicated their support.

In June, several Caribbean countries (Antigua and Barbuda, Barbados, Jamaica, St Kitts and Nevis and Trinidad and Tobago) made a proposal that adopted the ABI idea of having different coefficients for different countries, and of having the country's average bound tariff as a major factor. However, it also proposed that the B coefficient in the ABI formula be supplemented with an additional C coefficient, which would reflect credit for developing countries for "development factors". The addition of C would enlarge the coefficient, with the effect of reducing the steepness of the tariff cuts.

Significantly , the Caribbean countries prefaced their proposal with the statement that their preference is for an overall average tariff-reduction approach along the lines used in the Uruguay Round. Their engagement in a search for an appropriate non-linear formula approach that responds to development concerns is without prejudice to their support for a Uruguay Round approach as the best means to achieve these development concerns. They reserved the right to propose other approaches if this search is unable to yield appropriate results that satisfy the Doha mandate.

This signified the first time since the July 2004 package that some developing countries have expressed skepticism about the non-linear formula approach and their preference for a Uruguay Round approach, and their right in future to propose approaches different from the Swiss formula.

While supporting the ABI's "Swiss-type" proposal, the Caribbean countries said other factors important for developing countries should also be incorporated to ascertain the appropriate reduction rates. They suggested that a C coefficient be added to the B coefficient in the ABI formula, as credit to be accorded to developing countries, with the value of C being the sum of the values of factors relevant for each developing country.

The factors to consider include: substantial tariff binding coverage; autonomous liberalization; revenue dependence; need to maintain and strengthen incipient domestic industries and address their vulnerability; policy space for development of potential industries and industrial development generally; need to address adjustment costs for loss of preferential market access due to multilateral liberalization; the existing degree of openness of an economy to trade; and economic vulnerability.

In mid-July, Pakistan proposed a simple Swiss formula with two coefficients, for developed and developing countries, based on their overall average bound tariffs (5.48% and 29.12%). For simplicity Pakistan proposed the coefficients as 6 and 30 percent, respectively. This was reportedly supported by China.

During informal consultations in the week of the end-July General Council, the Chair apparently tested whether the Pakistan proposal could get support. However, some developing countries were unconvinced that a single coefficient of 30 for developing countries would be enough to safeguard their interests, while on the other hand some major developed countries felt that this coefficient could not meet their aim of gaining market access into developing countries.

At the TNC meeting on 28 July, the Chair of the NAMA negotiations presented a report in which he attempted to portray majority and growing support for the "simple Swiss" formula promoted by the developed countries.

He said Members support the Swiss formula but identified two approaches under this umbrella - "one approach envisages the use of a limited number of coefficients to be negotiated and the other proposes a largely pre-determined coefficient for each member using its tariff average as a starting point." He added that in his summing up after the June NAMA week, he had "indicated that support for the first approach had grown measurably and I would maintain that assessment."

However, Ambassador Naela Gabr of Egypt made a statement on behalf of the African Group, which noted the NAMA Group Chair's 8 July report stating movement to convergence on members' support for a Swiss formula. "The African Group shares his belief if what is meant is support for a non-linear Swiss-type formula, with a pre-determined coefficient for each member qualified by its current average."

The African Group statement shifted the ground for assessment of the relative support for the "Simple Swiss" versus the "Swiss-type" formula approach. It was the first time that the Group, with its large membership, had proclaimed its preference for the ABI approach, thus contradicting the Chair's assessment of "growing support" for the Simple Swiss formula approach.

Ambassador Ujal Singh Bhatia of India, in his statement to the TNC, said: "In NAMA, we do not share the Chair's perception of a convergence on the issue of the formula."

He added that Egypt's statement on behalf of the African Group made it clear that many others shared India's perception. "In our view, while a Swiss type formula had been supported by members as the main modality for tariff reduction, it is neither easy nor useful at this point to peg specific numbers to the members supporting one or the other Swiss formulae on the table."

Although the formula has been at the centre of the NAMA negotiations, there have been other key issues too: how to treat presently unbound tariffs, how to deal with preference erosion, the sectoral approach, and non-tariff barriers (NTBs).

Treatment of unbound tariffs

Regarding the treatment of unbound tariffs, WTO members have had the flexibility until now of choosing which tariff lines to bind, and when they do so, of choosing the rates at which to bind them. The Uruguay Round did not alter this freedom of choice, and developing countries could maintain this policy space until now, as far as the GATT and WTO are concerned.

The Doha Ministerial Declaration, in its paragraph 16 on NAMA, did not specifically set a mandate for treatment of unbound tariffs.

The July 2004 General Council framework provides the first mandate on this topic. In Annex B on NAMA, paragraph 5 says that "for unbound tariff lines, the

basis for commencing tariff reductions shall be (two) times the MFN applied rate in the base year."

According to paragraph 9, LDCs need not apply the formula but are expected to substantially increase their level of binding commitments.

Paragraph 6 states that as an exception, countries with a binding coverage of NAMA tariff lines of less than (35%) are exempt from tariff reduction through the formula, but are expected to bind (100%) of NAMA tariff lines at an average level that does not exceed the overall average of bound tariffs for all developing countries.

The simple average bound rate for developing countries overall is about 29%, while the weighted rate is much lower. The affected countries assume that this average rate of 29% is the reference point, although the text does not specifically clarify this. Non-LDC developing countries with less than 35% binding coverage in NAMA tariff lines include Cameroon, Congo, Cote d'Ivoire, Cuba, Ghana, Kenya, Macao, Mauritius, Nigeria, Sri Lanka, Suriname, and Zimbabwe.

Paragraph 8 refers to "flexibilities" for developing countries in terms of (I) applying less than formula cuts for up to (10) percent of tariff lines, or (ii) keeping tariff lines unbound or not applying formula cuts for up to (5) percent of tariff lines.

The implication is that members have to bind all their tariff lines, except if they choose not to bind up to 5 percent of tariff lines, in which case they lose the other two flexibility options (i.e. not applying formula cuts for up to 5% of tariff lines; or applying less than formula cuts for up to 10% of tariff lines).

The effect is that for most developing countries, the existing policy space for choosing to keep some tariff lines unbound, and which ones, and (if they decide to increase the binding coverage) to choose the rates at which to bind previously unbound tariff lines, will be closed off. Moreover, it has not been the practice that applied rates are used as the basis for calculating the rates at which tariffs would be bound. And neither has a formula cut been applied to unbound tariffs before.

The NAMA framework thus achieves many "firsts" which together spell a drastic curtailment of policy space and flexibility for trade and industrial policy in developing countries.

However, paragraph 1 of Annex B (fought for with great difficulty by developing countries) says that the framework contains the "initial elements" and additional negotiations are required on specifics of some elements, including the formula, treatment of unbound tariffs, flexibilities for developing countries, the sectoral component and preference erosion. Thus, the references in the Annex to the treatment of unbound tariffs are not cast in stone and are subject to renegotiation.

In his report to the Trade Negotiations Committee (TNC) dated 27 July, the NAMA Negotiating Group Chair, Ambassador Stefan Johannesson of Iceland, said there is a "broad acceptance" of applying formula cuts to unbound tariffs, on the understanding that a solution is found for unbound tariffs at low applied rates. He added that based on his consultations that week, there appears to be "increasing convergence" around the use of a non-linear mark-up approach to treat unbound tariffs.

He stated that some members with low unbound tariffs are ready to work with this approach if it yields an "equitable outcome", but "certain members" don't see this approach meeting their concerns with sensitivities associated with unbound tariffs at high applied rates.

However, the Chair's assessment of "broad acceptance" may not itself be broadly accepted, as only a few countries took part in his consultations, and even those who did may not agree with his conclusions.

In the discussions so far this year, there have been several proposals on the treatment of unbound tariffs. Some developed and developing countries have taken an aggressive position in asking that a (small) mark-up be made to the present applied rates to produce the base values, and then that the same Swiss formula (that would be used for presently bound tariffs) be applied to these base values, to give the new bound rates. The cuts would be on a line-by-line basis.

In contrast, some developing countries have proposed the use of an "average rate" approach and not the line-by-line approach. Malaysia (backed by some Asian countries) proposed that unbound tariffs be bound at a certain average rate and not be subject to a formula cut. Argentina, Brazil and India agreed to a formula cut, but on the basis of the average rate of unbound tariffs, and not on each tariff line.

Regarding the first approach (mark-up and line-by-line cut), Canada, Hong Kong, New Zealand and Norway (joined subsequently by Costa Rica and Peru) presented a paper (TN/MA/W/51) in March. It proposed that base rates be set through a small mark-up of 5 percentage points to each unbound rate; for example, an unbound applied tariff of 3% would have 8% as the base rate. The formula would then be applied to the base rates to get the new bound rates.

The paper states that it would address the problem of countries with low unbound rates, for which a doubling (as specified by the July framework) would be inadequate. However, for most tariffs except the very low, this approach is even more severe than the already extreme proposal in the July 2004 framework. In this scheme, the base rate would be twice the applied rate only when the applied rate is 5%. It would be more than twice the applied rate for unbound applied rates below 5%.

For all applied rates above 5%, the base rates would be less than twice the applied rate. For example, if the unbound applied rate is now 35%, the new base rate would be 40% (or only 14% above the applied rate). If the US-proposed Swiss formula (with a coefficient of 8) is applied to this base rate, the new bound tariff would be 6.7%. Thus, the actual tariff for that product would be drastically slashed from 35% to 6.7%.

Under such a method, the new bound rates would end up being significantly lower than the present unbound applied rates in most cases, except where the unbound rates are at very low levels.

In June, Mexico proposed a "rational approach" for setting base rates, involving the use of a "rational formula." (TN/MA/W/13/Add.1). It has three principles: base rates should be higher than applied tariffs (to address concerns of members with low applied tariffs); goods with higher applied tariffs should end up with equal or higher base rates; goods with higher applied tariffs should have lower mark-up increases (as they already have significant protection).

The two main ingredients in the formula is the choice of base rate for the applied rate of zero, and the choice of which level of applied tariff above which the base rates should be close to the applied rates.

Giving an example of the choice of 15% base value for applied tariff of zero, and goods with applied tariff above 60% to have a base rate close to the applied level, the Mexican paper shows that the applied tariff line of 5% will have base value 17.9%; applied line 10% will have 21.3% base value; applied line 20% will have 29% base value; applied line 30% will have base value 37.5%; applied line 40% will have base value 46.5%; applied line 60% will have base value 65%; and applied line 90% will have base value 93.8%.

Mexico described its proposal as a "mark up" approach. It would apply line-by-line to all unbound tariffs and base values would be subject to the formula cut.

Pakistan (TN/MA/W/60) in mid-July proposed that instead of a mark-up of 5 percentage points (proposed by Canada etc), a mark up of 30 be added to the applied rate for each unbound line, before the application of a formula (which it proposed to be a simple Swiss formula with coefficient of 30 for developing countries).

In this scheme, a tariff line with applied rate of 5% would be marked up to 35%, and after the formula cut, it would be bound at 16%. An unbound rate of 100% would be marked up to 130%, and bound after the formula cut at 24%.

The Malaysian proposal (JOB(05)/86), first presented in March, is in great contrast to the "mark-up" and line-by-line proposals outlined above. Unbound tariffs are to be bound at a maximum ceiling of 40%, and an average 25% rate. There would be

no tariff reduction via the formula. Developing countries could be asked to bind up to 95% (this figure to be negotiated) of their tariff lines.

Malaysia said the offer to remove the flexibilities of keeping tariffs unbound is in itself a commitment. During the Uruguay Round, developing countries were given the option to offer specific lines for binding while the rest could remain unbound. "Based on the contribution and concession given, tariffs bound for the first time shall not undertake tariff cuts in this round."

Malaysia added that in line with industrial development policy, sectors currently unbound have been identified for strategic and development purposes. It is important to provide a comfortable level of protection for industries at their initial development stage. Malaysia said its approach is a more feasible alternative than the twice-the-applied rate proposal in Annex B.

At the NAMA meeting in March, Thailand, the Philippines and India supported the Malaysian proposal or aspects of it. Thailand agreed that binding an unbound tariff is already making a commitment and there should not be reductions applied to the newly bound rates. The Philippines also agreed that binding is itself a concession, and supported the idea of having a ceiling and average rate. India supported the general thrust of the Malaysian proposal.

Developed countries were not in favour of the Malaysian proposal. Australia said that "we should only be determining the base rate and not considering a new approach." The US called the Malaysian proposal as not suitable. The EC supported the Canada/Norway proposal and was against the Malaysian approach.

Several Latin American countries (Costa Rica, Peru, and Chile) supported the Canada paper, saying that the 5% mark-up approach to get the base rates was adequate, while the Malaysian proposal ran the risk of giving additional flexibilities. Colombia supported the Canada paper and said that it was hard to accept that binding is a commitment.

Answering the charge that its proposal was beyond the July 2004 mandate, Malaysia said "we should be looking at Annex B's para 1 as well as para 5." Those who had bound 100% of their tariffs had already made the commitment, but for others they would be making new commitments when they bind. Developing countries fought very hard to include para 1 in the text, and thus it is very unfair to say that para 5 cannot be reviewed.

In April, Argentina, Brazil and India (ABI) presented a paper (TN/MA/W/54) which proposed that the binding coverage be 100%, and that the average of presently unbound lines will be marked up by x times, which shall be negotiated.

The marked up unbound tariff lines could be bound at an average level after the application of the formula. Developing country Members would have the

flexibility to fix individual tariff lines around this average. The formula for unbound tariff lines will be slightly modified i.e., the formula would apply only on the tariff average and not on a line-by-line basis.

In the paper, the modified formula for unbound tariff lines is that the average tariff for newly bound tariff lines shall be a function of a B coefficient (to be determined during negotiations) multiplied by the marked up tariff average of MFN applied rates (as on the base date) and multiplied by the tariff average of MFN applied rates (as on the base date) and then divided by the B coefficient multiplied by the marked up tariff average of MFN applied rates plus the tariff average of MFN applied rates.

This approach has more flexibility (than the line-by-line approach) for treating unbound tariffs, as only the average tariff will be reduced (thus enabling the country to choose the rates at which different tariff lines are to be cut, so long as the targeted average rate for the newly bound tariffs is met).

However, the ABI approach is less flexible than the Malaysian proposal, since it involves a formula-based average tariff reduction from the base rates, whereas in the Malaysian proposal there is no formula cut, although there is a cap.

The LDC Group, represented by Zambia, said at the March meeting that developing countries should have the discretion whether to bind their products, and the discretion to determine the level of bindings.

In June, a group of countries (Congo, Cote d'Ivoire, Cuba, Ghana, Kenya, Mauritius, and Zimbabwe) with less than 35% binding coverage presented a proposal (TN/MA/W/57) with three points: (1) Members with a binding coverage of less than [35] percent be exempt from making tariff reductions; (2) They are encouraged to substantially increase their binding coverage; (3) They should bind their tariff lines at a level consistent with their individual development, trade, fiscal and strategic needs, in line with the special and differential treatment principle. The proposal would allow these "para 6 countries" to have greater flexibility than in Annex B.

Treatment of preference erosion issue

Problems arising from preference erosion are also on the NAMA agenda. Paragraph 16 of Annex B recognized the challenges faced by preference-receiving countries and instructed that their needs be taken into consideration.

In February, the African Group presented a proposal (TN/MA/W/49) outlining the benefits of preferences, quoting a study that erosion of preference margin due to liberalization would cause significant losses to its members. It proposed that liberalization of products enjoying preferential market access be given special

treatment with application of a "correction coefficient" to improve the preference margins for these products, as well as longer staging periods.

In March, the ACP Group proposed (TN/MA/W/53) the use of an "index of vulnerability" to identify products related to preference erosion. It also proposed criteria for countries that are vulnerable to preference erosion.

At the March meeting, reaction to these papers was diverse. While many recipients of preferences (mostly in Africa and the Caribbean) defended preferences and showed concern about the increased competition they will face, other countries, mostly Latin-American, said that these preferences are by definition temporary and it is not fair to try to make them permanent. They also said that the preferences are given at the expense of other developing countries and go against the WTO principle of non-discrimination.

The US, Norway and India asked for more data and a list of products that the proponents of maintaining preferences would consider. India said that they remained very sensitive to the problem but the solution should not adversely affect other developing countries. The EC said that preferences have been generally beneficial.

"Sectoral tariff component"

Another major issue has been the "sectoral tariff component", aimed at "tariff elimination or harmonization". It was recognized by the July 2004 framework as a "key element" and that "participation by all participants will be important."

Many developing countries have maintained their long-standing position that any sectoral approach would not be mandatory and that any participation by developing countries would be on a voluntary basis.

The aim of developed countries, which are the proponents of the sectoral approach, is to select sectors and target tariffs in them to be eliminated or reduced to low levels. Facing broad opposition to compulsory participation, the developed countries have embarked on a "critical mass approach." In a paper in March on "how to create a critical mass sectoral initiative", the US and Canada proposed that interested parties seek members to join a sectoral initiative with the aim of getting a reasonable level of critical mass based on trade patterns (e.g. 80%, 90% of global trade).

"Critical mass represents a negotiated level of participation based on the share of world trade that interested Members determine should be covered in order for those members to be willing to reduce rates in a given sector," said the paper. All participants implement reductions on an MFN basis so that all WTO members benefit.

The participants will determine details such as the target tariff rate (zero or harmonization), the product coverage (entire sector or sub-parts) and sensitivities and flexibilities. Participants do not have to be important traders in the sector.

Several informal bilateral and small group meetings on sectoral initiatives have been held. The NAMA Chair's commentary of 8 July mentioned that work has been ongoing on the following sectors: electronics/electrical equipment, bicycles and sporting goods, chemicals, fish, footwear, forest products, gems and jewellery, pharmaceuticals and medical devices, and raw materials.

Two papers, on the chemicals and electronics sectors, were issued in July. On chemicals, a paper by Canada, Japan, Norway, Chinese Taipei, Singapore, Switzerland and the US proposed a critical-mass sectoral initiative with a comprehensive product coverage. They noted that in the Uruguay Round, a group of members agreed to harmonise chemical tariffs at three levels (zero, 5.5% and 6.5%). In the present initiative, participants would decide which products would be included and the form of liberalization (e.g. harmonization, elimination).

In a paper on tariff elimination in the electronics/electrical sector, Japan, Korea, Singapore and the US proposed a critical mass sectoral initiative that would build on the WTO information technology agreement (ITA), to include new products not covered by it. They proposed a wide range of products to be covered, including information technology, electrical equipment and machinery, semiconductors, audio visual products and consumer electronics.

In both papers, special and differential treatment for developing countries would include longer implementation periods, "zero for 'x'" and participation in fewer sub-sectors or products.

Non tariff barriers

Another issue on the NAMA agenda is the treatment of non-tariff barriers (NTBs). It is described by the July 2004 framework as "an integral and equally important part of these negotiations". Many developing countries view this as a crucial issue because NTBs are the main obstacle to their products' market access to developed countries, since the tariffs are already low for most products in the latter.

The developing countries had hoped that the lowering and removal of NTBs in the rich countries would be negotiated in parallel and with a similar rate of progress as with the tariff negotiations. However, there has hardly been any progress on the issue of NTBs.

Many developing countries have also been frustrated with suggestions by some members that discussion on some NTBs be referred to other committees such as

those dealing with Customs Valuation, TBT (technical barriers to trade) , import licensing, rules of origin, or to the Negotiating Group on Trade Facilitation, whilst other NTBs could be analysed in the NAMA Group.

Objecting to this at the March meeting, Kenya insisted that all NTBs related to industrial products should be treated in the NAMA Negotiating Group. To send them somewhere else would be an "abdication of responsibility". What would happen, asked Kenya, if the committee to which an NTB is sent does not have a negotiations mandate? Kenya was supported by Rwanda, the then coordinator of the African Group.

The Chair, however, said that some NTBs could be addressed in the Trade Facilitation Group. For other NTBs, there is the possibility for the Trade Negotiations Committee to give the mandate to other committees to address them.

Despite the recognition of the equal importance of NTBs, the NAMA Group Chair, in his "commentary" on the state of play of 8 July, said that due to the complexity of the issues, negotiations on NTBs are likely to continue after the Hong Kong Ministerial, implying that there would not be any result before the Ministerial.

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