WORLD TRADE ORGANIZATION

RESTRICTED

TN/MA/M/20
4 January 2006

(06-0016)

Negotiating Group on Market Access

MINUTES OF THE MEETING

Held in the Centre William Rappard on 6-10 June 2005

Chairman: Ambassador Jóhannesson (Iceland)

1.1 The Negotiating Group adopted the agenda for the meeting as contained in WTO/AIR/2580. The meeting took place in informal mode. At the request of some delegations, their statements have been reproduced below.

1.2 The representative of Moldova stated that a formal proposal on behalf of the low-income countries in transition was under preparation and would be submitted shortly to the Negotiating Group. At this meeting, she wished to stress the following. The low-income economies in transition, which had recently acceded to the WTO, faced huge difficulties in their efforts to implement economic and trade policy reforms. In recognition of their problems, paragraph 11 of Annex B of the General Council Decision of 1 August 2004 called for "special provisions for tariff reductions" in order to take into account the extensive market access commitments undertaken as part of accession of the newly acceded Members.

1.3 The Republic of Moldova was one of the above-mentioned low-income countries in transition, which had undertaken an extremely high level of liberalization commitments in its accession. For instance, the non-agricultural tariffs in Moldova were bound on average at 6 per cent, which was considerably lower than the average tariff bindings undertaken by developing country Members, which was a simple binding average of 29.4 per cent in developing countries, 45.2 per cent in LDCs. At the same time, Moldova had bound 100 per cent of its tariff lines on non-agricultural products and had also expressed them in *ad valorem* duties. The rapid liberalization process, resulting from Moldova's accession to the WTO, had also created additional structural and social difficulties to Moldova's industries.

1.4 As a small country in transition, the Moldovan economy was highly dependent on international trade. Due to a limited domestic market, Moldovan companies vitally needed to participate in international markets. That was why, Moldova supported paragraph 2 of Annex B of the General Council Decision of 1 August 2004, which stipulated that negotiations on market access for non-agricultural products "shall aim to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non tariff barriers, in particular on products of export interest to developing countries." At the same time, the level of development in Moldova was comparable to that of low-income developing countries and LDCs. Various economic indicators could prove this. For example, the average GDP per capita in developing countries (2003) was about 1,200 US$ (World Bank data), in the Republic of Moldova it was US$ 542, putting Moldova into the category of 61 lowest-income economies.

1.5 According to WTO statistics, Moldova's participation in world trade was insignificant. The share in total world exports was 0.008 per cent over the last years. Since Moldova's economy was mostly agriculture-oriented, the share of its non-agricultural exports in total world exports was even much lower. Unfortunately, over the last few years, the situation of the Moldova's foreign trade had become critical. The trade balance deficit had considerably increased and at the end of 2004, it had reached the level of US$ 788 million, which was the highest level registered since 1991, when the Republic of Moldova became an independent country. This deficit was 2.6 times higher than in 2000, the year before the accession of Moldova to the WTO.

1.6 Simulation of the currently discussed formulas such as the Swiss formula and the so-called "Girard" formula showed that Moldova and other low-income countries in transition would have to make substantial additional tariff cuts with much lower final bound rates than the vast majority of developing country Members and would cause even more serious adjustment costs to their vulnerable economies, since, in most cases, Moldova's applied tariffs were equal to the bound rates. Thus, in the medium-term, these economies clearly needed some reasonable and temporary flexibilities to improve the quality of integration into the multilateral trading system and enhance the diversification of their production and export bases.

1.7 That was why the Republic of Moldova which was one of the low income countries and which had recently acceded to WTO, wished to request special flexibilities in order to facilitate its ongoing economic reform programmes. This approach corresponded to the provisions of Article XXVIII *bis* of the GATT 1994, paragraph 3 (a), which stipulated that "the negotiations shall be concluded on a basis which affords adequate opportunity to take into account the needs of individual contracting parties and individual industries…" She hoped that this rule and the recognition in the Framework of Moldova's extensive market access commitments would be translated into meaningful provisions in the first approximation of the modalities. Finally, she mentioned that Moldova was ready to contribute to the ongoing round of trade liberalization. However, Moldova was concerned that the results of this round could deepen existing inequalities in the tariff structure of the Members and other inequalities.

1.8 The representative of <u>El Salvador, speaking on behalf of the delegations of El Salvador, Honduras and Guatemala</u>, thanked those delegations which yesterday and today had submitted coefficient and outcome scenarios based on some of the proposed formulas. After seeing those submissions, she wished to point out that none of the coefficients used in the different scenarios, and particularly in the undiluted Swiss formula, met their needs and concerns, making it very difficult for their countries to adopt coefficients that aggressively reduced tariffs.

1.9 Their small developing economies would have to deal with major challenges in this negotiating round were they to adopt new tariff reduction commitments. It was important for Members to recognize that their fledgling industries would have to cope with aggressive inroads into their markets by industrialized countries which applied economies of scale and had a major share of the international market. Accordingly, they considered that any kind of formula had to take into account the differences between tariff structures, less than full reciprocity and special and differential treatment, as stipulated in paragraphs 2 and 8 of Annex B. However, they regarded these as minimum flexibilities, and additional flexibilities should not be discounted.

1.10 At the same time, she expressed concern that some delegations, in the tariff reduction process, were seeking to ensure that the bound tariffs resulting from the formula to be adopted affected the levels of applied tariffs, as under the undiluted Swiss formula. They likewise considered, as other delegations had stated, that this negotiating process should not penalize developing countries for having unilaterally opened up their markets. Their countries had made every effort to adopt and implement the Uruguay Round commitments, binding 100 per cent of their tariffs and applying straightforward and transparent tariffs. They recognized that other developing countries had similarly contributed to this enterprise, but their productive and development structures limited their ability to undertake aggressive tariff reduction commitments that went beyond their own realities and capabilities.

1.11 Accordingly and in conclusion, it was their wish that the outcome of these negotiations be fair and balanced, taking into account the concerns they had expressed.

1.12 The representative of the Philippines stated that as a member of APEC, the Philippines wish to reaffirm the statement made by APEC Ministers in Jeju, Korea and the Philippines would continue to contribute constructively to deliver on what the APEC Ministers had directed to accomplish here in Geneva by July 2005 bearing in mind the APEC Ministers mandate that the level of ambition in NAMA will be based on and commensurate with the level of ambition in Agriculture.

1.13 She noted that with regard to the issue of unbound tariff lines, there seemed to be a genuine effort on the part of all Members to find a pragmatic solution to this important issue. Her delegation welcomed the Mexico proposal and urged Mexico to take account of the comments that had been made by Members on how to establish a reasonable mark-up base rate for the unbound tariff lines, especially for the low applied unbound. He drew attention to paragraph 6 of the July package which allowed Members with less than 35% binding coverage, -- that is countries with lesser bound coverage than that of the Philippines -- to bind without further reducing their unbound tariffs. In the interests of equity and not penalizing countries with low unbound tariffs and which have been providing substantial market access on these unbound lines (some USD 9 Billion in the case of the Philippines), the Philippines expected that a reasonable methodology would be reached for the right base rates that were equitable and fair to countries such as the Philippines. What was important for the Philippines was the end result of this exercise for its unbound lines post the formula reductions.

1.14 With regard to the formula for tariff reduction, the Philippines hoped that after July, the focus of the membership would be on arriving at an appropriate formula that was fair and acceptable to the membership. As regarded the coefficients to be negotiated relating to that formula, the Philippines reiterated that pursuant to the principles of special and differential treatment and less than full reciprocity the coefficients that should be reached should either be substantially or adequately differentiated, to borrow the terms used by the Ambassadors of China and Pakistan, so as to operationalize these two core elements of the mandate, along with the added flexibilities provided in paragraphs 6, 8 and 9 already agreed to and embodied in the July framework.

____