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Negotiating Group on Market Access

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MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Communication to the Negotiating Group on Non-Agricultural Market Access from Argentina, Brazil and India

The following communication, dated 15 April 2005, is being circulated at the request of the Delegations of Argentina, Brazil and India.

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1. The Framework contained in Annex B to the July Framework Agreement[1] represents the mandate provided for the non-agricultural products negotiations in paragraph 16 of the DMD. Accordingly, the formula shall reduce tariff peaks, high tariffs and tariff escalation and take fully into account "less than full reciprocity in reduction commitments" and special & differential treatment for developing countries.

2. The concepts of "less than full reciprocity in reduction commitments" and "special and differential treatment" are different:

(i) "Less than full reciprocity in reduction commitments" has to be an in-built component of the formula and would be achieved through the incorporation of sufficiently higher coefficients for developing countries as compared to developed countries, resulting in higher percentage reductions for developed countries and taking into account the differences in tariff profile amongst Members;

(ii) Special and differential treatment relates to flexibilities in the application of the formula, including longer implementation periods, less than formula cuts and the exclusion of some tariff lines. The present structure of the S&D provisions in the Framework contained in paragraph 8 of Annex B is the minimum necessary to meet the development goals of the developing countries in this regard.

3. Harmonization of tariffs is not an objective of this Round. It has not been envisaged in the Mandate and was not included in the July Framework as one of the necessary features of the formula. Harmonizing the customs tariffs amongst countries with differing industrial/ economic structures and with varying societal needs is not desirable and would not deliver the development objective of the Round.

4. After consideration of the various formulae proposed for these negotiations, a Swiss 'type' formula incorporating each country's tariff average seems best suited to address the mandate in its entirety. This could be expressed as:

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[1] Document WT/L/579 dated 2 August 2004.

$$t_1 = \frac{B \times t_a \times t_0}{B \times t_a + t_0}$$

where,
t_1 is the final rate, to be bound in *ad valorem* terms
t_0 is the bound base rate
t_a is the average of the current bound rates
B is a coefficient, its value(s) to be determined by the participants

The defining features of this formula are as follows:

- The 'formula' would apply to bound tariff lines; and
- The coefficient 'B' will be modulated to reflect the ambition in other areas relevant to market access agreed to for this Round;

5. All non-*ad* valorem duties shall be converted to *ad valorem* equivalents before the adoption of the formula, and bound in *ad valorem* terms.

6. This is an equitable formula as it takes into account the present tariff commitments of Members. It improves the tariff profiles by compressing the dispersion of tariffs within each Member. It is transparent as it uses a well known factor, each Member's tariff average, as the basis. It seeks to match the ambition level in all areas of market access negotiations in the WTO, with the inclusion of a 'B' factor. The overall reduction commitment it imposes in percentage terms is proportional amongst developed and developing countries, removing the shortcoming in the simple Swiss formula that imposes much greater reduction requirements on the participating developing countries.

7. The impact of any tariff reduction formula depends on the numbers which are the essence of the formula. At this stage the important consideration is whether the formula by its nature complies with the mandate, i.e. whether it reduces or eliminates tariff peaks, high tariffs, and tariff escalation taking fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments. We believe the above formula is still the most appropriate because:

(i) it is based on the current tariff profile;
(ii) it has an element of progressivity in national tariffs;
(iii) it allows for less than full reciprocity in reduction commitments; and
(iv) its liberalizing effect can be adjusted by variations in the coefficient 'B'.

8. Having agreed on the basic structure of the formula, Members would have to address the part of the mandate related to Special and Differential treatment for developing country participants in the application of the formula on current bound tariffs. Particular sensitivities of developing countries would be attended by longer implementation periods, less than formula cuts for some tariff lines and the exclusion of some tariff lines from any formula cut. The figures related to those flexibilities would have to be negotiated after an agreement on the formula itself.

Treatment of unbound tariff lines

9. Increasing the binding coverage to 100 per cent is a desirable objective for this Round. However, it must be recognized that appropriate flexibilities are required by developing countries to achieve this objective. The average as on the base date of presently unbound lines will be marked up by *x times*, which shall be negotiated as indicated in the framework agreement. Thereafter, the marked up unbound tariff lines could be bound at an average level after the application of the formula. Developing country Members would then 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. The modified formula for unbound tariff lines shall be as follows:

$$t_{A1} = \frac{B \times xt_A \times t_A}{B \times xt_A + t_A}$$

Where:
t_{A1} is the average for newly bound lines
xt_A is the marked up tariff average of MFN applied rates as on the base date
t_A is the tariff average of MFN applied rates as on the base date
B is a coefficient, its value(s) to be determined by the participants

10. Members covered by paragraphs 6 and 9 of Annex B of the framework shall not undertake tariff reductions in this Round. Members should also recognize liberalisation recently undergone by newly acceded Members.