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Negotiating Group on Market Access

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MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

The Way Forward

Communication from Pakistan

The following communication, dated 20 July 2005, is being circulated at the request of the Delegation of Pakistan.

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1. The objective of this document is not to present a new proposal for NAMA modalities, but to put forward some ideas for bridging the gap between the current proposals relating to the key issues of tariff reduction formulae and treatment of unbound tariffs:

I. Tariff Reduction Formula

2. The proposals currently on the table can be summarized as under:

- Swiss formula with a single coefficient, but conditional flexibilities for developing countries to use the provisions of paragraph 8 of the July Framework (EU)
- Swiss formula with conditional flexibility of applying two coefficients (Norway and the US) or four coefficients (Chile, Colombia and Mexico)
- Swiss-type formula with multiple coefficients based on tariff averages and with paragraph 8 flexibilities (Argentina, Brazil and India); with addition of a credit system for developing Members (Antigua & Barbuda, Barbados, Jamaica and Trinidad & Tobago)

3. The first option is being advocated on the grounds that it is ambitious and simple to understand. However, this approach places disproportionate burden on developing countries who would be obliged to make major cuts in their tariffs as against developed countries that may not be required to carry out any major adjustments or reductions in their tariffs, if the coefficient for them is substantially higher than their average tariffs.

4. In the second option, use of more than one coefficient is allowed for developing countries. However, no criterion is indicated as to how those coefficients would be determined. It seems that the proposals of this category envisage that different coefficients should be "within sight of each other". Furthermore, flexibility allowed to developing countries (except in the case of the Norwegian proposal) through the use of another coefficient is conditional. Thus, many developing countries consider that the overall impact of these proposals may not be much different from the first proposal.

5. The third option is based on the objective criterion of current tariff profiles. Additionally, this approach is effective to deal with tariff peaks and tariff escalations of developed countries, which is one

of the major objectives of this development round. However, this does not seem to be acceptable to developed countries and countries with low tariffs have expressed their reservations on the grounds that it favours countries with higher tariffs. Moreover, it is felt that this may not create any additional market access in some countries.

6. Since none of the proposals currently on the table seem to attract consensus, either new approaches are considered or the gap in the present proposals is bridged. Considering the time constraints and the fact that the limitations of the existing proposals are well-known, Pakistan feels that the preferred way forward would be to narrow the gap without making the formula too complicated and at the same time ensuring that the ambition of the Doha Round is not compromised. The result should be such that while providing additional opening of markets, it should not put disproportionate burden of restructuring of tariff rates for any group of countries.

7. This could be achieved by the adoption of a simple Swiss Formula with two distinct coefficients for developed and developing countries. These coefficients should be based on an objective criterion; taking the over all average of the bound tariff lines for developed and developing countries as their respective coefficients. These averages have been worked out to be 5.48% for developed countries, and 29.12% for developing countries[1]. For the sake of simplicity these could be taken as 6 and 30.

8. Some of the advantages of such an approach are:

- It is simple, transparent and easy to comprehend. WTO Members can clearly be aware of the consequences of their commitments.
- It results in a significant reduction of tariff peaks and tariff escalations.
- It would cut higher tariffs much more than lower tariffs.
- It would make everyone contribute, and everyone will gain through additional market access.
- It is based on an objective criterion.

9. The impact of the above proposal on the tariff rates has been calculated and reflected in annex to this document. For developing countries, the current bound rates up to 30% would reduce to 15% or lower, rates ranging between 30 - 60% will reduce to 15-20% and rates between 60-200% will reduce to 20-26%. For developed countries the rates of 5, 10, 15 and 30% would reduce to 2.73, 3.75, 4.29 and 5% respectively.

II. Treatment of unbound tariffs

10. For the treatment of unbound tariffs, there are five proposals on the table:

i. Multiplying the MFN applied rate of 2001 by [two] (July Framework)

ii. Marking up unbound lines by x times (to be negotiated) and binding tariff lines at an average level after the application of the formula (Argentina, Brazil, and India or the ABI proposal)

iii. Capping of new bound tariffs at a ceiling of 40% with target average of 25% and no tariff reductions in this round for new tariff bindings (Malaysia)

iv. The “Rational Formula” Approach-a non –linear mark-up derived through a mathematical formula using two coefficients.(Mexico)

[1] The calculation was based on the data taken from document TN/MA/S/4/Rev.1/Corr.1. The developed countries mean, Australia, Canada, EC, Iceland, Japan, New Zealand, Norway, Switzerland, and the US, and those developing countries that will apply the formula (i.e. excluding countries under Paragraph 6 &9).

v. Non-linear mark-up. Adding 5 percentage points (absolute) to each unbound rate (Canada, Hong Kong, China, New Zealand and Norway or the CHNN proposal)

11. Countries with low unbound tariffs are reluctant to accept options i and ii i.e. marking up unbound tariff lines two times or x times as they feel that this unduly favours those countries which have higher unbound tariffs. The Malaysian proposal may be workable for many developing countries, but countries with low bound tariffs feel that it conflicts with the July framework which requires that tariff reduction has to be comprehensive without ‘a priori exclusion’. The Mexican proposal could answer the concerns of countries with low unbound tariffs but the concept seems to be complicated and thus difficult to negotiate. The CHNN approach for non-linear mark-up is simple but the figure of 5 percentage points (absolute) seems to favour those countries which have low bound tariffs and is not acceptable to a majority of developing countries.

12. Therefore, Pakistan would like to propose that instead of a non-linear mark-up of 5 percentage points (absolute), mark up of 30 should be added to the base rate (applied rate of 2001) for each unbound line before the application of a formula.

13. By this proposal, the base rate of 5% would be marked up to 35% and through the application of the formula (with a coefficient of 30 proposed for developing countries), it would get reduced to about 16% where it could be bound. This would give some policy space to developing countries with low unbound rates. For higher unbound rate of 100% and above it would result in lowering that rate to around 24% where it would be bound. The annex to this document would provide guidance to Members for determining the final bound rate for each unbound line in their own tariff and the tariffs of their trading partners.

III. Flexibilities

14. The developing country Members shall be eligible to the longer implementation period and other flexibilities as already agreed in paragraph 8 of the July package. Members covered by paragraph 6 and 9 shall not be subject to the tariff reduction formula. The newly acceded Members shall have special provisions for tariff reductions.

ANNEX

IMPACT OF PAKISTAN'S PROPOSAL

%			%		
Tariff Rates	Swiss Formula		Tariff Rates	Swiss Formula	
	C = 06	C = 30		C = 06	C = 30
5	2.73	4.29	105	5.68	23.33
10	3.75	7.50	110	5.69	23.57
15	4.29	10.00	115	5.70	23.79
20	4.62	12.00	120	5.71	24.00
25	4.84	13.64	125	5.73	24.19
30	5.00	15.00	130	5.74	24.38
35	5.12	16.15	135	5.74	24.55
40	5.22	17.14	140	5.75	24.71
45	5.29	18.00	145	5.76	24.86
50	5.36	18.75	150	5.77	25.00
55	5.41	19.41	155	5.78	25.14
60	5.45	20.00	160	5.78	25.26
65	5.49	20.53	165	5.79	25.38
70	5.53	21.00	170	5.80	25.50
75	5.56	21.43	175	5.80	25.61
80	5.58	21.82	180	5.81	25.71
85	5.60	22.17	185	5.81	25.81
90	5.63	22.50	190	5.82	25.91
95	5.64	22.80	195	5.82	26.00
100	5.66	23.08	200	5.83	26.09