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MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Communication from the Southern African Customs Union (SACU) comprising Botswana, Lesotho, Namibia, South Africa, and Swaziland

The following communication, dated 25 October 2007, is being circulated at the request of the Southern African Customs Union (SACU) comprising Botswana, Lesotho, Namibia, South Africa, and Swaziland.

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1. Botswana, Lesotho, Namibia, South Africa and Swaziland are members of the Southern African Customs Union (SACU), which is the longest surviving customs union in the world. The SACU Member States are all developing countries with differentiated levels of development. Whilst SACU shares a Common External Tariff (CET), peculiarities of the group include issues affecting Lesotho, a Least Developed Country, (LDC), Botswana, Namibia and Swaziland which are Small and Vulnerable Economies (SVEs) and South Africa, a developing country. The New SACU Agreement of 2002 envisions deeper integration in order to mitigate these and other challenges, including through the development of common policies in the areas of industry, agriculture and competition among others.

2. As individual Members of the WTO and now being a notified regional grouping, SACU undertook deep cuts in the Uruguay Round of Negotiations, considerably reducing their bound rates to almost half the average for developing countries and are therefore not in the same position as comparable developing countries. Notwithstanding sustained economic reforms and unilateral tariff liberalization since 1994, applied rates for a number of our most sensitive sectors remain relatively high with very little "water" in the tariff to absorb further deep cuts.

3. Against this background, and in order to find a constructive and equitable solution to the issues we have raised, we reiterate the core mandate and principles underpinning the NAMA negotiations as agreed in Doha, elaborated in the July Framework Agreement (2004), concretized at the Hong Kong Ministerial Conference (2005) and further elaborated by the Chairman in his Draft Text on NAMA Modalities (2007). These include:

- That the needs and interests of developing countries are at the centre of the Round;
- "To reduce, or as appropriate, eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as NTBs, <u>in particular on products of export interest to developing countries</u>" (*our emphasis*);
- "To take fully into account the special needs and interests of developing country and least developed country participants, including through <u>Less Than Full Reciprocity</u> (LTFR) in reduction commitments"; and
- Paragraph 24 of the Hong Kong Declaration that requires "comparability of ambition" in agricultural market access and NAMA, so that the coefficients for the formula in NAMA

for developing and developed countries result in average tariff percentage cuts comparable to the cuts in Agriculture.

4. These mandates and core principles provide the context for the negotiations on the central elements of the Formula, Coefficient and Flexibilities. The principle of Less Than Full Reciprocity (LTFR) is particularly important, as it requires that developed countries do more than developing countries in reduction commitments.

5. In this context SACU notes with concern that the Chairman's Draft Text on NAMA Modalities, of July 2007 has not adequately addressed our situation of a Customs Union whose membership includes a developing country, three SVEs and an LDC.

6. SACU believes that the Chairman's current Draft Text will present challenges for the economies of the region. SACU Members are deeply concerned at the potential negative effects of current proposals emanating from the Chairman's current Draft Text. High rates of unemployment will make any deep tariff cuts in its most sensitive sectors extremely costly in social and political as well as economic terms. The cuts could also foreclose industrial policy objectives particularly for the SVEs. Notwithstanding the potential benefits of capitalizing on reduced tariffs on critical products which serve as input for further industrialization, SACU advocates a balanced approach in the NAMA Modalities.

7. We note the highly constrained flexibilities for developing countries under the July 2004 Framework. Paragraph 7 of the Draft Text on NAMA Modalities proposes implementing the proposals not yet agreed in the July Framework in terms of which developing countries, which are subjected to the Swiss formula cut can exempt 5% of their tariff lines from the formula cut so long as that does not account for more than 5% of their NAMA imports, or they may apply 50% of the formula cut on 10% of lines so long as that does not account for more than 10% of their NAMA imports.

8. We further note that LDCs are exempt from taking any tariff cut obligations under both the July Framework and the Draft Text on NAMA Modalities as detailed in paragraphs 14 to 16 of the latter document. Additionally, SACU recognizes the flexibilities extended to SVEs according to their bound tariff averages as reflected in paragraph 13 of the Draft NAMA Text.

9. Paragraph 24 of the Hong Kong Declaration calls for proportionality between the level of ambition in Agriculture and NAMA. It therefore precludes unfair negotiating proposals which demand that developing countries reduce their applied industrial tariffs dramatically while developed countries make comparatively minor reductions in Agriculture.

10. SACU firmly believes that the spread between coefficients for developed and developing countries should be as such that the critical principle of LTFR is maintained. An appropriate spread in coefficients which will allow fulfillment of the principle of LTFR must be coupled with additional flexibilities for developing countries.

11. Cognisant of the interests of SACU and in providing each member with the opportunity to equitably benefit from the Doha Development Round, SACU needs additional flexibilities in terms of a higher number of tariff lines and larger trade coverage in order to address our specific developmental needs.

12. While SACU's commitment to a successful conclusion of the Doha Development Round remains unshakeable, capacity challenges and adjustment costs of tariff cuts need to be taken into account. SACU therefore proposes that capacity building measures be explicitly detailed in the NAMA Text.

13. Taking cognisance of the above issues, particularly those of adjustment concerns, SACU believes that a longer implementation period is vital for equitable benefits from the Doha Development Round. As such SACU advocates for an implementation period of not less than ten (10) years.