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Negotiating Group on Market Access

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MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Communication from Papua New Guinea

The following communication, dated 26 June 2003, has been received from the Embassy of Papua New Guinea.

I. BACKGROUND

1. Papua New Guinea attaches great importance to the Doha Development Agenda, as it constitutes a great opportunity for the fuller integration of developing countries into the multilateral trading system.

2. Negotiations on Market Access for Non-Agricultural Products are part of the overall effort and improvements are needed for the benefit of all WTO Members. The Doha Ministerial Declaration states the following:

> "16. […] negotiations which shall aim, by modalities to be agreed, 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. […] The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments […]"

3. Members were unable to reach agreement on modalities for the conduct of negotiations by the agreed target of 31 May 2003. Nevertheless, at the 26-28 May meeting of the Negotiating Group on Market Access most countries appeared to have accepted the Chairman's "Draft Elements of Modalities" as a basis for negotiation. Papua New Guinea shares this perception about the Chairman's Draft with the other Delegations, and would like to contribute to ongoing negotiations through this communication. The text includes basic information on market access conditions for Papua New Guinea and consequently a set of preliminary positions on the various proposals put forward by the Chairman.

4. It has to be noted that some of the views expressed in the following reflect the concerns of small, vulnerable economies, especially on the implementation of the concept of "special and differential treatment", on the need to preserve the existing margins of preference for products exported by developing countries, and on Special Safeguards Mechanisms. With respect to this, Papua New Guinea would like to reconfirm its full support to the document "Concrete Proposals to address certain specific concerns and problems affecting the Trade of Small Economies" (WT/COMTD/SE/W/3) which forms integral part of the country's position in current Market Access negotiations.

II. BASIC INFORMATION

5. This note provides a brief overview of the current flows of non-agricultural exports of Papua New Guinea. The structure of tariff rates faced by Papua New Guinea exporters on foreign markets is outlined, to put in context Papua New Guinea's positions with respect to WTO market access negotiations. (The evidence provided is the outcome of analysis conducted by the Papua New Guinea Department of Trade and Industry, and is based on UN COMTRADE and UNCTAD TRAINS databases, at the HS 6 digit level).

6. In 2001 exports of non-agricultural products accounted for about 83.4 % of total exports of Papua New Guinea. The major source of export income is the Mining and Petroleum sector with about 66% of the total, followed by forestry (12%) and fishery (4.6%) (agricultural products represent 16,6 % of total exports). Papua New Guinea believes the manufacturing sector (especially downstream processing) is the crucial element for the sustainable growth of the economy in the long run. The country's trade and negotiating strategies do reflect this consideration.

7. As shown in Table 1, a first level of analysis gives an aggregate picture of relatively fair degree of market access for Papua New Guinea's exports. Of the 278 tariff lines faced, 63 % are duty free; non *ad-valorem* tariffs are only 1 % of the total and "*ad-valorem* rates over 5 %" are 14 % (bottom end of the table). Many tariff rates based both on MFN and preferential schemes are zero (62 and 69.7 % respectively, in the third column).

8. Nonetheless, the patterns of protection against non-agricultural goods from Papua New Guinea present a number of worrying aspects. Only in 20% of the product lines of exports Papua New Guinea benefits from preferential market access (this questions the effectiveness of the WTO discipline of "special and differential treatment" for developing countries); moreover, 30% of the GSP tariff lines are not duty free. The picture gets worse if the value of exports is considered: only 1% of non agricultural products receive preference.

9. The different relative distribution of exports into the tariff categories when considered as number of tariff lines and as value of trade, together with the clear predominance of goods exported (i.e. the value) into the "duty free" and "0-5%" categories, suggest that the current structure of tariffs is a major constraints on the markets effectively affordable by Papua New Guinea exporters. Duty free tariff lines are only 62% and 70% of the total for MFN and GSP schemes, but they attract respectively 75% and 90% of the value of exports; similarly, Papua New Guinea faces quantitative restriction on 9.3% of the tariff lines, but only 1% of the exports falls within this category, as producers cannot expand freely here and would choose other products to trade in.

10. Moreover, 39,6% of the tariff lines present some sort of Non Trade Barrier, including testing to protect human life, quarantine, laws concerning standardization and proper labelling, technical requirements, import licensing, strict rules of origin and other internal taxes on importers.

Table 1. Non-agricultural Market Access for Papua New Guinea exports in 2001

		Number of tariff lines (HS 6 digit)	Percentage of the total number	Exported value in correspondent lines (US$ thousand)	Percentage of total export
	Total	278		1405152,8	
	NON PREFERENTIAL ACCESS	**222,2**	**80%**	1384469,2	**99%**
	MFN rates				
(A)	of which 0%	137,5	62%	1041929,6	75%
	0-5 %	50,7	23%	272016,0	20%
	5-10%	18,6	8%	7393,8	1%
	10-20%	4,9	2%	1916,8	0%
	20-35%	3,9	2%	1575,8	0%
	>35%	4,0	2%	34379,0	2%
	Non ad-valorem tariff	2,6	1%	25258,3	2%
	PREFERENTIAL ACCESS	**55,8**	**20%**	20683,6	**1%**
(B)	ACP	29,3	52%	7569,1	37%
(C)	SPARTECA (0%)	1,5	3%	766,2	4%
	SPARTECA (10%)	0,7	1%	62,4	0%
	Other GSP				0%
(D)	of which 0%	8,1	15%	10145,7	49%
	0-5 %	11,1	20%	1933,0	9%
	5-10%	5,1	9%	207,2	1%
	Overall duty free GSP (B+C+D)		69,7%		89,4%
	Overall Market Access				
(A+B+C+D)	DUTY FREE	176,4	**63%**	1060410,6	**75%**
	0-5 %	61,7	**22%**	273949,0	**19%**
	5-10%	24,4	**9%**	7663,4	**1%**
	10-20%	4,9	**2%**	1916,8	**0%**
	>20%	7,9	**3%**	35954,8	**3%**
	Non ad-valorem tariff	2,6	**1%**	25258,3	**2%**
Quantitative restrictions		26	9,3%	9980,1	**1%**
Products facing technical regulations, standards, sanitary measures.		110	39,6%		

Note: decimals for tariff lines refer to further disaggregation at HS8 level

11. It is important to note that in the case of non-agricultural goods tariff structures are extremely heterogeneous across industries, within the same industry and also for the same trading partner; in addition, for 74 out of 278 tariff lines further analysis at the 8 digit level is needed as different rates are set for different subgroups of the H6 industries. Some general patterns are clear though: among the three traditionally important sectors, minerals is facing on average the lowest tariffs and fishery the highest (with more tariff peaks), whereas forestry is in between; Papua New Guinea's developing trading partners have higher tariff barriers than developed (and than Singapore and Hong Kong, China); comparing agricultural and non-agricultural goods, market access conditions for the latter are more difficult and involve also a higher number of developing countries' markets.

12. Table 2 shows that Australia and Japan account respectively for 44.8 and 20.5% of non-agricultural exports. Interestingly, the EU, Papua New Guinea's major importer for farm products,

only rank fifth with 5.4% per cent. Considering that Australia and Japan's GSP systems with respect to this area of trade are not as generous as in the case of agriculture, that the favourable Cotonou initiative is not very significant in terms of share of Papua New Guinea's exports covered, and that the rest of the trading partners are developing countries themselves, Papua New Guinea really needs to make an impact on current negotiations to improve market access.

Table 2: Major markets for Papua New Guinea non-agricultural products

	Value in US$ thousand, 2001	Share of total exports
Australia	629418	44,8%
Japan	287732	20,5%
People's Rep. of China	122256	8,7%
Korea, Rep. of Korea	85426	6,1%
EU	75694	5,4%
Thailand	69252	4,9%
Philippines	66190	4,7%
TOT		95,1%

13. Importantly, further analysis will be conducted before Papua New Guinea takes its final stance on market access negotiations. Papua New Guinea will share the outcome of such analysis with other Delegations, in order to clarify: the expected outcome of formula for tariff reductions on Papua New Guinea's own tariff structure; the real impact of NTBs faced by Papua New Guinea exporters; relevant future and potential markets of interest to Papua New Guinea and their tariff structures.

III. NEGOTIATING PROPOSALS

14. In line with this preliminary analysis of market access for Papua New Guinea's export, and taking into account the status of current negotiations on non-agricultural market access, the following proposals are put forward. Importantly, the text reflects the document proposed by the Chairman of the WTO Negotiating Group on Market Access as a compromise between different positions (in square brackets are some details of modalities which are necessarily to be open to negotiations).

1. General approach

15. Papua New Guinea commends the effort by the Chairman to find a compromise between the interests of developing and developed countries and appreciates the emphasis on Special and Differential Treatment placed in "Draft Elements of Modalities". Nonetheless, Papua New Guinea would like to see the current round of negotiations to be a turning point in the way developing countries interact with developed Members at the WTO level. Papua New Guinea therefore proposes to stress even more the importance of Special and Differential Treatment and to agree on modalities which effectively implement such concept.

16. At Doha, the Ministers agreed that "[…] The majority of WTO Members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration. Recalling the preamble to the Marrakech agreement we shall continue to make positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development. […]" (Paragraph 2). In particular, paragraph 44 of the Doha Declaration states: "…we therefore agree that all Special and Differential Treatment provisions shall be reviewed with a view to strengthening them and making them more precise, effective and operational.. In this

connection, we endorse the work programme on Special and Differential Treatment set out in the Decision on Implementation-Related Issues and Concerns".

17. The aforementioned Work Programme on SDT have not progressed and the Special Session of the Committee on Trade and Development could not fulfil its mandate, as contained in paragraph 44 of the Doha Ministerial Declaration and paragraph 12 of the Decision on Implementation-Related Issues and Concerns. Many deadlines were missed and no consensus exists in these negotiations. SDT is too important for developing countries to be simply set aside. Papua New Guinea therefore proposes to implement the concept of SDT in each of the specific negotiations and through the effective application of "non-reciprocity" between developed and developing countries. Accordingly the goals of SDT stated in the Doha Declaration should be achieved through concessions in current negotiations, including on Market Access.

2. Tariff reductions

(a) Core modality: Formula

18. Product coverage. Papua New Guinea is of the view that the negotiations should include all non-agricultural products with no exceptions for developed countries; developing countries instead should have the flexibility to calibrate the level of reductions for "sensitive" bound tariff lines. Developing countries would be allowed to deem some [3, 5 or 10] products "sensitive" [either at HS 4 or 6 digit level] : these tariffs will be excluded from reduction under the agreed formula, and either left at current bound rates or subject to other modalities to be agreed upon. Unbound items under this category will have to be bound at an agreed level [2 or 3 times the MFN applied rate] before they are deemed "sensitive".

19. Binding coverage and base rates. Papua New Guinea proposes that all countries commit to bind all tariffs on non-agricultural products. Developing countries will have longer periods to implement the binding of all products. Bound rates will be the starting-point for tariff reduction; for unbound items, the basis for reduction shall be 2 times the MFN applied rate (developing countries will decide which of the equal annual stages of reduction constitutes the ceiling to be intended as bound rate for subsequent reductions). In addition, developed countries are expected to reduce the gap between bound and applied rates; only developing countries shall maintain the related flexibility which is needed for the formulation of trade and industrial development policies.

20. Formula. Given the extent of tariff escalation and tariff peaks which still distort international trade, the formula proposed in the Chairman's draft is acceptable (though a number of qualifications are needed):

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

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

21. Papua New Guinea proposes the following adjustments for Special and Differential Treatment:

- developing countries shall be granted longer implementation period for reductions;
- developing countries can deem some [3, 5 or 10] products "of strategic interest" [either at HS 4 or 6 digit level] : upon notification of relevant evidence demonstrating "strategic interest"

[criteria to be agreed upon, ex: infant industry, employment level, export revenue generation] these tariffs will be cut using 2*B instead of B;

- priority reductions in sectors of "substantial export interest" to developing country shall be integral part of this formula approach. Each country should apply 0.5*B for the relevant tariff lines, once the concept of "substantial export interest" has been clarified under current negotiations;
- a mechanism for review/adjustment of liberalization paths should be in place; after the first two years of implementation of tariff cuts developing countries can, on a limited number of products, replace B with 2*B if it is demonstrated that the initial equal annual stages of reduction are causing injury to the local industry.

22. To further address the issue of tariff escalation, Papua New Guinea proposes that where the tariff on a processed product is higher than the tariff for the product in its primary form, t_1 for the former shall not be more than the double of t_1 for the latter, whatever the determined level of B and the resulting degree of tariff cuts. If t_0 for the primary product is 0% t_1 for the processed good shall not exceed [5% or 7% or 10%].

(b) Other modalities

23. Credit for autonomous liberalization. Credit should be accorded for autonomous tariff liberalization undertaken through Structural Adjustment Programmes facilitated by International Financial Institutions. Papua New Guinea is of the view that the negotiations should fully take into account such autonomous efforts and the exact definition of "credit" be the subject of further technical work.

24. Erosion of Preferential Margins. Historically, preferential treatment is a very important element of Papua New Guinea's trade. Papua New Guinea proposes, as an exception to the Core modality, that tariff reductions affecting Preferential Schemes in respect of products of vital importance for developing countries may be implemented in equal annual instalments over a period which is [the double of the one for Formula reductions or 8 or 10 years] by preference-granting members concerned, with the first instalment being deferred to [third] year of implementation period. "Vital importance" of a product shall be demonstrated by notification of relevant statistics (in the case of Papua New Guinea for example referring to share of non-mineral exports).

25. In addition, preference-providing members shall undertake technical assistance and other measures to support developing countries in their transition out of the preferential schemes.

26. Sectorial Tariff Elimination. In addition to the formula, Papua New Guinea agrees on the proposed sector elimination approach in order to eliminate all tariffs on products of particular export interest to DC. Proposed sectors are: Fish and Fish products, Textile & Clothing, Stones Gems & Precious Metals, Wood and Wood products [Electronics & Electrical goods; Footwear; Leather goods; Motor Vehicle parts & components]. The sectorial tariff elimination will be achieved in three phases of equal length. Developed countries shall eliminate tariffs at the end of the first phase; developing countries will reduce tariff to [10% or 15%] during phase 1 and achieve elimination at the end of phase 3.

(c) Additional provisions for Special and Differential Treatment

27. Tariffs Peaks. Papua New Guinea is of the view that only developing countries should be allowed to retain part of their protective tariffs for development purposes. Therefore developed countries should reduce their tariff peaks to a maximum level which is not higher than [3] times the average of bound rates, whereas developing countries may set tariff peaks at a maximum of [4 or 5] times the average.

28. Least Developed Countries. LDCs shall not be required to undertake reduction commitments indicated above; as contribution to the round of negotiations they are however expected to increase their level of binding commitments. Furthermore, developed countries shall grant duty-free and quota-free access for products originating from LDCs by the year [2007].

29. Elimination of low/nuisance duties. Papua New Guinea proposes that developed countries reduce to 0% all their bound rates below [5 or 4 or 3%]. Developing countries only may retain those tariffs if they are important for government's revenues.

3. Non-Tariff Barriers

30. Preliminary analysis suggests Papua New Guinea exporters are damaged by NTBs. Such measures should be dealt with comprehensively at the Negotiating Group on Market Access. Papua New Guinea commits to: exactly identify the NTBs about which it is concerned; choose which of them should be dealt with by the Negotiating Group (considering other agreements for which there is no negotiating mandate); select the appropriate modalities to be used, which could include request/offer, horizontal, or vertical approaches.

31. Papua New Guinea proposes that while the Negotiating Group progresses in its work of identification and examination of various types of NTBs, two steps are undertaken to assist developing countries:

- WTO Secretariat considers funding specific technical assistance to help developing countries analysing NTBs faced and quantifying economic damages;
- developed countries imposing NTBs to developing countries provide technical and financial assistance to comply to such measures, as already provided for in the Agreement on Sanitary and Phytosanitary Measures.

32. NTBs that have a specific negotiating mandate in the Doha Declaration in other areas should continue to be addressed in that body but information on the progress or outcome of those negotiations should be reported to the Negotiating Group for transparency.