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Negotiating Group on Market Access

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MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Communication from Trinidad and Tobago on behalf of the ACP Group of States

The following communication, dated 31 March 2004, is being circulated at the request of the Delegation of Trinidad and Tobago, on behalf of the ACP Group of States.

The main concerns of ACP countries with respect to the on-going non-agricultural market access negotiations in WTO

Tariffs and non-tariff barriers

1. Economists generally argue that trade liberalisation leads to efficient allocation of scarce resources, lifts economic welfare and contributes to economic growth. Despite nearly 20 years experience of reform, there is no clear-cut formula that guarantees that reform will bring about increased level of welfare. Thus, for many countries, especially ACP, a more cautious approach to liberalisation is needed.

2. The ACP believes that the objectives of the current negotiations on non-agricultural market access are to facilitate the development and industrialization processes in this group of countries and thus these negotiations must give attention to: (i) providing and/or maintaining market access for products of export interest to ACP States; (ii) ensuring that ACP States are allowed to choose their own rate and extent of future import liberalization, so as not to cause further adverse effects on local industries; (iii) addressing the problems that ACP States will face from erosion of preferences; (iv) addressing the need for ACP States to build their supply capacity so that they can take advantage of any increased market access opportunities (v) the impact of the decline in government revenue on sustainable levels of development and (vi) it would be recommended to undertake impact studies on previous tariff reductions on ACP countries. We have highlighted these issues individually and collectively in the Negotiating Group.

3. The ACP also calls for the adoption of a tariff reduction formula that provides sufficient flexibility and scope to enable ACP States to continue to have adequate and effective levels of preferences necessary for the maintenance of their competitiveness in their export markets. Only such an approach guarantees balance, equity and benefits for all WTO members in the outcome of the Doha Round.

4. However market access may not be achieved through tariff reduction alone. There are other non-transparent, discretionary and complicated non-tariff barriers against ACP exports, such as TBT, SPS measures, environmental standards and regulations, rules of origin and other conditions that must be addressed in these negotiations.

5. The various formulae that have been tabled and the Cancun draft text would remove some of the latitude for the use of tariffs for development purposes, as envisaged by GATT Article XVIII (and as was practiced by the major developed countries at the early stages of their own industrialisation). However, some of the proposals presented imply a more rapid or deeper reform in trade policy than others. While a few developing countries that have already moved far in their own trade reforms might find this to be feasible, for ACP states such an approach may mean going "too far, too fast" with reform, and could entail unacceptable adjustment costs.

6. The modalities to be adopted should allow ACP countries to maintain sufficient margins between the MFN liberalization and the preferential treatment under the GSP, the AGOA, the EBA, the CBI, the CARIBCAN and the Cotonou Agreement.

7. The modalities to be adopted must not include any sectoral approach which would be detrimental to the interests of the ACP States.

Less than full reciprocity and S&D

8. From GATT past practice, the principle of "less than full reciprocity" that is referred to in paragraph 16 of the Doha Declaration includes but is not limited to lesser tariff cuts applied by developing countries and LDCs and that longer transition periods would be available for the implementation of negotiated tariff cuts. It is therefore crucial that in this round of negotiations the principle of "less than full reciprocity" and the issue of special and differential treatment be fully addressed. Hence, among the important variables for consideration in the formulation of the modalities are the percentage rates for tariff reductions, special treatment for sensitive products and sectors, exemption from tariff cuts and implementation time periods.

Preference erosion

9. Changes will result from the erosion of tariff preferences under non-reciprocal schemes, such as GSP, Cotonou, CBI, AGOA, EBA, CARIBCAN. There is a need to look at the particular situation of the ACP with regard to specific products and main markets

10 Reductions in MFN bound rates that also reduce MFN applied rates will affect the preference margins with consequent effects on trade flows (trade diversion). Countries whose margin of preference is eroded will face trade diversion. ACP countries which have this preferential access may therefore experience trade diversion with no prospect for trade creation.

11. One possibility could be to identify specific tariff lines of products exported under preferences and then exclude such products and/or accord them a different treatment such that the mar gin of preference is less drastically and abruptly affected as a result of MFN tariffs reduction.

Tariff and government revenues

12. Tariff revenues are an important source of government revenue for many developing countries. For instance, World Bank data indicates that the contribution of tariff revenues ranges greatly from virtually nothing in Italy to 75 per cent in Guinea. In most African and Caribbean countries on average, more than 40 per cent of government income comes from tariff revenues. These are still substantial shares in revenues to be replaced by alternative forms of taxation. Any revenue losses would need to be replaced with taxes on income, profits, capital gains, property, labour, consumption or non-tax revenues. This is a long-term process that can be expensive to implement and many ACP states are not in a position to do so. Sales or consumption tax could replace tariff revenues, but such important changes to fiscal systems are costly and may defeat the purpose of the exercise.

Tariff bindings and coverage

13. Bound tariffs are the only legal basis for WTO negotiations; Members bind and reduce tariffs in accession or multilateral negotiations and these are included in schedules of commitments. Binding tariffs means that in future a WTO Member is not allowed to raise bound rates without entering into Article XXVIII tariff renegotiations. In the current WTO negotiations, there are now considerable demands being put on developing countries to increase the share of their trade covered by binding commitments and also to reduce applied tariffs. Since binding coverage for some ACP countries is as low as 3 per cent, this would constitute a disproportionate level of commitment.

14. The gap between applied and bound tariffs that exists in most developing countries is a result of autonomous reforms by these countries in the last 10-15 years. Many developing countries have reduced applied tariffs unilaterally under recent reform programmes, and they have sought credit for such liberalisation. If developing countries are obliged to reduce MFN bound rates to levels that are below their applied rates, then this would eliminate any flexibility that developing countries have to use tariffs for development purposes, as discussed earlier. Whilst countries can have resort to anti-dumping actions and other contingencies measures, for ACP countries the use of these instruments is very costly and therefore retaining bound tariffs at a sufficient level remains our primary defence mechanism.

15. On the other hand, if after the current negotiations, developing countries cut MFN bound rates, leaving applied rates as they are or only partly reduced, such MFN reductions should still be seen as affording increased security of access to their market. This would itself be considered a valid legal commitment in the negotiations in non-agricultural products, even where rates are set at ceiling levels, higher than applied rates, as was done in the Uruguay Round agriculture negotiations by many developed and developing countries.

LDCs

16. The ACP GROUP supports the proposal to exempt LDCs from making further reduction commitments.

Conclusion

ACP Member States are deeply disappointed that the elements of modalities proposed by the draft ministerial text does not take into account issues outlined in this document but rather contains other provisions, including the complete elimination of tariffs in specific sectors that are likely to have serious negative consequences for LDCs and ACP States. We therefore urge that the revised text on modalities take fully on board the elements proposed by the ACP States.