

## **Brief on Sri Lanka's Position on the Key Issues of the Hong Kong Ministerial Declaration**

While Sri Lanka shares most of the characteristics and concerns of a typical low income developing country it has also specific problems of its own, which requires taking a particular position to serve the development priorities of the country at the WTO. The following pages will discuss Sri Lanka's position on the 5 main issues from the Hong Kong Ministerial: Agriculture, NAMA, Services, Trade Facilitation, and Development Package.

### **Agriculture**

Although the contribution of the agricultural sector towards the GDP has declined over the years and now accounts for about 18 percent, the sector remains important in terms of employment – it employs about 35 percent of the country's labour force. Currently more than three-fourths of the population lives in rural areas and their livelihoods depend on agricultural and livestock activities. Sri Lanka does not have a highly commercialized and mechanized agricultural sector which is competitive and is aggressively seeking market access abroad. In the WTO Sri Lanka is categorized as a net food importing country and depends heavily on imports for its basic consumption needs. Thus, Sri Lanka's position when it comes to agriculture has been one of enhancing food production, protecting small/marginal farmers from cheap agricultural imports and safeguarding employment opportunities of the rural poor (Kelegama, 2006).

Currently the agricultural sector receives the highest protection in the overall tariff structure of the country. The sector in the country is in the top tariff band of 35 percent, with an applied tariff of 28 percent and is also subjected to ad valorem and specific duties. At present, Sri Lanka does not offer export subsidies or have a safeguard mechanism in place to deal with import surges. At the multilateral level, Sri Lanka has bound most of her agricultural tariffs at 50 percent, which is much lower than in many developing countries. Thus further liberalization of agricultural products proposed under

the Doha Work Programme was a key concern to Sri Lanka. Sri Lanka prefers a tariff reduction schedule which seeks to harmonise tariff structures by having larger tariff cuts for higher tariffs (Weerakoon and Thennakoon, 2006).

The Hong Kong Ministerial agreed to adopt four bands for structuring tariff cuts, with tariffs in the higher band subject to deeper cuts. The extent of cut in each band is yet to be agreed upon. While deeper cuts in the higher bands will bring down agricultural tariffs in the developed countries, it will also involve substantial reductions in tariff bindings of developing countries. However, further reduction of bound rates in the sector is not viewed favourably from Sri Lanka's perspective. Sri Lanka has in fact argued that there is a need for increasing rather decreasing support to agriculture, as well as maintaining the current bound rates in order to provide the required tariff protection for the sector (Weerakoon and Thennakoon, 2006).

Sri Lanka as a leading member of G-33 group put forward the proposal that developing countries should have the right to designate a certain number of agricultural tariff lines as special products (SPs), which contribute towards food security, rural development and livelihood concerns. Sri Lanka has already identified about 600 products covering 10 percent of agricultural tariffs and supported this proposal along with other developing countries (Abeysinghe, 2005). This proposal was included in the Hong Kong Ministerial text, giving Sri Lanka the freedom to protect important and sensitive products like rice, potatoes, onions, chilies, milk and poultry, etc. from further tariff reduction. But there is uncertainty as to the number of products to be so designated and the precise nature of their special treatment. Also, the G33 led by Sri Lanka and Pakistan strongly advocated the need to develop Special Safeguard Mechanism (SSM) for developing countries, which will be more flexible and less cumbersome than the existing Safeguard mechanism. The Hong Kong Ministerial text agreed to grant developing countries the right to use the SSM based on import quantity and price triggers.

## **NAMA**

Industrial output accounts for over 26 percent of GDP in Sri Lanka, providing employment to about 21 percent of the labour force. Exports of the industrial sector accounts for more than 75 percent of overall exports of the country. Some industrial products face high tariffs and non-tariff barriers in key markets in the US and EU. Sri Lanka thus wants to overcome these barriers for better market access in the developed world.

Under negotiations on non-agricultural market access (NAMA) the key issues from Sri Lanka's point of view were: the choice of tariff reduction formula/approach, treatment of bindings, preference erosion and better market access through the reduction or elimination of tariffs and non-tariff barriers in the key markets in the developed countries (Weerakoon and Thennakoon, 2006).

While there was considerable disagreement on the nature of the formula, the agreement arrived at the Hong Kong Ministerial was to go along with a Swiss formula with coefficient which would reduce or eliminate tariffs, tariff peaks, tariff escalation reflecting the tariff profiles of different countries. The coefficients are yet to be negotiated. Sri Lanka at NAMA negotiations was at a unique position. Sri Lanka has unilaterally carried out tariff reductions in industrial products and thus has low applied tariffs but its bound coverage remains limited - about 30 percent of its non-agricultural tariff lines are bound (Abeyasinghe, 2005). For countries such as Sri Lanka where bound coverage is low but the applied rate is also low, proposed tariff reduction under the Swiss formulae would have led to drastic reductions in its industrial tariffs, which are already low. Therefore, Sri Lanka along with other countries in a similar position proposed a more flexible formula which would take account of 'less than full reciprocity' principle in tariff reductions. The Ministerial text exempted developing countries with a binding coverage of non-agricultural tariffs less than 35 percent from making further tariff reductions through the proposed formula. However, these countries will be required to bind 100 percent of their non-agricultural tariffs at the average of bound tariff rates for all developing countries – estimated to be around 28.5 percent. The text also offered some

flexibility for small and vulnerable economies but without creating a separate sub-category of WTO members. However, it is hard to see how the WTO can provide special treatment without explicitly recognizing a sub-category of smaller countries – that is, without a definition of what a small economy is.

Another issue of concern to Sri Lanka in NAMA negotiations relates to the issue of erosion of preferences which have been extended unilaterally for exports of developing countries by developed countries. Sri Lanka has been enjoying such preferences under the GSP and GSP-plus schemes. Preference erosion can take place when the MFN tariff rates are lowered without lowering the preferential tariffs proportionately. Under NAMA negotiations, this is a major concern for Sri Lanka as reduction of MFN rates would erode margin of preferences which Sri Lanka currently enjoys under various preferential agreements.

## **Services**

The service sector has emerged as the most important contributor to the output of the economy and employment in the country, accounting for over 55 of GDP and 44 percent of total employment. Key service sectors contributing to the economy are tourism, telecommunications, banking, insurance, shipping and air transport. Considerable liberalization has taken place over the last two decades on a unilateral basis than under the auspices of the GATS framework (Weerakoon and Thennakoon, 2006).

Sri Lanka has made a series of commitments on several sectors of services under the GATS in areas of tourist and travel related services, financial services such as banking and insurance and in telecommunications. Under the Uruguay Round, Sri Lanka made specific commitments only under the area of tourism. Subsequently it participated in the extended negotiations on basic telecommunications and financial services and accepted the GATS Fourth Protocol (basic telecommunications) and Fifth Protocol (financial services) in 1997 and 1999, respectively. Sri Lanka looks at service liberalization under GATS from a development perspective and appreciates the flexibility of request-offer

approach of GATS and the gradual opening of the sector on the basis of the country's comfort level (Kelegama, 2006).

In the area of services, there has been little progress so far as due to the limited number and low quality of market opening offers received. Sri Lanka has already submitted its request list to 18 countries mainly in professional services, computer related services, health related and social services, transport services and services auxiliary to all modes of transport. Sri Lanka's primary focus in GATS negotiation like many other developing countries is to negotiate commitments in Mode 4 – temporary movement of natural persons. Sri Lanka has an educated labour force; thus Mode 4 liberalisation is important from Sri Lanka's point of view. In return, Sri Lanka has also made initial offers in telecom, financial services and tourism on the basis of existing level of liberalization. Sri Lanka took the position that if it makes any new or improved offers for further liberalization of services, this will be done on the basis of prevailing level of liberalization (Department of Commerce, 2006). However, Sri Lanka has ensured that it is not willing to make any new commitments, particularly in areas such as health, education and water.

Sri Lanka does not support the proposed benchmarking system that developed countries are keen to introduce to GATS. Many developing countries along with Sri Lanka are of the view that the existing method is adequate given their concern that the new proposed approach would compromise the flexibilities offered under GATS over sectors and pace of liberalization. Nevertheless, the text of the Hong Kong Ministerial managed to incorporate a plurilateral, sectoral, modal approach to complement the bilateral request and offer approach as a negotiating method. The text agreed to give particular attention to sectors and modes of supply of export interests of developing countries. There is some ambiguity on the question of whether it is mandatory to enter into a plurilateral negotiations if requested. If such requests are made, Sri Lanka has taken the position that it should be able to utilize the flexibility available for developing countries in considering the requests (Department of Commerce, 2006). In addition, Sri Lanka supported the need to obtain technical assistance available for developing countries to fully engage in negotiations.

## **Trade Facilitation**

From the beginning, developing countries have not been enthusiastic in negotiating a multilateral agreement on trade facilitation. While some developing countries have suggested that it should remain a national, bilateral/regional concern, others have suggested that it should be a list of voluntary guidelines or an agreement based on capacity building rather than a legally binding rule-based agreement. Trade facilitation is the only one of the four original Singapore issues to have survived in the Doha Work Programme. Sri Lanka has progressively implemented measures aimed at improving its trade facilitation (ie) infrastructure and regulatory environment. Sri Lanka from the beginning broadly accepted principles of trade facilitation and its potential benefits. In fact, Sri Lanka was the only developing country to have supported trade facilitation at the WTO Cancun Ministerial in 2003 (Weerakoon and Thennakoon, 2006). Nevertheless, Sri Lanka has extended strong support to developing country's position that proposals so far suggested have failed to take into account of S&D treatment, financial/technical assistance required.

## **Development Package**

Sri Lanka's position on development issues reflects the same concerns of other developing countries – that is, developing countries have hardly benefited from S&D provisions due to their non-binding nature – and has extended support on proposals put forward on implementation issues, enhanced market access and flexibility in rules and capacity building commitments. One of the main concerns of Sri Lanka in development issues is the need for flexible policy space for countries to address their development needs. To this end, Sri Lanka has been supporting the initiative to take into account the special development needs of small vulnerable economies (SVEs) without creating a sub-category in the WTO, which was highlighted in the Ministerial text.

An important outcome of the Hong Kong Ministerial in addressing development issues was the agreement to provide duty and quota free access for LDC products. Sri Lanka was concerned about this as it would erode Sri Lanka's competitiveness and proposed

along with Pakistan that such a package should also be extended to other vulnerable economies which are dependent on a few products, especially those that will be affected by such concessions to the LDCs. The final agreement was to lower the product coverage for duty free treatment to 97 percent of products, allowing the exclusion of some 157 tariff lines. There is ambiguity with respect to the time frame and which products would be excluded. It is thought that developed countries would continue to protect sensitive products that of export interest to LDCs, such as textiles and clothing, rice, sugar, leather products and fishery products. The US has already indicated that it cannot include textiles and clothing from Bangladesh and Cambodia, which is good news for Sri Lanka, as it is already facing severe competition from other countries after the quota phase-out of the MFA.

### **Other Items of Interest**

Other items of interest to Sri Lanka are geographical indicators (GIs) and the relationship between Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the Convention on Biological Diversity. Sri Lanka has supported the positions of India and other countries that the consultation process on the latter should be moved up to substantive negotiations. The Ministerial text took a step forward by setting a dateline of July 31 2006 for the WTO General Council to take an appropriate action. Sri Lanka is also currently advocating extending the protection of geographical indicators (GIs) to products other than wine and spirits. In this context, steps are being taken to enact domestic legislation to ensure registration of the GI 'Ceylon Tea' (Kelegama, 2006).

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