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Non-agricultural Market Access

A Way Forward from Doha

Unlike agriculture and services, the issue of non-agricultural market access (NAMA) is new to the agenda of the WTO. When the Uruguay round of trade negotiations was launched in 1986, the three issues, which formed the built-in-agenda were – agriculture, services and TRIPs. However, reducing tariffs and non-tariff barriers on industrial goods was the core of multilateral trade negotiations under the GATT. The Work Programme agreed upon at Doha changed the situation, by adding negotiations on NAMA.

I. Doha Mandate

Paragraph 16 of the Doha Ministerial Declaration states that the negotiations should aim in particular at the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, specially on products of export interest to developing countries, that product coverage shall be comprehensive and without a priori exclusions. 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. The declaration also states that the agreed negotiation modalities will include appropriate studies and capacity building measures to assist least-developed countries to participate effectively in the negotiations.

II. Issues of Concern

As per the Doha mandate following issues are of major concern in negotiations on NAMA:

Tariff Peaks

Tariff barriers on labour-intensive products are commonly raised through tariff peaks (tariffs exceeding 15 percent) on imports of “sensitive commodities”. For example, a 50 percent import tariff is on cotton fabric while the average tariff on textiles is 5 percent would be an example of a tariff peak.

Tariff Escalation

Tariff often rises significantly with the level of processing (tariff escalation) in many high-income and developing countries. Tariff escalation in high-income countries has the potential of reducing demand for processed imports from developing countries, hampering diversification into higher-valued added exports. For example, tariffs on fish and fish products in Quad countries clearly exhibit escalation.

Non-tariff Barriers

The Doha mandate on market access for non-agricultural products includes elimination of NTBs as well among other things. Some Members have made submission on identifying NTBs. New Zealand, identifying a number of NTBs present in WTO Members’ trade regimes, has proposed that the Negotiating Group on Market Access (NGMA) focus on identifying NTBs, as these pose a serious threat to further liberalisation of trade in industrial goods.

Complicated Tariff Structure

There are other measures beyond tariffs and non-tariff measures that may impede market access. One of these is the complicated structure of import regimes employed by some members. Market access can be improved if import regimes are simple and transparent. Most Members have tariff schedules in the range of 5000-8000 lines, which is already quite significant. A second indicator of simplicity and transparency is the percentage of lines that are non-ad valorem. The problems caused by non ad valorem lines in the agriculture sector are well known.

Environmental Goods

In March 2002, Members decided that negotiations on “reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods” (para. 31(iii) of the Doha Declaration) would take place in the NAMA negotiating group, to be monitored by the Committee on Trade and Environment.

III. Members’ Submissions

Several Members have submitted proposals; some of them are very ambitious. The US proposal calls for complete elimination of tariffs by the year 2015. Japan advocated for “zero-for-zero” and “harmonisation” approach for tariff reductions. The European Communities propose that WTO Members agree to reduce all tariff duties considerably by compressing them (Compression Mechanism) into a flatter range, within which tariff peaks and high tariffs are eliminated.

Among developing countries, India proposes (TN/MA/W/10/Add.1) that for tariff lines already bound, reductions should be undertaken only from bound levels and not from applied rates and a higher percentage to be set for developed than developing countries. China proposes (TN/MA/W/20) to adopt a uniform formula for tariff reduction. Taking into consideration the imbalance among the development levels of all Members, the actual reductions achieved through formula approach shall fully reflect the needs and interests of all Members, in particular developing country Members and shall abide by the mandate of the Doha Ministerial Declaration.

US “Zero Tariff” Proposal

The US approach (TN/MA/W/18) envisions Members agreeing on a long-term course for non-agricultural goods that will lead to the elimination of duties by 2015. As a first step, the United States proposes a five-year period (2005 to 2010) in which Members eliminate, or reduce and harmonise tariff levels. In phase I, Members eliminate tariffs on all products with tariffs at or below five percent ad valorem. For all other tariffs above 5 percent, application of a harmonising Swiss formula with a coefficient of eight. In phase II, there would be a complete elimination of remaining tariffs by 2015 through linear cuts.

Further, reductions should be based on applied rates as of 1 January 2000 or Uruguay Round final bound levels, whichever are lower. Finally, Members should bind all tariff lines and should maximize the use of ad valorem rates.

Simultaneously, as part of these negotiations, Members must work to eliminate non-tariff barriers, in parallel with tariff commitments. The United States intends to offer more specific details on methods to manage and address NTBs.

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Japan's "Zero-for-Zero" Approach

Japan proposed in its submission (TN/MA/W/15) a hybrid approach that consists of two pillars:

- a formula which reduces tariff rates by setting a target level of a trade weighted average tariff rate for each Member in accordance with the level of its bound rate (trade-weighted average) to address the wide disparity in tariff rates that exists among Members; and
- the "zero-for-zero" and "harmonization" approaches among certain sectors.

In order to clarify matters, Japan submitted a further proposal (TN/MA/W/15/Add.2) for the "zero-for-zero" and "harmonization" approaches. The sectors proposed by Japan account for two-thirds of the world's non-agricultural products trade, including products of export interest to developing countries, and products that are growing in the amount of trade during this decade.

As for tackling tariff peaks and tariff escalation, Japan considers that to agree on a definition for tariff peaks and tariff escalation is difficult because dispersion of average tariff rate worldwide and difference of tariff structure are still large. Thus, Japan would like to propose that the "zero-for-zero" and "harmonization" approaches are the most realistic approach to tackle tariff peaks and tariff escalation.

EC's "Compression Mechanism"

The European Communities propose (TN/MA/W/11) that WTO Members agree to reduce all tariff duties considerably by compressing them into a flatter range, within which tariff peaks and high tariffs are eliminated. The application of such a compression mechanism must result in considerably reduced tariff rates with limited dispersion, thus streamlining tariffs. The negotiations should achieve the objective of significantly reducing tariff escalation on products of particular interest to developing countries by reducing the level of relevant ad-valorem and specific tariff protection. To this end, the mechanism shall – if necessary – be complemented by additional steps aimed at compressing disparities between tariff headings corresponding to products at different stages of production (i.e. raw materials - semi-processed - finished).

Canada's "Blended Approach"

Canada's objectives (TN/MA/W/9) for the tariff negotiation include reducing and binding applied tariff levels, which are not yet bound, reducing high bound rates and re-binding them at lower rates, and expanding the scope of duty-free trade. In addition, it favours eliminating "nuisance" tariffs and maximizing the use of ad valorem rates. In Canada's view that, in order to best meet the interests of all Members, a combination of approaches will be needed, including sectoral agreements (both zero-for-zero and harmonization), formula-based approaches and the request/offer process.

With respect to formula-based approaches, these should be sensitive to the varying circumstances of Members. Canada believes it would be unfair to use a "one-size-fits-all" approach where there are clearly differing levels of development and different tariff structures in place. Canada also supports the negotiation of new "zero-for-zero" (duty-free) sectoral agreements to include sectors of interest to both developed and developing countries. It would support new agreements for sectors such as fish products, forest products, fertilizers, energy-related equipment and non-ferrous metals.

IV. Current State of Play

Based on several proposals, Pierre-Louis Girard, the Swiss ambassador chairing the NAMA negotiations came out with first draft (TN/MA/W/35) containing elements of modalities for negotiations on 16 May 2003, i.e., before the mandated deadline for reaching on an agreement on those modalities by 31 May 2003. The deadline couldn't be met. Thus, the missed deadline on NAMA joined many others, including on TRIPs and Public Health, Special & Differential Treatment (S&DT) and Agriculture.

In the first draft the Chairman had proposed a single formula imposing across-the-board, nonlinear cuts on members' tariffs for non-agricultural goods. The formula, which relies on a calculation of a country's average bound base rate and the average base rate of the product in question, would impose bigger cuts in tariffs for goods where the tariff is above the average rate and lower cuts in tariffs falling below the average. Unlike other contentious issues, no member had out rightly rejected this draft modalities paper on NAMA as a basis for negotiation. Many, in fact, saw it as a good beginning.

This was followed by a revised draft (TN/MA/W/35/Rev.1), released on 19 August 2003. The revised modalities text maintains the same basic formula for reducing tariffs. However, it has pacified the developing countries, which are opposed to any mandatory "zero-for-zero" import duty commitment.

Furthermore, it has added a major relief with respect to developing countries on seven sectors, including auto components, textiles, gems and jewellery, leather products and electric & electronic products, which were to be made free of any tariffs in all member-countries within a time period.

The new draft has sought to give negotiating flexibility to developing countries, which is in line with what was being demanded by India, though it has failed to address all our concerns. Large developing countries, including India, Brazil, Thailand and Indonesia, are demanding exclusion of sectors like auto components and electronics & electrical from the list. Rather than a binding and mandatory commitment, these countries are pushing for a voluntary compliance by developing countries. They argue that individual developing countries should be free to include or exclude any sector from zero-for-zero commitment.

Under the new draft, developing countries can negotiate to exclude certain sectors, industries or products from the coverage of zero-for-zero duty commitment. They could trade-off one sector or industry for others. However, once agreed the commitments would be binding and mandatory.

As regards NTBs, the negotiating group will proceed with the identification and examination of their various types. After completing the identification, participants will aim to categorise the NTBs as well as clarify and seek additional information where necessary, and then proceed in the manner as suggested in the revised draft.

Earlier, the EU, the US and Canada released a joint paper on (NAMA), which has stressed the need for a "simple, ambitious, harmonizing formula" for reducing tariffs on industrial and consumer goods "applied on a line-by-line basis (e.g., Swiss formula), with a single coefficient" for determining the actual level of cuts in the tariffs. Several developing countries claimed the harmonization approach was not consistent with the Doha mandate, where trade ministers stressed the need to take account of the particular needs and vulnerabilities of developing countries in a final tariff-cutting deal. Advocating a "harmonisation" formula would require their governments to make steeper cuts in higher tariffs.

V. Conclusions

Clearly, the presentation of several sets of proposals containing complex formulas for tariff reductions from WTO members will make this relatively easy looking item on the Doha Agenda a more controversial one. Further, one thing is sure that on this issue, country positions can only be expected to harden further.

Proposals and other documents can be found at http://docsonline.wto.org/ under TN/MA/W/.*

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