WTO: Angry responses to North's latest NAMA proposal

Tuesday 27 June 2006, by KHOR Martin (Date first published: 12 June 2006).

Geneva,

Several developing countries have responded with anger and even outrage to the latest proposal in the WTO's non-agricultural market access (NAMA) negotiations by a group of developed countries that there be a difference of only five points in the two coefficients for developed and developing countries in the "Swiss formula" for cutting tariffs.

The angry exchange of views took place at the WTO NAMA negotiations on the formula, perhaps the most important element of the NAMA modalities, on 8-9 June. It also exposed that differences are not only wide but seemed to be widening on the eve of a deadline that a paper on NAMA modalities be issued by the Chair of the negotiations by 19 June, and that the modalities be finalized (in a mini-Ministerial meeting) by the end of June.

Six countries (Canada, Hong Kong, New Zealand, Switzerland and the United States, later joined by Chinese Taipei) introduced a 2-page paper on 8 June. Its main proposal was that the Swiss formula be adopted with separate coefficients for developed and developing members, and that the coefficient for developed countries shall be at most five points less than the developing countries' coefficient.

The paper said that for example, the developed country coefficient would be 10 or less provided that the coefficient for developing countries applying the formula is within 5 points of the developed country coefficient.

The rationale given by the countries is that the NAMA negotiations need to deliver "commercially meaningful market access gains to all Members" and that the coefficients for developed and developing countries must both be low enough to reduce tariffs in all markets.

The proposal added that the numbers in paragraphs 8 (a) and (b) of the July 2004 framework for NAMA (which deals with flexibilities for developing countries) and the constant non-linear mark-up for establishing base rates for commencing tariff reductions for unbound tariff lines will need to be agreed in conjunction with the coefficients.

In the view of the proponents of the proposal, less than full reciprocity (LTFR) would be provided through a combination of elements including a higher coefficient for developing countries; application of para 8 flexibilities; special treatment for small vulnerable economies; non-application of the formula and use of an overall average for members covered by para 6 of the July 2004 framework; special provisions for recently acceded members; and exemption for LDCs from the formula. "Details of these elements remain to be determined," said the paper.

This definition of the LTFR principle goes against the normal interpretation, being used by developing countries, that the percentage reduction of NAMA tariffs will be lower for developing countries than for developed countries. LTFR more generally also includes that developing countries are to make concessions in correspondence to their economic, financial and fiscal needs.

The Swiss formula produces the effect that the higher is the coefficient, the lower is the percentage of tariff cut. However, a higher coefficient in a simple-Swiss formula for developing countries (vis-a-vis developed countries' coefficient) does not necessarily translate into a lower percentage reduction in tariffs for the former due to vast differences in tariff profiles between developed and developing countries. Developing countries generally have higher tariffs and thus would have to reduce their tariffs at steeper rates if they are subject to the same coefficient as (or slightly higher coefficients as compared to) developed countries.

The "translation" will take place only if there is a wide enough difference between the coefficients for developed and developing countries, and 5 points is not adequate.

The proposal of the six members echoes the earlier proposal by the US that it would accept dual coefficients provided they are "in sight of each other." The numbers of 10 and 15 as the coefficients have also been bandied around informally by a number of developed countries, but this is the first time that a joint position of six members to the effect of keeping the difference to five points has been presented.

The chairman of the NAMA negotiating group, Ambassador Don Stephenson of Canada, also asked whether the brackets in Paragraph 8 (flexibilities for developing countries to let some (5%) tariff lines be unbound and to apply less than formula cuts to some (10%) tariff lines) could be removed. However, there was still no agreement at the meeting on removal of these brackets.

There was strong initial opposition on 8 June (in a smaller group meeting) to the proposal by several developing countries, including South Africa, Argentina and India. The proposal, which was presented by New Zealand, received support from Japan, Chile, Turkey, Canada.

On 9 June, at the week's closing plenary session, several developing country Ambassadors were present, demonstrating the seriousness with which they viewed the proposal, and they added their voice to opposing the proposal.

Brazilian Ambassador Clodoaldo Hugueney made a lengthy statement, and it was clear that he was furious and angry with the proposal, according to diplomats present. He said that the proposal was definitely not helpful to making progress. He added that it was also totally inconsistent with positions taken by some of the proposal's sponsors in agriculture, implying that these members were practising double standards and hypocrisy.

Some countries like Switzerland had as high as 2000 to 3000 per cent tariffs on some agricultural products, and they had also refused to place a cap on their agricultural tariffs, and yet these same countries were asking for a low coefficient for developing countries in NAMA.

He questioned how countries that could never agree on anything in the negotiation for market access for Agriculture could come to the NAMA negotiations and together demand for a high level of ambition for developing countries.

Hugueney also said that the use of a simple Swiss formula had highly inequitable results, and the ABI (Argentina, Brazil, India) formula does a better job as it takes into account the differences in tariffs between developed and developing countries.

He added that the balance required in this Round is not being reflected in this paper. If there is no agreement on anything in Agriculture, how could we converge here (in NAMA) on anything? In Brazil's view, the positions in the negotiation are moving far apart.

Brazil also said that to put the two coefficients only 5 points apart reverses the concept of Less Than Full Reciprocity in reduction commitments by developing countries. Brazil also considered the proposal unhelpful and said that the concept of Market Access included in the proposal is not part of the mandate of NAMA but it is in the mandate of Agriculture.

Faizel Ismail, head of the South Africa delegation (speaking on behalf of the NAMA 11 group of developing countries), considered the proposal unhelpful, provocative, fundamentally unfair, unbalanced and anti-development.

In response to a comment made by New Zealand that tariff reductions are helpful to growth in developing countries, South Africa said there is no theoretical justification for this assumption. It added that a recent study World Bank internal evaluation of its trade policy admitted the Bank had made serious policy errors in advocating steep tariff reductions in developing countries.

The report had concluded that the Bank had not taken into account the levels of economic development when it prescribed rapid liberalization, and the lowered tariffs had in some cases led to huge adjustment costs and de-industrialization.

Concerning the use of a simple Swiss formula, South Africa said that this kind of formula has the peculiar effect of cutting higher tariffs more steeply. It is highly aggressive, highly biased against high tariffs and as such highly biased against developing countries.

Faizel said it may be alright to start work with any formula, but the workings of the formula must be transparent. In practice, the proponents of the paper were obscuring and misrepresenting the Swiss Formula as a neutral formula which will cut each member's tariffs the same way.

In reality, the formula will tend to cut developing countries' tariffs more steeply. South Africa gave the example that a coefficient of 10 for New Zealand would result in an average 13% cut in its applied tariff, while a coefficient 35 for South Africa would result in an average cut in applied tariffs of 14%. Thus, even if applied tariffs are being considered, South Africa would have to cut its tariffs by more than New Zealand even if there was such a difference between their coefficients (10 versus 35). The difference would have to be even more if the consideration is on the basis of bound tariffs.

South Africa was using this example to demonstrate that the proposed difference of only 5 points in coefficients was very inadequate for taking into account the differences between developing and developed countries.

South Africa concluded that if the developed countries were really wanting high ambition in NAMA, they would not be expressing it by giving themselves a coefficient of only 10 which obliged them to undertake only low tariff cuts.

Moreover, by asking for coefficients with such a small difference, this is putting forward an assumption that developed and developing countries have become similar in competitiveness, development levels and industrial structures. In reality, said Faizel, the need for tariffs reflects a whole reality for developing countries, that we are not competitive, that they are important for maintaining industrial jobs, and that these tariffs cannot be reduced so significantly as we are not competitive and are vulnerable to the global economy.

Tariffs help developing countries to manage globalization, he added. By asking developing countries to remove their tariffs, the proposal is assuming that tariffs are neutral with regard to social impact. But this was not the case, as removal of tariffs could cause huge adjustment costs, job losses and de-industrialization.

India's Ambassador Ujal Singh Bhatia also attacked the proposal, saying it was very disappointing and it was unhelpful since it did not take the negotiation forward.

Argentina stressed that there was a lack of balance between the offers in agriculture and those in NAMA.

Generally, the opponents of the proposal said that the paper was moving the positions in NAMA far apart, is extreme, does not favour convergence and is unrealistic.

The EC supported the proposal, and also did not agree to lift the brackets in paragraph 8 of the July 2004 framework.

The US said that developed countries would do more than developing countries in this Round. The US added it would be politically impossible domestically to accept a situation in which the US would provide real market access including for sensitive products in exchange for no real market access for its products in other countries.

Korea supported a gap as narrow as possible between the two coefficients. New Zealand said even a low coefficient for developed countries would produce political difficulties because of restructuring of industries and a loss of jobs and votes.

The chairman concluded that members are clearly not ready to make progress or take decisions on this issue. It was painful to have this discussion but he could not avoid it. He added that the real negotiation has not started yet and he expected it would start next week.

He said he expected to have more consultations on a bilateral basis (confessionals in WTO jargon) on Monday 12 June and to go through the entire agenda of the negotiations by Tuesday, and to leave the later part of the week to discuss three core issues - the formula, treatment of unbound tariffs and paragraph 8 flexibilities for developing countries.

P.S.

* Martin Khor is from the Third World Network.