



## Doha Mandate:

*"We agree to 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 nontariff barriers, in particular on products of export interest to developing countries. 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, in accordance with the relevant provisions of Article XXVIII bis of GATT 1994 and the provisions cited in paragraph 50 below [on special and differential treatment for developing and least-developed countries]. To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations."*

(Paragraph 16 of the Doha Ministerial Declaration)

# Market Access for Non-Agricultural Products

Negotiations on non-agricultural market access (NAMA) are currently deadlocked, largely due to many Members' insistence on knowing the likely extent of agricultural trade reform before determining their level of ambition with regard to other key elements of the Doha Round. However, progress in this area - which some predict could become more challenging than that in agriculture - is crucial for the Hong Kong Ministerial to deliver a package acceptable to all Members in December 2005.

## Mandated Deadline

As part of the 'single undertaking', the NAMA negotiations will conclude when the Doha Round does.

## Background

The Negotiating Group on NAMA was established by the Trade Negotiations Committee on 1 February 2002.

Reducing tariffs and non-tariff barriers (NTBs) on industrial goods was the core of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT), and remains central to the negotiations agreed in Doha under the WTO. Most countries support this mandate, although many developing countries and, in particular, small economies are concerned about loss of tariff revenues, the potential weakening of their competitiveness and the expected erosion of preferential access margins vis-à-vis other developing country competitors. In addition, they generally feel that reductions in tariff and non-tariff barriers will disproportionately benefit developed countries given the current organisation of production, supply and market chains in international trade.

## Current State of Play

Currently, the basis for NAMA negotiations is Annex B of the 2004 'July Package'. Although the annex helped re-start the stalled discussions, it was much less specific than the agriculture text, simply placing an additional paragraph outlining developing country concerns in front of the Cancun NAMA text. The new paragraph stipulated that "additional negotiations are required to reach agreement on the specifics of some (initial) elements". These initial elements refer to the tariff reduction formula, flexibilities for developing countries, the treatment of unbound tariff lines, participation in sectoral initiatives and preferences.

By late October 2005, Members remained unable to agree on any of these elements, prompting some commentators to suggest that the real NAMA negotiations had yet to get underway. Once they do, a major factor affecting countries' negotiating positions will be the extent to which they have been affected by the end-2004 expiry of trade quotas for textiles and clothing. The liberalisation of this sector threatens to divide developing countries along the lines of expected beneficiaries and losers (see section on 'Textile and Clothing').

The Chair of the Negotiating Group, Ambassador Stefan Johannesson of Iceland, has asked Members to focus on three key elements in the negotiations leading up to the Hong Kong Ministerial: the formula, the flexibilities and unbound tariffs.

## Tariff Reduction Formula

Members cannot reach agreement on the NAMA negotiation modalities without finding consensus on the formula they will use to cut tariffs after the conclusion of the Round.

The July Package stipulates that tariff reductions on industrial products should be based on a non-linear formula applied to bound tariffs on a line-by-line basis; and that the base for reducing unbound tariffs should be set at two times the applied "most-favoured nation" (MFN) tariff. It also specifies that all specific duties (based on import volumes, e.g., US\$10/tonne) be converted to 'ad valorem equivalents' (AVEs), i.e. tariffs expressed as a percentage of the good's value, before the formula is applied.

All of the proposals for the tariff reduction formula are based on a 'Swiss' formula approach, or variations thereof. This methodology cuts higher tariffs more steeply than lower ones, and 'harmonises' tariffs by bringing them closer to a level that corresponds to the coefficient associated with the formula.

A major obstacle in the talks has been whether developing countries should have trade flexibilities for a formula structure that would allow them to make relatively lower cuts than rich countries through the use of different coefficients. According to paragraph 4 of the NAMA mandate set out in Annex B of the 2004 July Package, the tariff reduction formula should account for the needs of developing and least-developed countries, "including through less than full reciprocity in reduction commitments." Paragraph 8 provides for additional flexibilities that would allow developing and least-developed countries to retain some unbound tariffs and make tariff cuts on some products that are smaller than those required by the formula.

Eight proposals for the tariff reduction formula are on the table:

- The EU has proposed a simple Swiss formula with one coefficient

that would vary for developing countries depending on their use of paragraph 8 flexibilities in its application. Members opting for greater use of flexibilities would have a lower coefficient, and consequently would be required to make steeper tariff cuts.

- Norway proposes two coefficients, one for developed countries and another for developing ones, in association with a 'credit' system that would reward developing countries for making less use of the flexibilities by raising the value of their coefficient, thus lowering their tariff cuts.
- The US also proposes two coefficients, but would have the higher coefficient for developing countries replace all other flexibilities.
- Chile, Colombia and Mexico have put forward a proposal that would establish a menu of flexibilities, each option linked to one of a limited number of coefficients. This would allow developing countries to choose a balance among binding their tariffs, the ability to exclude some products from the tariff reduction formula, the implementation period for tariff cuts and the depth of tariff reduction (TN/MA/W/50).
- Two sets of countries have put forward proposals that link Members' post-reduction tariff levels to their existing average tariff rates. Argentina, Brazil and India (TN/MA/W/54), in addition to the average tariff level, provide for Members' coefficients to include a common component(s) based on the level of ambition in other areas of the negotiations. Building on this idea, a proposal from a group of Caribbean countries adds a new element for assigning Members 'credit' based on a list of development-related considerations, including their dependence on revenue from tariffs, degree of openness to trade, and economic vulnerability.
- Pakistan's proposal uses a simple Swiss formula with a coefficient of 6 percent for developed countries and 30 percent for developing countries - corresponding to each group's average tariff level. Developed countries have stated that the gap between the two coefficients is too wide and must be reduced substantially.

In an attempt to advance the discussions and provide clearer guidelines for Hong Kong, Chair Johannesson has proposed that Members start putting numbers into the different formulae. However, several countries have been expressed their reluctance to do this until the final formula to be used is agreed. In contrast, the EU and the US have recently suggested that developed countries reduce their maximum industrial tariff to 10 percent, and developing countries to 15 percent. While these proposals have not been discussed in the NAMA negotiating group, many developing countries - including Brazil and India - have categorically rejected the 15 percent tariff cap for developing countries, arguing that it would place a wholly disproportionate burden on them.

Developing countries are anxious that steep tariff reductions would worsen their balance of trade, since the cuts in their generally higher rates would not be matched by those made by industrialised countries. Some governments are concerned about the effects of deep tariff cuts on total revenue - according to IMF figures, import duties represented 15 percent of government revenue in developing countries between 1999 and 2001; in African least-developed countries (LDCs) this share was 34 percent.

Developing countries have also advocated a stronger focus on reducing tariff peaks - exceptionally high tariffs on certain products, often of critical interest to them, as well as tariff escalation, i.e. higher tariffs on products of higher added value. In addition, those that benefit from preferential access to rich country markets fear that further tariff reductions would negatively impact on the value of their preferences.

## Sectoral Approach

The July Package stipulates that further work is needed on sectoral liberalisation, which aims at agreement on deep tariff cuts/elimination in certain sectors, including on products of particular export interest to developing countries.

After several months of disagreement over the nature and sequencing of the proposed sectoral tariff liberalisation, discussions have proceeded in an informal manner in parallel with negotiations on the formula, although some countries - such as Brazil and India - have been reluctant to participate in any form. There is still no agreement on whether the approach should be voluntary, mandatory or based on a 'critical mass' approach under which Members could agree to tariff cuts/elimination for a specific good triggered by the assent of a target percentage of countries trading in that product.

Liberalisation proposals have been tabled for sectors such as gems and jewellery, bicycles and other sporting goods, and some information technology products.

### AVE conversion

Members have broadly agreed to follow the model used in the agriculture talks for the conversion of specific tariffs into price-based *ad valorem* equivalents (AVEs) - a mathematical exercise necessary in order to apply the reduction formula to such tariffs. They are determining their tariffs in percentage terms on the basis of their import volumes and the notified values for these imports that they submit to the WTO Integrated Database (IDB). Most WTO Members have fairly few non-*ad valorem* tariff lines for industrial goods - fewer than 7 percent - and are in the process of making the calculations.

### Non-tariff Barriers

Discussions on non-tariff barriers (NTBs) have lagged behind those on the tariff reduction formula and have tended to follow two themes. The first theme relates to the compilation of NTB notifications and their examination; the second concerns possible ways of categorising NTBs.

### Environmental Goods

In March 2002, Members decided that negotiations on "reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods" (paragraph 31(iii) of the Doha Declaration) would take place in the NAMA Negotiating Group, to be monitored by the Committee on Trade and Environment (CTE). At this stage, the CTE is still in the process of establishing a definition of what would qualify as an environmental good. Once this work is concluded, the NAMA Negotiating Group will be in a better position to determine how to address the issue (see Doha Round Briefing No.8 on trade and environment).

## Textiles and Clothing

Nearly half a century of voluntary and formal trade quotas came to an end on 1 January 2005 when textiles and clothing were fully integrated into WTO disciplines on industrial goods, marking the expiry of the WTO's Agreement on Textiles and Clothing (ATC). The ATC was created in 1995 as a transitional mechanism to phase-out the system of quotas known as the Multifibre Arrangement (MFA), which allowed developed countries to impose quantitative restrictions on imports from individual developing countries. Despite the ATC's schedule for phasing-out of quotas, on 1 January 2005 trade restrictions remained on nearly half of the tariff lines that had been under quota in Canada, Norway, the US and the EU in 1990. Since the liberalisation of the sector, developed and developing countries alike have been trying to assess the new trading environment and ease the adjustment process.

Developing countries account for half of world textile exports and nearly three-quarters of world apparel exports. Liberalisation of the textiles and clothing sector was considered one of the key gains for developing countries from the Uruguay Round, framed during the negotiations as a concession from developed to developing countries in return for agreements on intellectual property rights and services. Indeed, the International Textile and Clothing Bureau went so far as to estimate that liberalised trade in textiles and clothing would ac-

count for as much as one-third of the benefits that developing countries would realise from the round (G/C/W/495).

It has become clear, however, that not all developing countries have benefited from liberalisation. The guaranteed market access provided by the quota system gave many small economies and LDCs a larger share in the international textile trade than they would have had under a freely competitive regime. In these countries, many jobs essential to poverty alleviation and women's empowerment relied on this access, and some have been hit hard by the absence of quotas. On the other hand, larger developing countries such as China and Pakistan, whose exports were constrained by import quotas, have profited from the expiry of the ATC. They have been reluctant to support the efforts of vulnerable countries such as Turkey and Uganda to create adjustment mechanisms to soften the blow of freer trade. The liberalisation of the sector thus threatens to divide developing countries along the lines of expected winners and losers.

### Adjustment Costs Discussed at WTO

In the lead-up to the liberalisation of the sector, countries that expected to be affected negatively by the phasing-out of quotas began raising the issue at the WTO. Members including Bangladesh, the Dominican Republic, Fiji, Jamaica, Madagascar, Mauritius, Mongolia, Nepal, Sri Lanka, Turkey and Uganda asked the WTO Secretariat to consider adjustment mechanisms to minimise the adverse impacts of the transition. Many countries maintain that the WTO should attempt to address the liberalisation-related problems faced by small developing countries, including lower world prices, fierce competition from China and India, and the risk of losing markets in the US and the EU. In 2005, the issue was discussed in the Council for Trade in Goods and the Subcommittee on Least-developed Countries (LDCs).

In October 2004, Bangladesh, Mauritius, the Dominican Republic, Fiji, Madagascar, Sri Lanka and Uganda (subsequently supported by Jamaica, Nepal and Mongolia) tabled a submission (G/C/W/496) to the Goods Council. They requested the WTO Secretariat to prepare a study on adjustment-related issues and costs arising from quota elimination, as well as the establishment of a WTO work programme to discuss possible solutions to the problems identified in the study. Turkey proposed a range of solutions to deal with adjustment problems, including monitoring and safeguard mechanisms (G/C/W/497).

These were followed by a May 2005 submission from Tunisia (JOB(05)/31) and a new Turkish paper in July (G/C/W/522) that asked WTO Members to examine ways to stabilise market prices for foods, textiles, and clothing and to work with international financial institutions in establishing a funding mechanism to help countries that had benefited under trade quotas adjust to the new reality. It too proposed that adjustment-related textiles issues should be placed as a permanent item on the Goods Council's agenda.

Throughout the debate, China and India continued to argue against the idea of continued work in the Goods Council on textiles, insisting that the full liberalisation of the textile and clothing trade was a major achievement of the WTO and in developing countries' interests. They contend that measures such as increased private investment, improved preferential rules of origin in major importing countries and enhanced technical assistance from the International Monetary Fund and World Bank could help ease the transition to free trade. Opponents of a work programme on textiles in the Goods Council would prefer the issue to be discussed in the LDC Sub-committee, while non-LDC developing coun-

tries such as Turkey and Sri Lanka counter that the adjustment concerns affect all developing countries.

The LDC Sub-committee received a report in July 2005 from the WTO Secretariat entitled "Options for Least-developed Countries (LDCs) to improve their competitiveness in the textiles and clothing business". The report suggested that LDC exports could be increased by reducing developing-country import tariffs on textile and clothing products, either through non-reciprocal preferences or through regional trade agreements. However, several developing countries expressed reservations about liberalising their textiles and clothing sectors. Members concluded that LDCs needed targeted supply-side technical assistance to boost their competitiveness.

### **Adjustment efforts elsewhere**

Countries have taken specific measures to protect domestic markets and industries from newly-liberalised imports, particularly from China. On 10 June 2005, the EU and China signed a bilateral agreement - subsequently adjusted to allow for higher than anticipated imports into the EU during summer 2005 - that limits Chinese exports to the EU in ten categories of textile and clothing to between 8 and 12.5 percent growth until the end of 2007. As of October 2005, the US had imposed import restrictions on nine types of Chinese textiles imports under the textile-specific safeguard provided for in paragraph 242 of China's WTO Accession Agreement, which allows Members to limit imports of Chinese textiles and clothing products to an increase of 7.5 percent above the preceding year's import levels if they are found to disrupt markets. Turkey has invoked the clause to impose safeguards on 42 products and has implemented anti-dumping measures against China for seven different categories. Brazil is reportedly seeking a bilateral deal with China to restrain Chinese exports of textiles and shoes, as well as considering use of the textile-specific safeguard clause.

### **Effects begin to be felt**

As statistics are collated for the first half of 2005, it is becoming clear that the effect of liberalisation may not have been entirely as predicted. Warnings of the collapse of the sector in Bangladesh, for example, have been proven mostly wrong: on the whole, the industry is consolidating its capacity and several factories and sectors are expanding. Exports to the US have increased and overall apparel exports from Bangladesh rose dramatically in February and March 2005 compared to the year before. Cambodia has maintained its share in the global textiles trade, as its reputation for decent working conditions has helped attract and retain investment. Pakistan has benefited from the elimination of quota restraints. Turkey is fairing slightly better than once feared, but Indian ready-made garment exports fell by 24 percent in the first three months of 2005, well below expectations. The main losers, however, are countries in Sub-Saharan Africa, which had previously gained in employment, growth and investment under trade quotas coupled with preferential access to the US market through the 2000 African Growth and Opportunity Act (AGOA). They are now suffering from factory closures and the resulting job losses. In Lesotho, one of the world's poorest countries, several factories have shut down or scaled-back operations in the sector that was the country's single largest employer and accounted for more than 90 percent of its exports. Kenya reported a 13 percent drop in textiles and clothing exports between January and March 2005 compared with 2004 figures for the same period. Similar experiences are being reported in Madagascar, Morocco, Nigeria, Swaziland and Tunisia. Mexico also appears to be struggling in the post-quota environment, while many Central American countries are hoping that the implementation of the CAFTA-DR agreement will enhance their access to the lucrative US market.