Market Access for Non-Agricultural Products
Pakistan

The objective of this document is not to present any new proposal for NAMA modalities, but to put forward some ideas for closing the gaps between the current proposals relating to the key issues of tariff reduction formulae and treatment of unbound tariffs.

Tariff Reduction Formula

2. Broadly Speaking, the current proposals can be grouped in the following three categories:

- Swiss formula with a single coefficient but conditional flexibilities for developing countries to use the provisions of paragraph 8 of the July Framework (EU)
- Swiss formula with conditional flexibility of applying two coefficients (Norway; US) or four coefficients; (Chile, Colombia and Mexico)
- Swiss-type formula with multiple coefficients based on tariff averages and with paragraph 8 flexibilities

3. The first option is being advocated on the grounds that it is simple to understand and is ambitious. However, this approach places disproportionate burden on developing who would be obliged to make major cuts in their tariffs as against developing countries that may not be required to carry out any major adjustments or reductions in their tariffs if the coefficient for them is more than their average tariffs.

4. In the second approach, use of more than one coefficient is allowed for developing countries. However no criteria are indicated as to how those coefficients would be determined. It seems that the proposals of this category envisage that different coefficients should be "within sight of each other." Furthermore, flexibility allowed to developing countries (except in the case of the Norwegian proposal) through the use of another coefficient is conditional. Thus, many developing countries feel that the overall impact of these proposals may not be much different from the first proposal.

5. The. third approach is based on the current tariff profiles and is based on an objective criterion. Additionally, this approach is effective to deal with tariff peaks and tariff escalations of developed countries, which is one of the major which is one of the major objectives of this development round. However, this does not seem to be acceptable to developed countries and countries with low tariffs on the grounds that it favours those countries which have higher tariffs. It is also felt that this may not create any additional market access in some countries, which is the basic objective of this Round.

6. Since none of these proposals seem to command a wide support, there are two options. Either new approaches are considered or the gaps to the present proposals are bridged. Considering the time constraints and the fact that the limitations of the existing proposals are well known, Pakistan feels that the preferred way forward is to narrow the gaps rather than making fresh proposals. This should be done without making the formula too complicated and at the same time ensuring that the ambition of the Doha Round is not compromised. The result should be such that while providing additional opening of markets, it should not put disproportionate burden of restructuring of tariff rates for any group of countries

7. This median path could be achieved by the adoption of a simple Swiss formula with two distinct coefficients for developed and developing countries. These coefficients should be based on an objective criterion. This criterion could be based upon taking the over all average of tariff rates for developed countries and developing countries as their respective coefficients. These averages have been worked out to be 5,28% for developed countries and 29.12% for developing countries. For the sake of simplicity these could be taken as 6% and 30%.

8. Some of the advantages of such an approach are given below:

   i. It results in a proportionally same degree of tariff reductions amongst different countries;
   ii. It results in significant reduction of peaks and of escalations
   iii. It would cut higher tariffs much more than lower tariffs
   iv. It would make everyone contribute but everyone will gain through additional market access
   v. It is based on objective criteria.
   vi. WTO Members can clearly be aware of results of commitments they are undertaking

9. Based on the above proposal of a Swiss formula with two coefficients based on the tariff averages, simulation was carried out for the current bound as well as applied MFN rates. The results of this exercise are given in the annex to this document. As can be seen, such a formula would mean bringing of tariff rates of developing countries from average bound rates of about 35% and average applied rate of 25% to approximately 15% and lower. In the case of developed countries, average applied and bound tariff rates of 4% would come down to approximately 2%.

<u>Treatment of unbound tariffs</u>

10. For treatment of unbound tariffs, there are four proposals on the table:

   i. Multiplying the MFN applied rate of 2001 by [two] (July Framework)
   ii. Capping of new bound tariffs at a ceiling of 40% with an average of 25 % and no tariff reductions in this round for new tariff bindings (Malaysia)
   iii. Non-linear mark-up. Adding 5 percentage points (absolute) to each unbound rate (Canada, Hong Kong, China, New Zealand and Norway or CHNN proposal)
   iv. Marking up unbound lines by x times (to be negotiated) and binding tariff lines at an average level after the application of the formula (ABI proposal)

11. Countries with low unbound tariffs are reluctant to accept options i and iv i.e. marking up unbound tariff lines two times or x times as they feel that this unduly favours those countries which have higher unbound tariffs. The Malaysian proposal may be workable for many developing countries but countries with low bound tariffs feel that it conflicts with the July Framework, which requires that tariff reduction has to be comprehensive without “a priori” exclusion. The CHNN approach for non-linear mark-up could answer the concerns of those countries which have low unbound rates. However, the figure of 5

percentage points (absolute) seems to favour those countries which have low bound tariffs and is not acceptable to a majority of developing countries

12. Pakistan would therefore like to propose that instead of 5 percentage points, it should be 30 percentage points (absolute). In such a scenario there would be no need to exclude such marked-up rates from the application of the formula.

13. By this proposal unbound rates of 5% be market up to 35% and through application of a coefficient of 30 proposed at paragraph 7 above, it would get reduced to about 16% where it could be bound. This would give some policy space to developing countries with low unbound rates. For higher unbound rate of 100% and above it would result in lowering that rate to around 23% where it would be bound. Thus is would seriously reduce higher tariff rates and create additional market access without raising the cost so high to make it unacceptable

14. In addition to the built in less than full reciprocity in the formula, developing country Members will be eligible to the longer implementation period and other flexibilities as already agreed in paragraph 8 of the July package.