Negotiating Group on Market Access **08 June 2007**

MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Proposal by South Africa on the need for additional flexibility

1. South Africa is a member of the South African Customs Union (SACU) together with Botswana, Lesotho, Namibia, and Swaziland. SACU is the longest surviving customs union in the world. SACU shares a common external tariff (CET). The New SACU Agreement of 2004 envisions deeper integration including through the development of common policies in the areas of industry, agriculture and competition among others.

2. The Agreement further provides for the possibility that other Southern African States accede to the customs union. There is a wider process of regional integration in Southern African Development Community (SADC) that includes all SACU Members, and involves a range of other developing countries, least developed countries (LDCs) and small and vulnerable economies (SVEs).

3. SACU took deep cuts in the UR, reducing their bound rates to almost half the average for developing countries and are not in the same position as comparable developing countries. Notwithstanding sustained economic reforms and unilateral tariff liberalization since 1994, the applied rates for most sensitive sectors are relatively high with very little "water" in the tariff to absorb any deep cuts.

4. South Africa is deeply concerned at the potential negative effects of current proposals emanating from some developed countries in the WTO negotiations on non-agricultural market access (NAMA). Extraordinary high rate of unemployment will make the cost of any deep tariff cuts in its most sensitive sectors extremely costly in both social and political terms. The cuts could also foreclose industrial policy objectives particularly for the small and vulnerable economies.

5. We note with concern that the mandate guiding the NAMA negotiations (the Doha Declaration, the July 2004 Framework and the Hong Kong Declaration) have not acknowledged the situation of a developing country customs unions that include a developing country, three SVEs and an LDC.

6. We note the highly constrained flexibilities for developing countries under the July 2004 Framework. Under paragraph 8 of the July Framework, developing countries that are subjected to the Swiss formula cut can exempt 5% of their tariff lines from the formula cut so long as that does not account for more than 5% of their imports, or they may apply 50% of the formula cut on 10% of lines so long as that does not account for than 10% of imports. The 5% and 10% numbers are still not agreed.

7. We further note that LDCs are exempt from taking any tariff cut obligations under the July Framework. We further note that while SVEs may expect some additional flexibility under the tariff cutting modality, the details remain unclear.

8. Against this background, and in order to find a constructive solution to the issues we have raised, we reiterate the core mandate and core principles underpinning the NAMA negotiations as agreed in Doha, and further elaborated in the July

Framework Agreement (2004) and at the Hong Kong Ministerial Conference (2005). These include:

- That the needs and interests of developing countries are at the centre of the Round;
- "To reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as NTBs, in particular on products of export interest to developing countries" (*our emphasis*);
- "To take fully into account the special needs and interests of developing country and least developed country participants, including through less than full reciprocity (LTFR) in reduction commitments" (*our emphasis*); and
- Paragraph 24 of the Hong Kong Declaration that requires "comparability of ambition" in agricultural market access and NAMA, so that the coefficients for the formula in NAMA for developing and developed countries, result in average tariff percentage cuts comparable to the cuts in Agriculture.

9. These mandates and core principles provide the context for the negotiations on the central elements of the Formula, Coefficient and Flexibilities. The principle of Less Than Full Reciprocity (LTFR) is particularly important, as it requires that developed countries do more than developing countries in reduction commitments.

10. Paragraph 24 of the Hong Kong Declaration attempts to mitigate unfair negotiating proposals from major WTO Members who demand that developing countries reduce their industrial tariffs dramatically while accepting comparatively minor reductions in their own industrial tariff rates.

11. On the coefficient, therefore, the spread between coefficients for developed and developing countries shall be no less than 25 points.

12. On flexibility under paragraph 8 of the July Framework, we consider that greater flexibilities in terms of higher number of tariff lines and larger trade coverage will be required by developing country Members to address their specific situations.

13. In this context South Africa will be required to make formula cuts on the basis of a common tariff schedule and common external tariff, notwithstanding the fact that SACU includes a developing country (South Africa), three SVEs (Botswana, Namibia and Swaziland) and an LDC (Lesotho). South Africa, therefore proposes that the number in the brackets of paragraph 8 of the July 2004 Framework Agreement be expanded to accommodate our development needs.