

## THE MAY 2008 NAMA MODALITIES TEXT MADE SIMPLE

The new NAMA modalities text, issued by the chair of the negotiation on Non-Agriculture Market Access, makes the options clearer and provides greater room for members to negotiate, thus reflecting new positions and proposals of the last weeks of intensive consultations. This takes us a step closer to full modalities.

Here are the key elements of the document:

### Formula and flexibilities

Tariff reductions for industrial products would be made using a "simple Swiss" formula with separate coefficients for developed or for developing country members. But whereas the coefficient for developed members will be the same applicable to all of them, there will be three different coefficient options for developing members that will apply according to the scale of the flexibilities they choose to use. The lower the coefficient the higher the flexibilities and vice versa. A Swiss formula produces deeper cuts on higher tariffs. (A higher coefficient, as envisaged for developing members, means lower reductions in tariffs).

The Chair's draft modalities, still in square brackets (which means they are open to negotiation), contain these coefficients: 7 to 9 for developed members and between 19 and 26 for developing. But not all developing countries applying the formula would apply the same coefficient. The new modalities text proposes three different ranges: 19-21, 21-23 and 23-26. The use of the different ranges would depend on three new options:

- A member choosing to apply the most ambitious coefficient (the lowest in the range) would be entitled to "shelter" up to 12 to 14 percent of its most sensitive industrial tariff lines from the full effect of the formula, provided that these tariff lines do not exceed 12 to 19 percent the total value of its NAMA imports. These tariffs would be subject to cuts equal to half of the agreed formula reduction. As an alternative, the member can keep 6 or 7 percent of its tariff lines unbound or exclude them from tariff cuts, provided they do not exceed 6 to 9 percent of the total value of its NAMA imports
- A member choosing to apply a higher coefficient (the middle of the ranges of coefficients) would be entitled to "shelter" less products: up to 10 percent of its most sensitive industrial tariff lines from the full effect of the formula, provided that these tariff lines do not exceed 10 percent of the total value of its NAMA imports. These tariffs would be subject to cuts equal to half of the agreed formula reduction. As an alternative, the member can keep 5 percent of its tariff lines unbound or exclude them from tariff cuts, provided they do not exceed 5 percent of the total value of its NAMA imports.
- A member choosing to apply the highest coefficient will not have recourse to any of these flexibilities to partially or totally exclude tariff lines from the application of the formula.

The text introduces precisions for the possible treatment of:

- South Africa, to mitigate the impact of the formula, given the important commitments it took during the Uruguay Round (as a developed country).
- The Bolivarian Republic of Venezuela, who argued to be treated as a special case because of the very special concentrated structure of the country's exports.
- Customs Unions submitting a single list of flexibilities, concerning the calculation of the value of trade limitation affected by the flexibilities. Inter custom union trade would be excluded.

The text also contains the following:

- And anti-concentration mechanism, restricting the concentration of flexibilities that would shelter entire sectors from cuts.
- A new proposal to give additional points in the coefficient as a "credit" for developing countries participating in sectoral agreements.

The proposed coefficients would mean:

- The maximum tariff in developed countries would be less than 7 or 9 per cent, depending on the coefficient agreed. This would mean that developed countries would have bound tariffs at an average of well below 3 per cent, and tariff peaks below 7 to 9 per cent even on their most sensitive products.
- The majority of tariff lines for developing country members applying the formula would be less than 12 or 14 per cent, depending on the coefficient agreed and the flexibilities used. In the developing countries applying the formula, bound tariffs would be at an average of between 11 to 12 per cent, and only a limited number of developing countries would have averages above 15 per cent.
- The difference between bound rates and those actually applied (referred to as "the water" or "binding overhang" in the jargon of the negotiation) would be substantially reduced.

The tariff reductions will be implemented gradually over a period of four to five years for developed members and eight to ten years for developing members, starting 1 January of the year following the entry into force of the Doha results.

Overall, the approximately 40 members applying the Swiss formula (the others have special provisions) account for close to 90 per cent of world NAMA trade. Among these members, four are recently acceded members (RAMs).

#### **Unbound tariffs**

Since the base rate for the application of the formula is the bound rate, members with unbound rates can add a mark-up of 20 or 30 percentage points. This mark-

up would be added to their applied rate in effect on 14 November 2001 and would form the basis for the formula cuts.

#### **Recently acceded members (RAMs)**

Albania, Armenia, The Former Yugoslav Republic of Macedonia, the Kyrgyz Republic, Moldova, Saudi Arabia, Tonga, Viet Nam and Ukraine shall not be required to undertake tariff reductions beyond their accession commitments.

RAMs such as China, Chinese Taipei, Oman and Croatia subject to the formula would have a grace period of two to three years on those lines on which accession commitments are still being implemented, before commencing their Doha cuts. In addition, they would have an extended implementation period on all lines of two to five years to phase in their Doha commitments. The remaining RAMs qualify as small, vulnerable economies (SVEs) and may apply the modality envisaged for such members.

#### **Modalities for other developing members (around 75)**

The 32 poorest countries (Least-developed countries or LDCs) are exempt from tariff reductions; there are special provisions for 31 SVEs and for 12 developing countries with low levels of binding. As a result, relatively weaker developing economies will retain higher average tariffs and greater flexibility on how they structure their tariff schedules. But they will nevertheless contribute to the market access outcome, significantly increasing the number of bindings and reducing "the water" (the difference between bound rates and those actually applied) and binding a high number of their tariffs. Bolivia and Fiji are singled out as a special case. There are also proposed solutions for members with preferential access to developed country markets who would see their preferences erode because of the overall tariff reductions. As well, there are provisions for other developing members who would be impacted by such a solution.

#### **Sectors for deeper tariff reduction or elimination**

The Chair's text also notes that some members have been engaged in negotiations which would envisage undertaking deeper tariff reductions in some non-agricultural sectors. Through such agreements, tariffs might be reduced to zero in some developed countries, and in some cases with smaller reductions in participating developing countries as "special and differential treatment". These negotiations are voluntary, and would require a "critical mass" of countries joining the initiative for it to take off. There are 13 sectors currently under negotiation: Automotive and related parts; Bicycles and related parts; Chemicals; Electronics/Electrical products; Fish and Fish products; Forestry products; Gems and Jewellery products; Raw materials; Sports equipment; Healthcare, pharmaceutical and medical devices; Hand tools; Toys; Textiles, clothing and footwear.

#### **Non-tariff barriers (NTBs)**

NTBs, restrictive measures unrelated to customs tariffs that governments take (such as technical, sanitary and other grounds), are also part of the negotiation. Proposed legal texts have been submitted by members on some of these measures, and are compiled in the Chair's text. The Chair noted that a decision on whether these proposals move forward to a text-based negotiation would need to be taken at the time of final modalities. END