DOHA ROUND BRIEFING SERIES

Developments Since the Fourth WTO Ministerial Conference

The International Centre for Trade and Sustainable Development (ICTSD) and the International Institute for Sustainable Development (IISD)

Vol. 1 No. 4 of 13

February 2003

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 non-tariff 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."*

(Para. 16 of the Doha Ministerial Declaration)

Market Access for Non-Agricultural Products

Background

Reducing tariffs and non-tariff barriers on industrial goods was the core of multilateral trade negotiations under the 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 government revenue, the potential weakening of their competitiveness, and the expected erosion of preferential access margins vis-à-vis other developing country competitors. In addition, they have also been alarmed by reports indicating that reductions in tariff and non-tariff barriers will disproportionately benefit developed countries.

Mandated Deadlines

- By 31 March 2003, Members are to reach a 'common understanding' on a possible outline for negotiating modalities.
- By 31 May 2003, Members are to reach agreement on those modalities.
- By 1 January 2005, the negotiations are to conclude as part of the single undertaking agreed in Doha.

Current State of Play

Members are nearing the end of the first phase of submitting proposals on 'modalities' (i.e. overall tariff reductions and timeframes for achieving them) in preparation for an overview in early 2003, possibly to be circulated at the 19-21 February session of the Negotiating Group on Market Access. Much time was lost in the first half of 2002 wrangling over the deadline for reaching agreement on these modalities. As most countries' preferences are still evolving, they are not yet prepared to engage in a substantive debate.

At the end of 2002, fourteen WTO Members had submitted proposals outlining a range of market access priorities. They include primarily developed and advanced developing countries, namely: Canada, Chile, the EU, Hong Kong-China, India, Japan, Korea, Mexico, New Zealand, Norway, Oman, Singapore and the US. It is expected that the negotiations on non-agricultural tariffs will be based on bound tariff rates, i.e. maximum rates previously agreed to by each WTO Member, where these exist.

No Lack of Modalities Options

Modalities proposed to date include: a formula approach, where tariffs are reduced according to a mathematical formula (for instance, linear tariff cuts — i.e. reducing tariffs by an equal percentage across the entire class of products); a sectoral approach, where tariffs for certain sectors are either harmonised or eliminated; a 'request-offer' approach, where bilateral negotiations take place on specific tariff items, with results extending to all other WTO Members on a most-favoured nation basis; and various combinations of these.

Linear tariff cuts can be contrasted with tariff harmonisation, which brings different countries' measures in line with each other by requiring relatively large cuts in higher tariffs, and small cuts in lower ones.

South Korea, for instance, argues that basing negotiations on a formula approach "with limited use of the request-offer approach, when necessary" would bring about the greatest comprehensive tariff reductions for all Members (TN/MA/W/6). While agreeing that this approach could contribute to agreement in the short timeframe provided by ministers in Doha [i.e. 1 January 2005], Japan nevertheless acknowledges that developing countries' degree of development and competitiveness should be carefully considered before market opening commitments are locked in.

China, India and Kenya prefer a request-offer approach. Kenya has pointed out that many developing countries are not in a position to open their markets in a linear manner due to their weak industrial base, noting its concern over possible de-industrialisation, as well as revenue loss for the day-to-day functioning of governments.

Tariff Peaks and Escalation

A number of Members — primarily developing countries — think that reducing tariff peaks and tariff escalation should be a priority. Tariff peaks, i.e. exceptionally high tariffs on certain products (often those of critical interest to developing countries), and tariff escalation, i.e. higher tariffs on products of higher value added, are barriers to industrialisation in developing countries. China, India and Kenya have stressed the need for special and differential treatment for developing countries in this regard, as high tariffs on value-added goods impact most on poorer countries with weak industrial bases. The EU and Japan have also targeted the reduction of tariff peaks, although they appear less sanguine about reductions in tariff escalation.

A 50 percent import tariff on cotton fabric while the average tariff on textiles is 5 percent would be an example of a tariff peak, likely one put in place by a government that considered the cotton fabric-producing industry to need particular protection from imports. No import tariff on raw cacao beans, a 20 percent tariff on roasted ones, and a 60 percent tariff on chocolate bars would be an instance of tariff escalation, to the benefit of the domestic firms that import cacao beans to make the final product.

Non-tariff Barriers

New Zealand, identifying a number of non-tariff barriers present in WTO Members' trade regimes, has proposed that the Negotiating Group focus on identifying non-tariff barriers, as these pose a serious threat to further liberalisation of trade in industrial goods (TN/MA/W/4). Korea also wants different categories of non-tariff measures to be "clearly defined and listed up, while ways to identify individual non-trade barriers belonging to such categories should be agreed on at the outset of the negotiations." The Negotiating Group has tasked the Secretariat with preparing a common format to be used by Members when notifying non-tariff barriers, and Chair Pierre-Louis Girard (Switzerland) has called on Members to start clarifying the scope and treatment of non-tariff barriers to be addressed in the negotiations.

EU Advocates Flexible Approach

The EU's first submission (TN/MA/W/1) noted that while there were different ways to reduce tariffs, "the modality to be chosen has to bring about the greatest possible reductions across the board for Members." According to the EU, the most important goal of the negotiations should be to bridge the gap between applied and bound tariffs. In a later proposal, the EU ambitiously suggested that WTO Members agree to reduce all tariffs considerably by compressing them into a flatter range, thereby eliminating high tariffs and tariff peaks (normally viewed as tariffs in excess of 15 percent), and 'streamlining' tariff rates (TN/MA/W/11).

In an attempt to address developing country concerns, the EU advocated "significantly reducing tariff escalation on products of particular interest to developing countries." It also urged Members to agree to deeper cuts for textiles and footwear, with a view to bringing these tariffs within a narrow range as close to zero as possible.

With regard to non-reciprocal commitments, the EU called on all developed countries to grant tariff- and quota-free access for all products from least-developed countries no later than May 2003, and recognised that developed, developing and least-developed countries might follow different timetables for the implementation of their tariff commitments. Despite these development-friendly proposals, many developing countries noted that their markets could be flooded by goods from developed countries under the plan proposed by the EU. They wryly added that they would prefer to see the EU move more ambitiously on agricultural liberalisation.

US Zero Tariff Proposal Meets with Resistance

A US proposal submitted on 5 December envisages a two-phase approach to eliminating industrial tariffs by 2015 (TN/MA/W/18). By 2010, the US would like to see all tariffs of five percent or less and tariffs on highly-traded goods eliminated, while remaining duties would be reduced to less than eight percent. By 2015, remaining tariffs would be cut to zero. These efforts would be complemented by a reduction of non-tariff barriers. The US is planning to put forward a list of such barriers in January 2003. New Zealand agrees with this approach.

Some Latin American and Asian countries that maintain relatively high tariff rates — including Brazil and India — were critical of the US proposal, arguing against the increased competition that their domestic industries would face while their agricultural products would continue to be subject to steep barriers in the US market. The EU rejected the US proposal as "unrealistic", stressing that it failed to "take into account preoccupations of developing countries." WTO Director-General Supachai Panitchpakdi also noted that developing countries could face a disproportionate burden under a zero-tariff scheme, as many poorer economies maintained high tariffs on goods to protect their fledgling industries.

Environmental Goods

In March 2002, Members decided that negotiations on "reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods" (para. 31(iii) of the Doha Declaration) would take place in the Non-Agricultural Market Access Negotiating Group, to be monitored by the Committee on Trade and Environment (see also Doha Round Briefing on Trade and Environment).

The Negotiating Group on Market Access is still in an 'information gathering' stage with respect to its mandate to reduce or eliminate barriers to environmental goods. In response to a request from Members, the WTO Secretariat has produced a compilation of statistics on Members' trade in environmental goods (TN/MA/S/8) according to a list proposed by Japan (TN/MA/W/15). The Japanese list — itself based on lists from the Asia Pacific Economic Cooperation forum (APEC) and the Organisation for Economic Co-operation and Development (OECD) — is broadly similar to that discussed in the special session of the Committee on Trade and Environment (CTE). Other countries have been asked to bring lists of their own products to be included in a final list to be agreed upon by the Negotiating Group at a later date.

Objecting to the use of product criteria based on 'production and process methods' or PPMs, India, Malaysia and some others oppose the EU's intention to include in its list goods produced in an environmentally-friendly fashion. The general mood in the Negotiating Group sides more with the Indian view than with the EU, which has also highlighted its desire to negotiate deeper-than-average tariff cuts for products identified as environmental goods.

The US has argued, *inter alia*, for closer co-ordination between the CTE and the Market Access Negotiating Group in order to obtain greater market access for environmental goods (TN/MA/W/3). Korea has also noted the need for "reinforced co-operation with the CTE as well as among Members" when negotiating on market access for environmental goods, while Malaysia has warned that negotiations on environmental goods do not imply agreeing to environmental standards for various industrial products.

Implementation Concerns

A 29 October paper on implementation concerns by St. Lucia to the regular Committee on Market Access (G/MA/W/44) addressed Tiret 99 of the *Compilation or Outstanding Implementations Issues Raised by Members* (JOB(01)/152/Rev.1), which reads: "The General Council shall adopt measures designed to secure a redistribution of negotiating rights in favour of small and medium-sized exporting Members in trade negotiations."

St. Lucia's concern is that none of the negotiating modality approaches employed to date — including request-offer, across-the-board, zero-for-zero and 'cocktail' approaches — have secured outcomes which address the particular circumstances of certain small exporting Members. Echoing an earlier comment made by Kenya, St. Lucia emphasised that modalities should not be based on a one-size-fits-all approach or formula. Discussions will continue around this issue in the Committee on Market Access.

See Doha Round Briefing No. 1 on Implementation-related Issues and Concerns for an update on the Committee's discussions regarding the definition of 'substantive interest' in quota allocation.

Members' proposals can be found at http://docsonline.wto.org/ under TN/MA/W/.*

Documents produced by the WTO Secretariat (search for TN/MA/S/) include:*

- *Annotated Selective Bibliography of Research on Market Access (TN/MA/S/1/Add.1);*
- *Data Availability and Software Tools for Tariff Negotiations (TN/MA/S/2);*
- *Modalities of Tariff Negotiations (TN/MA/S/3); and*
- *WTO Members' Tariff Profiles (TN/MA/S/4).*

This series of **Doha Round Briefings** is published by the International Centre for Trade and Sustainable Development (ICTSD) and the International Institute for Sustainable Development (IISD).

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