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The WTO Negotiations on NAMA: TWN Statement at European Parliament

On 11 October 2005, the European Parliament's International Trade Committee, Brussels, held a public hearing on the WTO in its preparation for the WTO's Hong Kong Ministerial Conference to be held in December 2005.

The Third World Network's Director, **Martin Khor,** was invited to make a presentation as one of six experts at the hearing. He made a statement in the session on non-agricultural market access (NAMA). Below is the presentation.

Introduction

The issues at stake in the negotiations on market access for non-agricultural products are very crucial to the prospects of industrialisation in developing countries.

There are three aspects that need to be considered in industrial development:

The first is production and employment. Developing countries need to produce more industrial products and to employ more people in this sector to contribute to economic development. There is need to build the capacity of their industrial sector to produce. Many developing countries have relatively weak supply capacities, and this has to be corrected.

The second aspect is exports. It would be very good if developing countries can increase their industrial exports through better market access. However, market access is not a panacea as many countries do not have the supply capacity to take advantage.

The third aspect is imports. Further liberalisation will enable imports to enter faster and at cheaper prices. This would reduce consumer prices. However, cheaper imports can also cause serious disruptions and dislocation in the industrial sector of developing countries. Many local firms and industries are still too weak to withstand full import competition. In many developing countries rapid import liberalisation has led to reduced production and closure of local firms and job losses, whilst there has been no evidence of shifting of the displaced capital or labour to more efficient industries. In these countries, there has been a process of "deindustrialisation". There has also been significant loss of government revenue due to tariff reduction.

What is of importance to developing countries is the maintenance and development of their indus-

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trial sector, which means more industrial output, better technology, and more manufacturing jobs. The development of the industrial sector in developing countries must be the major objective of the NAMA negotiations.

Recent Experiences of Liberalisation and Industrial Performance

According to the orthodox approach used by the Bretton Woods institutions, and often assumed within the WTO, import liberalisation necessarily has positive effects on developing countries. Consumers benefit from cheaper imports, and local producers become more efficient under import competition or else shift to another sector in which they have comparative advantage. Any adjustment costs are taken as temporary. From this perspective, the faster and deeper is the liberalisation, the greater the benefits.

In the real world, there are countries that benefit from (or at least do not suffer from) import liberalisation, where the local industries could withstand import competition and increase efficiency, whilst the consumers enjoy real income gains from cheaper products. However, many other countries have experienced negative effects from liberalisation. The effects of liberalisation depends partly on the conditions present in the liberalizing country, the rate of liberalisation, the sectors chosen, the sequencing, and so on. Countries that liberalise too fast or in the wrong sectors may end up with damage to local firms and industries and labour retrenchment. The adjustment that is assumed to take place automatically in many cases does not take place or is of an inadequate extent. The result could be deindustrialisation, net job loss and a worsening of the trade deficit. There is no automatic link between liberalisation and industrial growth or income growth. When conditions are not present for success, or when the liberalisation process is done incorrectly, there can be significant adverse effects.

UNCTAD's Trade and Development Report 1999 showed that "big bang liberalisation" contributed to developing countries (excluding China) increasing their average trade deficit by 3 percentage points of GDP between in the 1970s and 1990s (while the average growth rate was lower by 2 percentage points). "It (trade liberalisation) led to a sharp increase in their import propensity, but exports failed to keep pace, particularly where liberalisation was a response to the failure to establish competitive industries behind high barriers. With the notable exception of China, liberalisation has resulted in a general widening of the gap between the annual growth of imports and exports in the 1990s."

Recent studies by academics have also provided increasing empirical evidence of many developing countries experiencing these negative consequences. Professor Edward Buffie's book "Trade Policy in Developing Countries" has collated what he calls "the most disturbing evidence" of post-1980 liberalisation episodes in the African region:

- Senegal experienced large job losses following a two-stage liberalisation program that reduced the average effective rate of protection from 165% in 1985 to 90% in 1988. By the early nineties, employment cuts had eliminated one-third of all manufacturing jobs (Weissman, 1991; African Development Bank, 1995, p.84).

- The chemical, textile, shoe, and automobile assembly industries virtually collapsed in Cote d'Ivoire after tariffs were abruptly lowered by 40% in 1986 (Stein, 1992). Similar problems have plagued liberalisation attempts in Nigeria. The capacity utilization rate fell to 20-30%, and harsh adverse effects on employment and real wages provoked partial policy reversals in 1990, 1992, and 1994.

- In Sierra Leone, Zambia, Zaire, Uganda, Tanzania, and the Sudan, liberalisation in the eighties brought a tremendous surge in consumer imports. The effects on industrial output and employment were devastating.

- The beverages, tobacco, textiles, sugar, leather, cement, and glass products sectors have all struggled to survive competition from imports since Kenya initiated a major trade liberalisation program in 1993.

- Manufacturing output and employment grew rapidly in Ghana after liberalisation in 1983 increased access to imported inputs. But when liberalisation spread to consumer imports, employment plunged from 78,700 in 1987 to 28,000 in 1993 as "large swathes of the manufacturing sector had been devastated by import competition"

Other regions have undergone similar experiences. According to the author: "Liberalisation in the early nineties seems to have resulted in large job losses in the formal sector and a substantial worsening in underemployment in Peru, Nicaragua, Ecuador and Brazil. Nor is the evidence from other parts of Latin America particularly encouraging."

The record shows that wrongly implemented liberalisation can devastate local industries, contradicting the orthodox theory that import liberalisation necessarily leads to growth.

The Use of Tariffs for Industrial Growth

There is a myth that rich countries and successful developing countries industrialised because they had low or zero tariffs, and that the lower the tariff the higher the industrial growth.

In fact, developed countries have made use of high tariffs to protect their industries during their industrialization phase. Also, the successful East Asian economies of Taiwan, South Korea and Japan resorted to tariff measures to pursue their industrial development. Two recent papers, by Ha-Joon Chang (Cambridge University), and by Yilmaz Akyuz (former Chief Economist, UNCTAD) have demonstrated this.

For example, the US maintained average applied industrial tariffs of 40 to 50 per cent from 1820 to 1931. France had average tariffs of 20 to 30 per cent in 1913 to 1931. Spain had 41% tariff in 1913 and 1925, rising to 63% in 1931. Germany's tariff was 20-21% in 1925 and 1931 and 26% in 1950 (Chang, 2005).

The US had 44% tariff in 1913 when its per capita income (at 1990 prices) was $5301, and 14% tariff in 1950 when its per capita income was $9561. Germany had 26% tariff in 1950 when its per capita income was $3881, and the UK's tariff in 1950 was 23% ($6907 per capita income). In 2001, the average applied tariff was 13.6% for LDCs ($898 per capita income), 8.1% for developing countries ($3260 per capita income), 10.4% for Brazil ($5508 per capita income), 12.3% for China (3728 per capita income) and 24.3% for India ($1945 per capita income). [Per capita incomes are on a PPP basis at 1990 prices] (Akyuz 2005: p.14).

Asking developing countries to reduce their tariffs to very low or zero levels is akin to industrial countries, having reached the roof, kicking away the ladder which others are climbing.

The ability to use tariffs for industrialization is all the more important since the use of other tools (which other countries had used during their industrialization) are also recently constrained by WTO rules, for instance on TRIMS and subsidies. Also, for many developing countries, custom revenues constitute 20 to 30% or more of government revenue, while for developed countries this is less than 1%. Cutbacks on government revenue could result in a decrease in social spending such as on health and education.

Another relevant point is that developing countries need the policy space and flexibility to be able to modify its tariff levels at various phases of industrialization, as Akyuz (2005) has shown. In an early phase, a country would be wise to have higher tariffs on consumer goods it wishes to produce, while having low or zero tariff on inputs and machinery. In a second phase, it can lower the tariff on consumer products as it gets more efficient, while raising tariffs on inputs that it may now want to produce. In a third phase it may increase the tariff on machinery so as to produce capital goods, while reducing tariffs on consumer goods and inputs. In an advanced phase it can afford to have low tariffs on the various categories of goods. Thus, it should not be the case that countries bind tariff at low or zero levels on products it does not presently produce. It should have the space to increase its applied tariffs in some products as it develops. It is important to maintain the policy space, i.e., a difference between the bound and applied rates.

The Desired Outcome in NAMA

In the Doha Ministerial Declaration, on which the Doha Work Programme (DWP) is based, the Ministers stated that they seek to place the needs and interests of developing countries at the heart of the Work Programme. Thus, this has been termed the Doha Development Agenda and lately the Development Round.

For the DWP to live up to its "development" status, each component should indeed place development concerns at the centre. NAMA is a major component. To be at the service of development, the NAMA negotiations and outcome should contribute to the industrial development of the developing countries, ensure the viability of their local industrial enterprises, increase industrial jobs, enable maintenance of government revenue, facilitate an increase in export opportunities. The outcome should ensure that developing countries can maintain or expand the national policy space, policy options and policy instruments that promote industrial development. Therefore, the outcome should ensure that developing countries will not be expected to make commitments that are inconsistent with their development, financial and industrialisation needs.

An exercise in liberalisation should be a means to achieve (and be in line with) these goals. The ob-

jective is development. It is not the maximum degree of import liberalisation in developing countries.

The Doha Mandate on NAMA

Paragraph 16 of the Doha Ministerial Declaration on NAMA states that 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."

It is clear that special and differential treatment (SDT) and less than full reciprocity (LTFR) in commitments are major principles in the NAMA mandate. LTFR should not be narrowly interpreted as merely a lower rate of tariff reduction for developing countries vis-à-vis developed countries. The two provisions cited in the Doha Declaration in support of this LTFR are the following:

- Article XXVIII bis of GATT 1994. Paragraph 3 of this Article states that "Negotiations shall be conducted on a basis which affords adequate opportunities to take into account: (a) needs of individual contracting parties and individual industries; (b) the needs of less-developed countries for a more flexible use of tariff protection to assist their economic development and the special needs of these countries to maintain tariffs for revenue purposes; and (c) all other relevant circumstances, including the fiscal, developmental, strategic and other needs of the contracting parties concerned."

- Paragraph 50 of the Doha Declaration states that the negotiations shall take fully into account the principle of special and differential (S&D) treatment for developing and least-developed countries embodied in Part IV of GATT 1994; the Decision of 28 November 1979 on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries; the Uruguay Round Decision on Measures in Favour of LDCs and other relevant WTO provisions.

In relation to the provisions mentioned in Paragraph 50, the following are among the more relevant:

(a) The non-reciprocity principle was established in Paragraph 8 of Article XXXVI, which is in Part IV of the GATT. Paragraph 8 states that: "The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less developed contracting parties". An interpretative note to this paragraph adds that the developing countries "should not be expected, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs, taking into consideration past trade developments".

(b) The concept was further elaborated in the Tokyo Round Decision on "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries", also known as the "Enabling Clause", which was adopted on 28 November 1979. It states: "The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries i.e. the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make concessions that are inconsistent with the latter's development, financial and trade needs...Having regard to the special economic difficulties and the particular development, financial and trade needs of the least-developed countries, the developed countries shall exercise the utmost restraint in seeking any concessions or contributions for commitments made by them to reduce or remove tariffs and other barriers to the trade of such countries, and the least developed countries shall not be expected to make concessions or contributions that are inconsistent with the recognition of their particular situation and problems." (GATT, BISD, 26 Supp. p.204)

It is clear that the LTFR principle entails that developing-country Members should be fully enabled to exercise their rights to make decisions on their commitments which they consider to be consistent with their development, financial and trade needs, and that they cannot be expected to make commitments inconsistent with their needs, their particular situation and problems.

Background to NAMA negotiations and Text

The NAMA negotiations began in early 2002 at the WTO. Drafts of a Ministerial text for Cancun were produced, with the final one being issued at

Cancun on 12 September 2003 by the Mexican Trade Minister (Derbez). There continued to be strong differences of views on this text, as there were on previous drafts. As is well known, the Cancun meeting ended without any agreement. Following Cancun, the NAMA discussions continued to be divisive, with the Chairman of the NAMA negotiating group making use of the Derbez text on NAMA as the basis for negotiations, while many members (especially the African and Caribbean countries) were very critical of the Derbez text, and requested that a different approach be used instead. The controversy increased when the Chairman insisted on placing the Derbez text unchanged as the NAMA framework document in the draft of the "July Package". Despite the strong objections of the ACP Group (whose Ministers strongly criticised it at a Ministerial Conference just a few weeks before the WTO July meeting), the Derbez text ended up as Annex B of the July Package. However, a new paragraph 1 which was heavily negotiated was added to the front of the Derbez text on NAMA, which enabled the objecting developing countries some space with which to continue to negotiate important elements contained in the Derbez text. It is thus important to note that the NAMA annex in the July Package has had a troubled and controversial history.

The History of and Case for a Flexible Approach

Up to now the developing countries in particular have had significant flexibilities and policy space in determining their pace and scope of liberalisation in industrial imports in GATT and WTO. In the history of GATT and the WTO up to the Uruguay Round, WTO members have not been subjected to a single formula approach in tariff reduction. There was flexibility, particularly for developing countries, to choose (i) the scope of their tariff bindings (the number of products to be bound); (ii) the level at which the bindings are to take place; and (iii) and the rate of tariff reduction in each tariff line.

In the Uruguay Round, developing countries were given a overall target of 27% average reduction. The negotiations were conducted using the request-offer technique. Within this parameter, countries could choose the rate of reduction in each tariff line. There was flexibility to assign different rates of reduction to each tariff line as long as the overall average reduction target was met.

In the earlier rounds, the developed countries also had significant flexibility. Negotiations took place mainly through the request and offer approach and there were no general targets or formulae. In the Tokyo and Kennedy Rounds there was a linear formula used for the first time by developed countries. In the Uruguay Round, there were proposals for a Swiss formula but countries, in particular, the US, objected to its application as it still had high industrial tariffs. In the end, countries agreed to an average 33% reduction through a formula of their choice, whilst the US "stuck to its approach of following the request-offer, item by item, technique" (Hoda 2001, p36). With regard to the Uruguay Round, according to the WTO report, "Market Access: Unfinished Business"(2001): "The average tariff on developed countries' imports of industrial products was cut by 40% on imports from all sources and by 35% on imports from developing countries. For developing countries the reductions averaged 25% for industrial products imported from developed countries and 21% for industrial products imported from developing countries. These tariff reductions, it should be noted, were negotiated line by line rather than through the use of a formula approach."

Therefore the proposed adoption of a Swiss or Swiss type formula for tariff reductions, binding on all Members in the current negotiations would be an unusual and major departure for developing countries, which does not correspond to their level of economic development. Developed country members have taken a significant period of time over successive rounds to have their levels of tariffs reduced gradually in line with their own economic growth, and up to now have not been subjected to a Swiss formula approach themselves. For this reason, developing countries cannot therefore be denied the necessary flexibility required for their development.

Given the above, WTO members should not assume that a formula approach must be adopted during the current negotiations. Developed countries enjoyed flexibility and did not adopt a harmonization approach even in the Uruguay Round. It would not be appropriate to impose a general formula applicable to all countries in the current negotiations. Developing countries should be allowed to choose the rate and type of liberalisation appropriate to their needs, as called for by the ACP Trade Ministers.

Erosion of Development Flexibilities Under Current NAMA Negotiations

There is a danger that developing countries will be required to drastically lower their tariffs, in excessive degrees, under the current NAMA negotia-

tions. The existing flexibility in the use of tariffs and in tariff liberalisation would be removed. The application of July Package Annex B on NAMA would erode flexibilities for developing countries through the following:

- The requirement to bind all (or almost all, i.e., 95%) tariffs.
- Unbound tariffs will be subjected to extremely harsh treatment (para 5 tiret 2). For an unbound tariff, the applied rate will be multiplied by (two) to obtain the base value and the formula will be applied. Many developing countries have low applied rates (partly due to structural adjustment), and will end up with their unbound tariffs being bound at very low levels, many even below the present applied rate.
- Very sharp reduction of tariffs through a Swiss formula (para 4). The developed countries members such as the US, EU and Japan have been pushing for a very dramatic reduction in the level of tariffs generally through the use of the Swiss non-linear formula, with higher percentage cuts the higher the tariffs. Since developing countries have on average higher bound tariffs, they would most likely reduce their tariffs at higher rates than developed countries. This would contradict the LTFR principle, even if narrowly defined.
- The formula cut will apply line by line, to each product (para 4). This largely eliminates the flexibility of the obligation of an average reduction, as was the case during the Uruguay Round.
- Very limited "flexibilities" available for developing countries (para 8). They can choose only one of three options: either to have 5% of tariff lines unbound (limited to 5% of total import value); or be exempt from formula cuts for 5% of tariff lines (limited to 5% of total import value); or have less than formula cut (but up to 50% of the formula reduction rate) on 10% of tariff lines (limited to 10% of total import value).
- Elimination of tariffs in selected sectors in a "sectoral approach". Developing countries argue that participation should be voluntary.
- Even the use of the limited flexibilities is being contested, by some countries arguing for a trade off, i.e., that a developing country would forgo the use of flexibilities if they want to avail themselves of a more lenient formula reduction. The US agrees to dual coefficients (for developed and developing countries) only if flexibilities are removed. The EC argues for a single coefficient, with developing countries earning credits for lower reduction if they forgo flexibilities.

In particular, the Swiss formula would have a drastic effect. Developed countries have an average bound rate of 5% and developing countries around 30%. Using a single coefficient of 15 would lead to the developed countries' average tariff being reduced from 5 to 3.75%, while the developing countries' average would fall from 30 to 10%. The developed countries' average tariff would fall by only 1.25 percentage points, and by 25%. The developing countries' average tariff would fall by 20 percentage points and by 67%.

A central drawback of the formula is that Members make reduction commitments by a certain percent. Basing a formula on the basis of percent reduction may seem equitable, but in fact it is not so. This is because those countries that in general have higher tariffs would have to reduce their tariffs by more, in percentage points, even if all countries reduce their tariffs by the same percent. In effect, the countries with higher tariffs would be undertaking higher commitment. This may be so, even if they are allowed a lower percentage reduction. Since developing countries have in general much higher tariffs than developed countries, the developing countries would be making far higher commitments than the developed countries.

Let us take an example to illustrate this point. Developed country A has an average industrial tariff of 4% while developing country B has an average tariff of 40%. If both are asked to reduce their tariffs by 50%, then the tariff of A would reduce from 4 to 2 percent, while the tariff of B would drop from 40 to 20 percent. A's tariff falls by only 2 percentage points whilst B's tariff falls very significantly by 20 percentage points. The differences in the effects of this are vast.

In the example, B is exporting a product to A at the price of $100; and A is selling a product to B also at $100. Country A imports the product at $100 and used to sell it at $104; after tariff reduction the price falls to $102. Although the tariff is reduced by 50%, it is reduced by only 2 percentage points, and the sale price falls only slightly by 1.9%, from $104 to $102. Country A loses only a small amount of customs revenue. Also, the increase in market access in A for the product of B is very small, as the price has fallen by only 1.9%.

Country B imports the product at $100 and used to sell it at $140; after tariff reduction the price falls to $120. Due to the tariff reduction of 50%, the tariff is reduced by 20 percentage points, and the sale price falls significantly by 14.3% from $140 to $120. This would mean that market access to B for the product of A would increase significantly as a 14% fall in price can be expected to increase the demand

for the imported product. The local producer would also face stiff competition from the import.

The above example uses a linear formula. Should a Swiss formula apply, the imbalance is much heightened as the developing country with 40% tariff would face a reduction percentage rate much higher than the developed country with a 4% tariff. With a coefficient of 15, the developed country would reduce by 20% and the developing country by 73%.

Under the formula approach, developing countries would be at a disadvantage and would suffer losses in the following ways:

(a) Developing countries have higher bound tariffs than developed countries, and would thus have to make greater commitments in tariff reductions in percentage and even more so in percentage points

(b) Market access to developed countries would be increased only marginally for the products of developing countries in general, due to the generally existing low tariffs in developed countries. In contrast, market access to developing countries would be increased very significantly. There would thus be imbalance in the increase in market access between developed and developing countries

(c) Developing countries will suffer a significant decline in customs revenue, with adverse effects on their fiscal situation and social spending.

(d) The very significant decline in tariffs in percentage points would lead to very significant price declines for imported products. This can be expected to compete effectively with local products, leading to loss of market share or closure of local industries and significant loss of jobs.

(e) Many developing countries can expect imports to grow more than exports, with adverse effect on the trade balance, with potential to increase debt problems.

Defining Reciprocity and "Less than Full Reciprocity"

In view of the above, the meaning of "less than full reciprocity" should be properly defined and operationalised.

If "less than full reciprocity" is defined only as a higher coefficient in a Swiss formula, it would still result in developing countries having higher percent tariff cuts, unless the coefficients are sufficiently far apart. Even if coefficients are agreed on that lead to lower percent reduction of developing countries' tariffs, the result will still be that developing countries will make relatively heavier commitments than developed countries, i.e. they will make more than full reciprocal commitments. Therefore "percent reductions in tariffs" should not be the basis for calculating the relative commitments of developing and developed countries.

A definition of "reciprocity" which is closer to our meaning can be found in the traditional method of product-by-product "request and offer" that was a common practice in previous GATT Rounds on industrial tariff negotiations. As described by the international trade expert Bhagirath Lal Das (1998, 1999), reciprocity was achieved by tariff cuts on both sides in a way that equalised the reduction of total customs duty on each side. Reciprocity means an equalising of loss of customs revenue. It is proposed that this definition of reciprocity be explored as part of a more useful and appropriate method in the modalities. In this sense, "less than full reciprocity" means that developing countries should be expected to have less reduction in customs revenue as compared to developed countries.

As a central part of the modalities, developing countries should be allowed to apply the request-offer method if they so choose to do so, rather than abide by a standard formula approach.

The Uruguay Round approach, of requiring countries to attain an overall target of reduction, rather than using a formula or a line by line approach, is much more appropriate.

Finally, in the context of "taking fully into account the special needs and interests of developing and least developed country participants", the meaning of "less than full reciprocity in reduction commitments" should be taken to mean the following:

(a) Developing countries should not be obliged to make equal commitments as developed countries, and in fact should be entitled to make less reduction commitments;

(b) These lower commitments should also translate into higher benefits for developing countries, in comparison to the developed countries;

(c) In line with para 2 of the Doha Declaration, the higher benefits to developing countries should also translate into an increased share in global exports of non-agricultural products.

(d) At the least, higher benefits to developing countries should mean that the modalities should result in their having a positive effect in the trade balance (exports minus imports) of these countries. The modalities would be inappropriate if they lead to a worsening of the trade balances of developing countries.

In other words, "taking into account the developing countries' needs and interests" and their being enabled to enjoy "less than full reciprocity in commitments" must be operationalised in having the appropriate modalities. The test of the appropriateness or otherwise of the modalities is whether the methods and modalities being proposed lead to tangible benefits for developing countries. Therefore "less than full reciprocity in commitments" must be operationalised to become "more than reciprocal or more than average trade benefits for developing countries " in results and in practice.

One of the best estimates of benefits and costs is the effect that a proposed modality will have on a country's exports and imports. The modalities should lead to developing countries having a more positive trade balance.

Conclusions

The current NAMA framework (Annex B) is inappropriate for meeting the desired goals of facilitating industrial development in developing countries.

The aim of the developed country members, including the EU, seems to be to effect the sharpest possible reduction in bound as well as applied tariffs in developing countries.

The proposed outcome would seriously erode the present flexibilities available to developing countries.

A standard tariff-reduction formula to apply to all affected members is inappropriate. This is all the more inappropriate when a non-linear Swiss formula is chosen and hat it applies line by line.

The flexibilities remaining, as provided for in para 8 of Annex B, are too limited and even then there are proposals to further limit these flexibilities or even remove them.

Moreover there is a double standard in that the EU is against application of a Swiss formula in agriculture, where it is argued that the EU itself requires time for adjustment, and the EU proposes several flexibilities such as special treatment for "sensitive products" and flexibilities in applying a formula rate within a range. However, there is no sensitivity to the effects on developing countries of a Swiss formula in NAMA or their need for flexibilities.

There should be a rethinking of the modalities as Annex B is inappropriate and potentially extremely damaging to the industrial prospects of developing countries.

A more suitable approach for developing countries is that of the Uruguay Round, in which developing countries commit to reduce tariffs by an overall and average target rate.

During the Uruguay Round, members could choose the method by which to cut their tariffs, as long as they meet the minimum target.

Thus, members that choose to apply the Swiss formula to themselves can also choose to do so. But developing country members should not be obliged to do so.

There should also be adequate flexibility in the treatment of unbound tariffs. The Annex B method of multiplying by two the applied rate and then applying the formula is unsuitable. Members should have the flexibility to retain a significant percent of their tariff lines unbound, and also to bind their unbound tariffs at levels of their choice, as is the current system.

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