Swiss formula versus abi formula: An Attempt to Harmonize Methods of Negotiating Tariff Reductions

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Abstract

This paper attempts to harmonize the methods proposed by different member nations of World Trade Organization regarding the tarrif reductions. A number of measures are possible for negotiations regarding tariff reductions. Some are more common than others. Some are based on formulas. Even after a method or combination of methods has been agreed, the final outcome for each product can depend on bargaining between countries over the tariff rates for those specific products. But all these formulas have remained a bone of contention ever since they were tabled in World Trade Organization.

This paper has tried to analyze Two Basic Formulas proposed by the member nations. These two have come from the extreme poles i.e., the developed and developing nations on the opposite fronts. One is SWISS Formula, proposed by the Swiss Delegation to the World Trade Organization in the 1973–79 Tokyo Round negotiations of GATT , and the other is the ABI Formula {Argentina, Brazil, and India} representing the developing nations. In fact these formulas are mathematical by nature, containing two coefficients, one for developing and the other for the developed member nations. Both of these formulas have been designed to cut and harmonize tariff rates in international trade in their own way. This paper expatiate the structure of the formula to be applied for tariff reductions. The formula is a fundamental element of the negotiations and a key modality in the tariff reduction exercise. The aim of this paper is to have a harmony on modalities regarding tariff reductions.

Keywords. *Tariff, Negotiations, WTO, Swiss Formula, ABI Formula*

1. Introduction

This paper attempts to harmonize the methods proposed by different member nations of World Trade Organization regarding the tariff reductions. A number of measures are possible for negotiations regarding tariff reductions. Some are more common than others. Some are based on formulas. Even after a method or combination of methods has been agreed, the final outcome for each product can depend on bargaining between countries over the tariff rates for those specific products. But all these formulas have remained a bone of contention ever since they were tabled in world trade organization during different ministerial conferences

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ministerial conferences

This paper has tried to analyze ***two basic formulas*** out of five formulas proposed by the different member nations for tariff reduction. These two have come from the extreme poles i.e., the developed and developing nations on the opposite fronts. One is ***SWISS Formula***, proposed by the Swiss delegation to the World Trade Organization in the 1973–79 Tokyo Round negotiations of GATT, and the other is the ***ABI Formula*** {Argentina, Brazil, and India} representing the developing nations proposed on 25-4-2005. In fact these formulas are mathematical by nature, containing two coefficients, one is for developed and the other is for the developing member nations. Both of these formulas have been designed to cut and harmonize tariff rates3 in international trade in their own way4. This paper expatiate the structure of the formula to be applied for tariff reductions. The formula is a fundamental element of the negotiations and a key modality in the tariff reduction exercise. The aim of this paper is to have a harmony on modalities regarding tariff reductions.

The need for tariff reduction is required not only for agriculture sector but also for non – agriculture sector. This paper puts main stress on the tariff reduction on non-agriculture goods. Both Developing Nations and Developed Nations have imposed import tariffs on these goods

Some members want to set **principles**:

a. Administration methods should be practical, predictable, transparent;

b. They should allow trade to take place on a commercial basis;

c. It should ensure full market access,

d. Allocations to specified countries should be phased out.

2. History of the Formula

Since the creation in 1948 of the multilateral trading system and the WTO's 5 6predecessor the General Agreement on Trade and Tariff, average tariffs in the industrial world have fallen from roughly 40% to less than 4%. Trade in manufactured products constitutes about 70% of total world trade and these tariff reductions have driven explosive trade growth. Since 1948 trade has increased nearly 20 fold with developing countries seeing their share of world trade rising to 31%. Different systems of tariff reduction have been used in various trade rounds.

In 1967, The **Kennedy Round**7, concluded and at that time, the tariffs faced cuts with **a straight linear reduction**.

In the **Tokyo Round**7, which concluded in 1979, a **"Swiss" formula**1 was used, under which the highest tariffs were reduced by the widest margin.

In the **Uruguay Round**there were **mixes of approaches** utilized with the objective being an overall average cut in tariffs of one-third.

- "Uruguay Round approach", which is **"linear**" 8, i.e. has offered reduction of similar percentage apart from pre-decided starting tariff rate. A target was to meet simple average and Variations are also introduced in case of specific products categories. A provision of negotiation was also made in reduction rates in case of export and export subsidies and few others issues.
- The purpose was very much clear to assist least-developed countries and to build up their capacity to participate in negotiation activities. All GATT rounds have facilitated in terms of declining custom duties, tariff peaks on exports from developing nations upon most of sensitive products. Low Tariff ceilings were proposed to boost export in their case.

This resulted in developed country tariffs being reduced from a trade-weighted average of 6.3% to the then level of 3.8%. To calculate developing country average tariffs is more difficult because a large percentage of these tariffs were unbound and variable. What is significant is that the percentage of industrial product tariff lines that was bound increased from 21% to 73%.

Developed Nations supported the use of a Swiss

Formula (that is, higher tariffs are submitted to deeper cuts) as the central tariff cutting mechanism for the NAMA negotiations. However, they also said that under this umbrella of a Swiss formula, they had identified two approaches.

First approach visualizes the usage of minimum number of coefficients to be negotiated however another approach suggests a largely pre-determined calculated fixed coefficients for each and every member using its tariff average as a starting point. Mexico, Chile and Columbia have already submitted their joint suggestions regarding implementation of formula on tariff reduction. There are other joint proposals from a group of countries like European nations, Norway, Argentina, United States, Brazil, Argentina and India.

3. What is Doha Mandate?

It was in November 2001 during Doha Ministerial conference9, the need to further liberalization trade practices in case of non-agriculture products. To this end, the Negotiating Group on Market Access (NAMA) was created **at the first meeting** of the Trade Negotiations Committee10, in early 2002. The present members agreed there to launch such negotiations which will cut tariff on non-agriculture products. The overall purpose is to reduce or eliminate tariff, tariff peaks, tariff escalations, non-traiff barriers on the exports originating from developing or least developed nations.

3.1. Paragraph 16 of Doha Development Agenda [DDA]

This paragraph mentioned in Doha Agreement have proposed to agree to the negotiations which will aim by suggested modalities to either reduce or complete elimination in tariffs, along with including the required reductions or phased cuts of tariff. It also include reduction in tariff peaks, tariff escalations in particular on exported item from developing countries. Product inclusion has been proposed to be comprehensive. However any negotiation taking place must not ignore the interest and needs of Developing and LDCs participants with less than full reciprocity in tariff reduction and commitment, as per relevant norms of article XXVIII bis of GATT 1994 and the provisions cited in paragraph 50.

This paragraph 16 contains a number of concepts about which common man is oblivious. So to make it understandable a brief explanation of those basic concepts is given below:

- **Tariff Bindings**: A Tariff binding or bound rate iscommitments which restrict the member nation to increase the tariff rate beyond a certain pre-fixed limit. It provides for a ceiling rate, popularly known as bound rate
- **Tariff Escalation** : As per a tariff schedule of a country, tariffs are higher on processed foods rather than their own raw material which put LDCs on the disadvantage side.
- **Tariff Line** : it signifies a particular single item listed in the tariff schedule of a country.
- **Tariff Peak:** As per a tariff schedule of a country, there are certain tariffs which are on very high side,Sometimes they are as high as three times of the average normal tariff.
- **Non-Tariff Barriers** (NTB's): These NTBs are fundamental and equally significant part of such negotiations, and work on this component of the intensified mandate of any negotiating group.

3.2. July Framework – 2004

In 2004 July framework, it was decided by WTO Members to cut tariffs in as per a decided formula. This formula provides transparency, efficiency, equity and predictability.

The General Council agreed by the July 2004 "framework" and mandate of Doha Declaration11and it contained the early necessary elements for all future works on modalities and reiterated the complete Mandate along with some more clarifications and specific guidelines. In this framework, member nation have understood the key feature of formula in reducing tariffs, peaks, escalations etc. it has been stressed that which devising any changes in the formula, the interest of LDCs and developing nations must be catered upon.

These suggestions mainly deal with such "modalities" for the proposed negotiations comprising tariff, tariff reductions, non-tariff barriers, specific differentiated treatment to developing nations, and the likely effects of the cuts in tariffs on the progressive policies of few countries. The "modalities" has made a provision to include the specific criteria usage to define all environmental goods, as the Doha Declaration includes a mandate to negotiate the reduction of tariffs in this particular sector of goods, a subject transferred from the Trade and Environment Committee to this negotiating group.

The "modalities" include the criteria to be used to define environmental goods, since the Doha Declaration includes a mandate to negotiate the reduction of tariffs3 in this particular sector of goods, a subject transferred from the Trade and Environment Committee to this negotiating group. Although no consensus has been reached on this point yet, a large number of Members have embraced the Swiss formula 9 with the use of two coefficients, one for developing countries which would result in smaller average cuts and one for developed countries where the cuts would be larger in percentage terms. There would also be flexibilities for developing countries12 in which they could exempt a percentage of tariff lines from the formula cuts. The compression effect of this formula means that tariff peaks and tariff escalation will be sharply reduced. This is significant because while developed countries have generally low tariffs, they often apply their highest peaks and use tariff escalation on products of greatest interest to developing countries.

In the July 2004 members understood the importance of tariff elimination as well as tariff harmonization in certain sectors is another key element in achieving the objectives of the mandate. This sectoral approach would aim at products of export interest to developing countries. Some members have expressed their opinion that the participation in any sectoral initiative should be voluntary. Work has been ongoing in the sectors like Electronics/Electrical Equipment, Bicycles and Sporting Goods, Chemicals, Fish, Footwear, Forest Products, Gems and Jewelry, Pharmaceuticals and Medical Devices and Raw Materials. In addition to these, several developing countries are of the opinion that they should be exempted from reduction commitments on staples, for food security.

July framework also provided flexibility for developing countries either by not undertaking formula cuts on certain tariff lines or keeping "unbound" a certain number of tariff lines. Keeping some tariff lines unbound provided the flexibility of raising import duty in this area. India would fully utilize these flexibilities' 13 for those sections of industry where there were domestic sensitivities.

Paragraph 8 of NAMA framework explains about flexibilities as below:

It is agree that developing countries participants shall have longer implementation period for tariff reductions. In addition there shall be given the following flexibilities:

a. Applying less that formula cuts {10}% of the tariff lines provided that the cuts are no less than the half of the formula cuts and that these tariffs lines do not exceed {10}% of the total value of the members' import or.
b. Keeping, as an exception, tariff lines unbound, or not applying formula cuts for up to {5}% of the tariff lines provided they do not exceed {5}% of total value of members' import.

To harmonize tariff reduction11 i.e., in order to design such a tariff cut structure that will make steeper cut on higher tariff than less steeper cut on lower tariffs, many harmonizing reductions were designed. For this purpose many simple or average reductions were in introduced in each tariff band.

What these approaches are? Their analysis, their assessment and their interpretation differ from the viewpoint of each member nation. Firstly, what they are, how they react and counter reacted by various countries? A brief review considering the length of the paper has been given below.

4. The Uruguay Round Approach

The formula propounded in the Uruguay round of negotiations in agriculture was basically in the favor of a flat rate of tariff reductions. The period of 1986-94 of Uruguay Round negotiations was full of debate regarding the appropriate tariff cut in the applied tariff rate of Developed Nations and Developing Nations. The formula proposed a flat tariff cut of 36% although the Uruguay Round approach could use different figures. However it was for average tariff reductions —

a) 36% tariff reduction over a period of six years, for all developed countries,

b) with an another average target of 24% tariff reduction over a period of 10 years for all developing countries.

4.1. The approach has two features

a. The flat-rate percentage reductions lead to gentler cuts on high tariffs and a broader range of final tariffs.

b. The existence of average as well as minimum reduction allows flexibility to change actual tariff reductions on most of individual products

The chart and table below show that where tariffs start high the final rates are still quite high: a 36% reduction from 200% leaves a final rate of 128% in year 6. Let us understand the calculations given in table 1 below:

Table 1 working mechanism of Uruguay round approach

Year	**Starting tariff**	**Starting tariff**	**Starting tariff**	**Starting tariff**	**Starting tariff**	**Starting tariff**
	200%	**150%**	**100%**	**50%**	**20%**	**10%**
Year 0	**200**	**150**	**100**	**50**	**20**	**10**
Year 1	188	141	94	47	18.8	9.4
Year 2	176	132	88	44	17.6	8.8
Year 3	164	123	82	41	16.4	8.2
Year 4	152	114	76	38	15.2	7.6
Year 5	140	105	70	35	14	7
Year 6	**128**	**96**	**64**	**32**	**12.8**	6.4
Annual steps (% points)	14.4	10.8	7.2	3.6	1.44	0.72

Note : figures of initial tariff are taken arbitrarily

This table has been shown graphically in the following figure no. 1

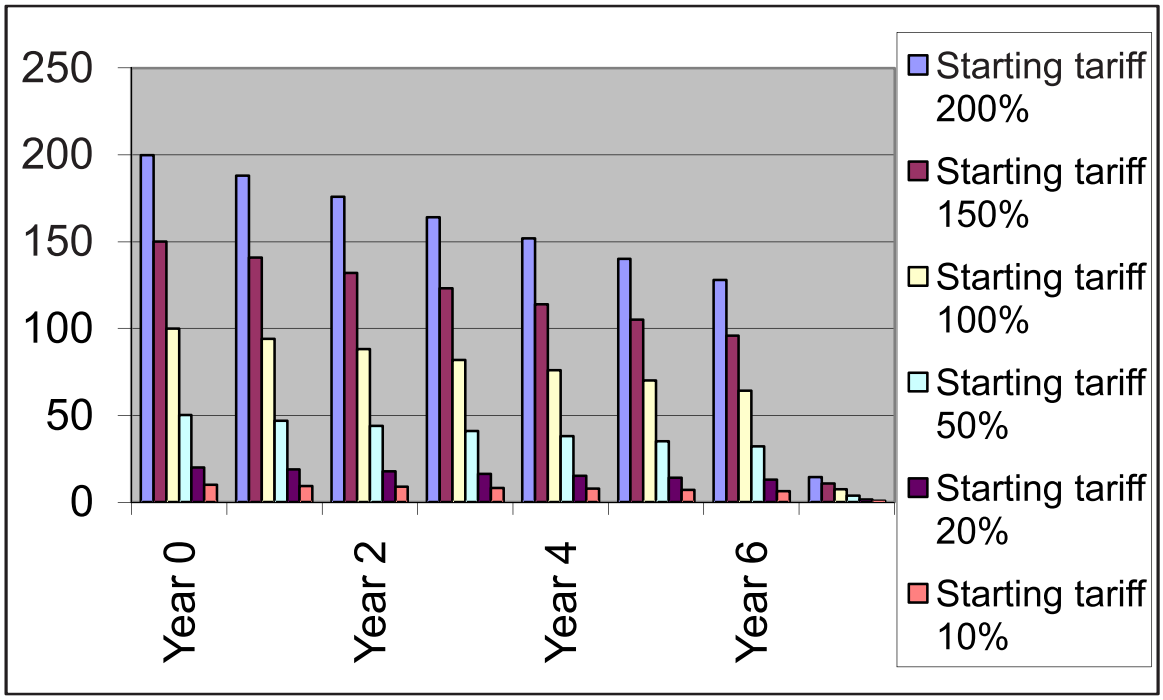

Figure 1. Working mechanism of Uruguay round approach

5. The Swiss Formula

This formula was presented in Tokyo round in 1973–79 negotiations as **A SPECIAL CASE OF A HARMONIZINGTARIFF CUT**. It negotiates a much narrower gap between high and low tariffs with a built-in maximum tariff. This formula attempts to narrow the gap between high and low tariffs and this process of tariff reduction is called harmonization of the tariffs. The "Swiss formula" is a distinct type of harmonizing method. It has made use of a single numerical formula to generate:

- A thin series of final tariff rates as against an extensive series of initial tariffs;
- A highest final tariff rate, without considering the original tariff;
- Finally, then proposed tariff cuts will be divided into equal annual deductions.

The Swiss formula was initially recommended by Switzerland in 1973–79 Tokyo Round negotiations. But later Switzerland opposed using the Swiss approach in the agriculture negotiations; it favored the Uruguay Round approach, while Uruguay favored the Swiss approach.

A key feature is a number, which is negotiated and plugged into the formula. It is known as a "**COEFFICIENT**" ("A" in the formula below). This will determines the maximum possible final tariff rate as shown in the following formula

$$Z = A X / (A+X)$$

Where

X = initial tariff rate

A = coefficient and maximum final tariff rate

Z= resulting lower tariff rate (end of period)

This formula can be explained with the following example.

In this example the paper attempts to elaborate, how Swiss formula, with a coefficient of 30, works over an assumed period of six years.

The coefficient of 30 also defines the maximum tariff at the end of the period.

Table 2. Working mechanism of the Swiss Formula

Year	**Starting tariff**	**Starting tariff**	**Starting tariff**	**Starting tariff**	**Starting tariff**
	200%	**100%**	**50%**	**25%**	**10%**
Coefficient	30	30	30	30	30
Tariff afterYear 0	**200**	**100**	**50**	**25**	**10**
Year 1	171.03	87.18	44.8	22.5	9.6
Year 2	142.04	74.36	39.59	20	9.18
Year 3	113.05	61.54	34.38	17.5	8.76
Year 4	84.06	48.72	29.17	15	8.34
Year 5	55.07	35.9	23.96	12.5	7.92
Year 6	**26.08**	**23.08**	**18.75**	**10**	**7.5**
Annual steps (% Points)	28.99	12.82	5.21	2.5	0.42
% Cut over 6 years	86.96	83.33	62.5	60	25

Mathematically speaking

How the Swiss formula coefficient defines the maximum final tariff .

From the formula,

$Z = AX/(A+X)$

As the initial tariff X will rise to infinity, $X/(A+X)$ will also approach to 1, finally it results in $Z = A \times 1$.

or $Z = A$.

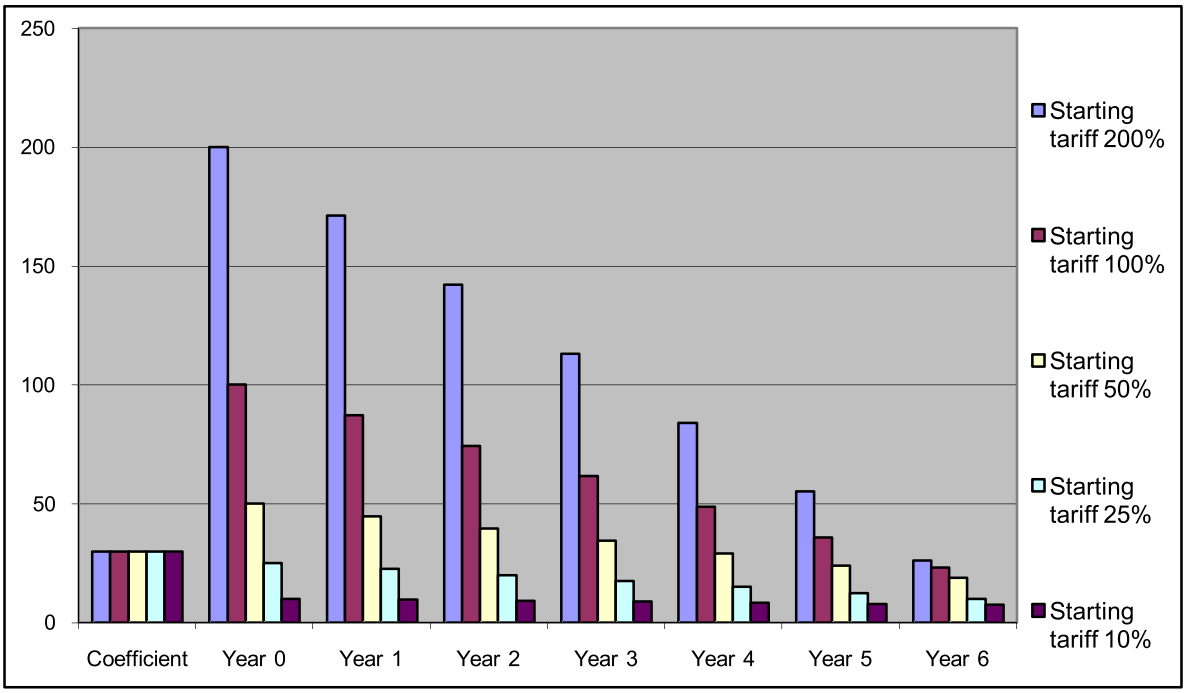

Figure 2. Working mechanism of the Swiss Formula

This Swiss formula represents mainly an "aggressive" approach, necessitating major cuts in all forms of tariffs, initially with deeper cuts for higher tariffs. This will affect most developing countries more, as their tariffs are generally higher than those of industrialized countries

Opposing the simple Swiss formula, Argentina, Brazil and India had proposed another swiss-type non-linear method or formula which incorporates the average bound tariff of a country into the equation. As per their claim, this formula will unstiffen the most of tariff cuts, for countries facing higher bound regular tariffs. They suggested to have common single coefficient for both developed and developing nations

In the Swiss formula, it has been observed that the higher tariffs are mostly subjected to meaningfully deeper cuts than lower tariffs. If the coefficient is the same for all countries (or not too dissimilar), then the simple Swiss formula would subject the developing countries to steeper tariff cuts than developed countries, since the former generally have higher tariffs. The developed countries are encouraging the simple Swiss formula, where as developing countries12 are already opposing it.

If the Swiss formula is to be even considered, developing countries must be allowed the full exemption of 15 categories from tariff cuts. There is a provision currently for partial exemption for just 10% of tariff lines.

Ministers of Developing Nations exert that the formula proposed by these nations will result in 20 to 30 percent tariff reduction in the final tariff structure of Developed Nations whereas it will be 60 to 70 percent in case of Developing Nations.the implementation of the same will lead to violation of principle of less than full reciprocity. The ministers of NAMA 11 stated that there should be a difference of 25 points in the coefficients of existing Swiss Formula for both Developed and Developing Nations, to ensure the principle of Less Than Full Reciprocity. {NAMA 11 countries: Egypt, Argentina, India, Brazil, Philippines, Tunisia, South Africa, Bolivar Ian, Republic of Venezuela, Indonesia, Namibia.}

6. ABI Formula

This proposal was given by India, Brazil and Argentina on 25-4-2005. When negotiations on non-agricultural market access (NAMA) resumed at the

World Trade Organization. It received varying degrees of support from several developing countries, while being strongly criticized by the United States for not delivering sufficient market access. According to the representatives of Developing Nations, the proposed formula shall lessen tariff peaks, high tariffs and tariff escalation and take fully into account "less than full reciprocity in various reduction commitments" and also special & differential treatment (SDT) for all developing nations as approved in paragraph no. 16 of DDA.

On the other hand, says the proposal, SDT relates to flexibilities in the application of the formula, including longer implementation periods, less than formula cuts and the exclusion of some tariff lines. The present structure of the S&D provisions in paragraph 8 of Annex B of July framework is the "minimum necessary" to meet the development goals of the developing countries in this regard. They also argued that the plea of harmonization of tariff of developed countries in their own Swiss formula would result in significantly greater reductions in developing countries' tariffs. As it doesn't find any place in Doha mandate9 and was not included in July framework as one of the necessary features of the formula.

Many developed countries have stressed upon to have complete tariff binding conditions to be obeyed by all countries, without opting for any tariff cuts for LDCs. But countries like India have opposed this condition and declare invalid of such automatic tariff bindings upon LDCs. They required sensitive products should remain unbound, Philippine and Kenya have supported their agreement with India. EU has said that if any country wants to use the exceptions given in the Framework Agreement then these exceptions will have to be compensated in other areas.

There is no consensus on the way to proceed. The unbinding tariff conditions suggested by India in case of sensitive goods have been opposed and questioned by many other countries. Peru, Ecuador etc have stressed upon all developing countries to bind 100% of their tariffs.

US said that the problem of having unbound tariffs is only with 30 countries and therefore it can only be an exception but not the rule.

It then provides a formula in which the final bound rate of a product (after the reduction exercise) would be a function of a coefficient B to be multiplied by the country's current average bound rate (t_a) and multiplied by the product's present bound base rate, and then divided by B multiplied by the average bound rate plus the bound base rate.

$$t_1 = [B . t_a . t_0] / [(B . t_a) + t_0]$$

where, t_1 is the given final rate,which will be bounded (ad valorem terms) t_0 is the bound base rate ta is calculated average of all the current bound tariff rates B is the coefficient, to be fixed by all participants.

The paper also states that the formula would apply to bound tariff lines. B is a coefficient whose value or values are to be determined by the participants. Moreover, the coefficient 'B' will be modulated to reflect the ambition in other areas relevant to market access agreed to for this Round. the coefficient B can have more than one value, depending on the type of country or the circumstances of countries.

In this formula, the extent of tariff reduction hinges on the value of the coefficient 'B'. For a lower value of 'B', say 0.5 or 1, the tariff reduction in average bound tariff rates for India and Pakistan would be huge, especially in areas where tariff rates are high. As the value of 'B' increases, the rate of reduction in the final tariff rate declines. So it will be the best to use ABI formula,- as it will compensate Developing Nations by having more access to markets of Developed Nations by using the Girard formula with a value of 'B' less than 1.

ABI Formula

$t1 = [B . ta . t0] / [(B . ta) + t0]$

EXAMPLES: Developing Nations

Let's assume the INITIAL TARIFF [to] for a Developing Nation is 100% and assumed values of COEFFICIENT [B] are 0.5, 5 and 10. AVERAGE BOUND TARIFF [ta] is assumed to be 35%. The calculated value of final tariff after certain number of years will be:

~~0.5 x 35 x 100~~	~~5 x 35 x 100~~	~~10 x 35 x 100~~
(0.5x 35)+100	(5 x 35)+100	(10 x 35)+100
= 14.89	= 63.64	= 77.78
{85.11%}	{36.36%}	{22.22%}

Higher the coefficient lower will be the tariff reduction.

EXAMPLE – Developed Nations

Let's assume the INITIAL TARIFF [to] for a Developed Nations is 10% and 20 % assumed value of coefficient B is 0.5, 5 and 10. Average bound tariff [ta] is assumed to be 12% for **to** 10% and 20%. The calculated value of final tariff after certain number of years will be:

~~0.5 x 12 x 10~~	~~5 x 12 x 10~~	~~10 x 12 x 10~~
(0.5 x 12)+10	(5 x 12)+10	(10 x 12)+10
= 3.75	= 8.57	= 9.23
{62.5%}	{14.3%}	{7.7%}

And

~~0.5 x 12 x 20~~	~~5 x 12 x 20~~	~~10 x 12 x 20~~ .
(0.5 x 12)+20	(5 x 12)+20	(10 x 12)+20
= 4.62	= 15	= 17.14
{76.9%}	{25%}	{14.3%}

Again higher the coefficient lower will be the tariff reduction.

The above computations are made here from the point of view of Developing Nations. If these are implemented in one or the other way, then it will wholly be beneficial for the Developing Nations. Developing Nations are in the favor of high coefficients for themselves i.e., low tariff reductions and place for flexibilities and lower coefficient for Developed Nations.

However average bound tariff [ta] will vary from nation to nation.

Whether 100 per cent binding coverage of unbound tariff lines is a desirable objective, however appropriate flexibilities are required by developing countries to achieve this objective**. Its proposal is that the average as on the base date of presently unbound lines will be marked up by x times, which shall be negotiated as indicated in the framework agreement.**

$t_{a1} = [B . xt_a . t_0] / [(B . xt_a) + t_0]$

where 'x' is a markup to unbound lines.

The modified formula for unbound tariff lines

These unbound tariff lines can be bound by using above formula.

Developing countries can use flexibilities to fix individual tariff lines around this average.

One thing must be understood that this formula has applicability only upon the final tariff average but not at all upon the line-by-line basis.

The marking up is done for tariff average of MFN applied rates {as on base date}

There are many bound and unbound tariff lines in developing countries. Flexibilities on the part of developing countries help them to choose a rate, which not only will reduce the average tariff of unbound tariff lines but cut different tariff lines also, till the targeted average rate for newly bound tariff is met. As per as the bound tariff lines are concerned the method will be quite different where the formula will apply on each and every tariff line i. e., on a line-by-line basis. It will affect all the tariff lines those are already bound. It will not cover those lines those are excluded through the provisions of Special & Differential treatment. The ABI proposal covered all the countries for tariff reduction 9except those, which are covered in paragraphs 6 and 9 of Annex B of the framework. **Paragraph 6 countries** are those countries whose industrial tariff lines are already below 35%. Under paragraph 6 of Annex B (on NAMA) in the July 2004 package, these countries would not have to apply the tariff-reduction formula, but would have to bind all (or almost all) their tariffs, and at the end of the exercise their bound tariffs cannot exceed the average bound rate of developing countries at the end of the Uruguay Round and **paragraph 9** covers LDCs.

ABI proposal had two points, dealing with presently bound tariffs and treatment of unbound tariffs. It stressed that the **paragraph 8 (of the Annex B)** flexibilities are the basis and not a bargaining chip. It added that the value of coefficient B in the proposed formula would be used to indicate the level of ambition.

6.1. Features of ABI formula

I. An equitable formula as it takes into account the present tariff commitments of Members.

II. it has an element of progressivity in national tariffs; it allows for less than full reciprocity in reduction commitments; and its liberalizing effect can be adjusted by variations in the coefficient 'B'

III. It improves the tariff profiles by compressing the dispersion of tariffs within each Member

IV. It is transparent as it uses a well-known factor, each Member's tariff average, as the basis.

V. It seeks to match the ambition level in all areas of market access negotiations in the WTO, with the inclusion of a 'B' factor.

VI. As per as SDT is concerned the formula proposes a longer implementation periods, less than formula cuts for some tariff lines and the exclusion of some tariff lines from any formula cut. The figures related to those flexibilities are still to be negotiated. {These

would have to be negotiated after an agreement on the formula itself}.

These overall reduction promises which are in percentage will be proportional between all developed and developing nations .this formula has a potential to remove the inherent shortcoming of the available Swiss formula. Swiss formula requires more deduction in tariff on the part of developing nations.

The ABI proposal is comparatively less draconian in comparison to many other proposals put forward by different nations for tariff reduction, as it provides much relaxations which is also accepted and advocated by countries like Egypt, Philippines, Tunisia, South Africa, Bolivar Ian, Republic of Venezuela, Indonesia, Namibia along with Argentina, India, Brazil.

Countries like Egypt Kenya advocated in the favor of proposal is a good basis for negotiations, equitable, supporting the need to take account of the SDT principle, less than full reciprocity and the special needs of developing countries. It agreed with the proponents of the paper that harmonization of tariffs is not in the mandate. However Philippines added that the India-Brazil-Argentina formula (to be used for unbound tariffs) was only suitable for countries with high-unbound tariff rates and not for countries with low applied and unbound rates.

The United States strongly criticized the proposal, saying it was unacceptable, did not contain new ideas and was "**Girard minus**" and did not provide market access or equity. It had concern that the treatment of unbound tariffs made use of reductions on an average basis and not on a line-by-line basis. Politically it could not make progress in agriculture if it did not see progress in NAMA.

6.2. Core modalities

All the above formulas have their own pros and cons. Whether a linear 8or non-linear formula for tariff reduction should be used for harmonization of tariff structure of member nations? An approach should be such, which will fulfill the core modalities of NAMA framework 2004 and Doha mandate. Several approaches are available. Swiss Formula 8 has stressed more heavily on the tariff reduction from Developing Nations where as Swiss type formula has stressed more heavily on the tariff reduction from Developing Nations. The great disagreement in various ministerial conferences of World Trade Organization has resulted in to few conclusions but no fruitful results have been drawn yet on a suitable tariff reduction method.

However, it is also clear that such an approach must build in the concept of less than full reciprocity in reduction commitments in so far as developing countries are concerned. The argument for the harmonization of tariff structures of Members is not a valid one since it is not specified in the mandate. Less than full reciprocity is possible only by adopting a differentiated rate of reduction for developing and developed country participants.

In the linear formula it can be prescribed a higher percentage reduction for individual tariff lines in respect of developed countries and a lower percentage average reduction set for developing countries with minimum cuts on individual tariff lines. Developing countries may also be given some flexibility to decide on the level of binding of individual tariff lines, on the understanding that the overall percentage reduction as stipulated for them is achieved.

In case of unbound tariff lines, all developing nation members must have the required flexibility to muddle them at the levels

- ✓ Either above the maximum bound rate which is prevailing for all bound things in the nation's current tariff schedule;
- ✓ or at the items' applied rates like a cutoff rate whichever is higher. In exceptional cases, bindings should be permitted above these levels also. Reduction commitments agreed upon would not apply to tariff lines so bound.

No core modality would be complete unless it specifically addressed products of particular export interest to developing countries in developed markets where there is a prevalence of tariff peaks. This aspect is explicitly provided for in the mandate. This can be

achieved by building into the core modality a commitment that no presently bound tariff line after tariff reduction shall exceed three times the average of the reduced bound tariffs in a Member's tariff schedule. However, developing country members shall, in this regard, have some flexibility and undertake minimal cuts in respect of items considered sensitive by them, which will be in accordance with the principle of less than full reciprocity specified in the mandate.

However six countries (Canada, Hong Kong, New Zealand, Switzerland and the United States, later joined by Chinese Taipei) introduced a 2-page paper on 8 June 2006. Its main proposal was that the Swiss formula be adopted with separate coefficients for developed and developing members, and that the coefficient for developed countries shall be at most five points less than the developing countries' coefficient. The paper said that for example, the developed country coefficient would be 10 or less provided that the coefficient for developing countries applying the formula is within 5 points of the developed country coefficient.

Some countries like Switzerland had as high as 2000 to 3000 per cent tariffs on some agricultural products, and they had also refused to place a cap on their agricultural tariffs, and yet these same countries were asking for a low coefficient for developing countries in NAMA.

The key question that aroused here was that how countries that could never agree on anything in the negotiation for market access for Agriculture could come to the NAMA negotiations and together demand for a high level of ambition for developing countries.

Moreover, by asking for coefficients with such a small difference, this is putting forward an assumption that developed and developing countries have become similar in competitiveness, development levels and industrial structures. In reality, said Prof. Faizel, the need for tariffs reflects a whole reality for developing countries, that we are not competitive, that they are important for maintaining industrial jobs, and that these tariffs cannot be reduced so significantly as we are not competitive and are vulnerable to the global economy.

Tariffs help developing countries to manage globalization, he added. By asking developing countries to remove their tariffs, the proposal is assuming that tariffs are neutral with regard to social impact. But this was not the case, as removal of tariffs could cause huge adjustment costs, job losses and de-industrialization. Hasty tariff liberalization could impose harsh adjustment costs on developing countries, such as balance of payment problems, de-industrialization and unemployment.

However there is also one plea that it will also generate huge benefits accruing to the Developing Nations owing to increase in their own exports in the markets of developed nations. As the later will also liberalize their own markets. But this liberalization will not benefit much as their trade will mainly consist of primary goods.

7. Policy Implication of the Study

The paper suggests that:

- Developed countries must reduce their tariff rates to zero on all sectors that are of export interest to developing countries.
- Developing countries must have the flexibility to decide the number of tariff lines they want to commit to reduction, in an identified sector.
- This paper has taken six years as implementation period for tariff reduction, however the implementation period should be such that it offers enough flexibility to developing countries to pursue their social and development needs, and, at the same time, realistically fulfill their international obligations.

The Draft Report {JUNE 2006} the chairperson of the NAMA committee in the World Trade Organization, Mr. Donald Stephenson, has clearly abandoned the use of ABI formula as a tariff reduction measure.

The flip-flop of developing countries like India on the issue of tariff reduction formula merits attention here.

It is worth recalling that tariff reduction in NAMA is to be achieved by using a mathematical formula such as the 'Swiss formula'. A 'Swiss formula with two coefficients', championed by developed countries such as the US and the EU, is the simple 'Swiss formula' that cuts tariffs very steeply. On the other hand, 'Swiss formula with multiple coefficients' such as the one proposed by Argentina, Brazil and India (ABI) last year, is relatively soft on tariffs and also gives due consideration to the existing tariff structure of a particular country14.

However, developments post-the Hong Kong (HK) ministerial conference has demonstrated that the proponents of the ABI formula have abandoned their own baby. This compromise has happened in spite of the HK declaration stating that a 'Swiss formula with coefficients' will be adopted.

The report also states in the same breath that there is a broader and stronger support for the pure 'Swiss formula'. This dangerous assertion has not been attacked by NAMA-11, clearly showing that the pure 'Swiss formula' has been accepted and the ABI formula is buried forever. This abandonment of the ABI formula by India is the latest compromise.

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