

Delivering on the WTO Round :  
A High Level Government-Business  
Dialogue for Development  
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*Presentation by*

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**FICCI**

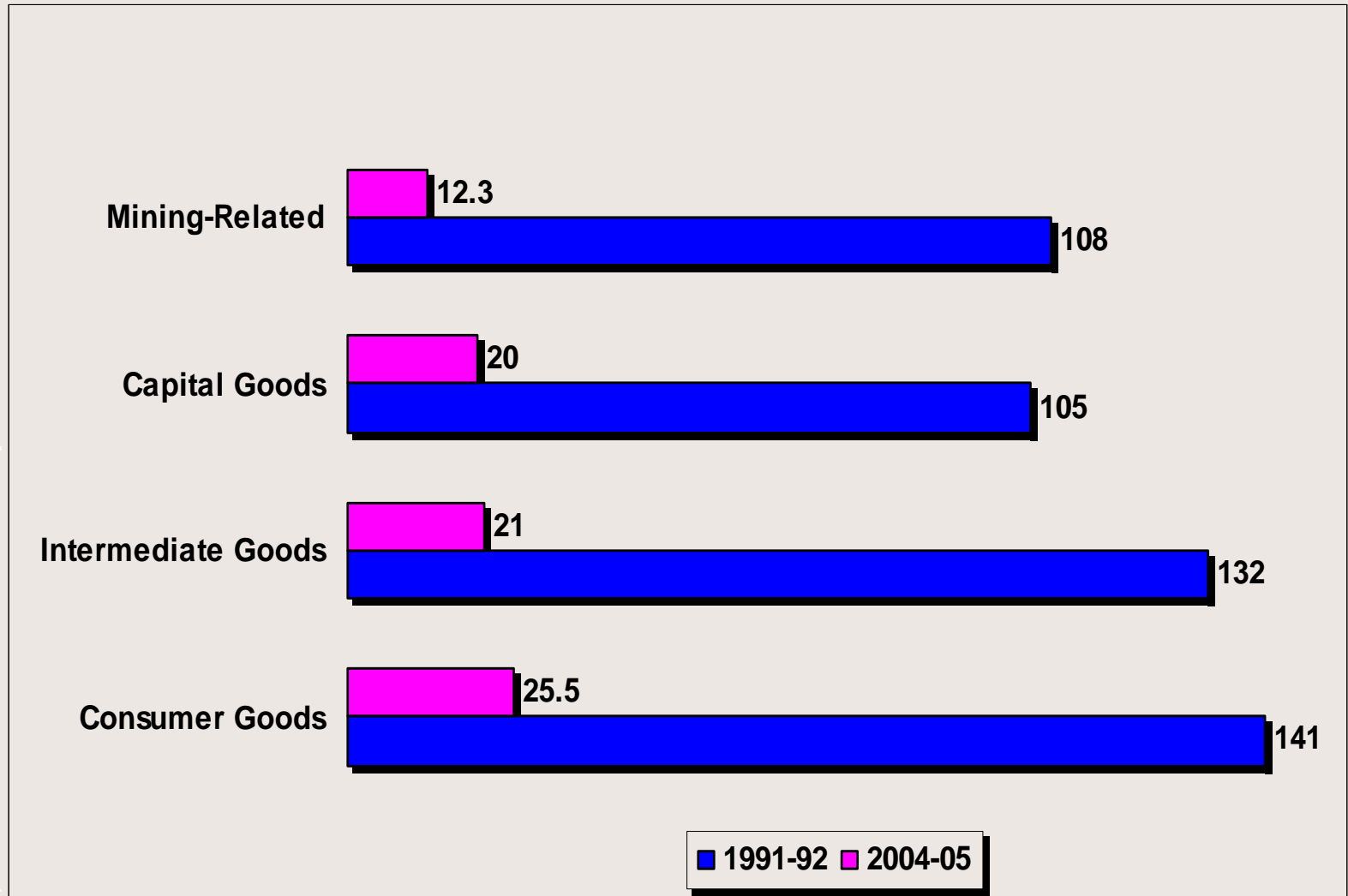
# DISCLAIMER

- ① **Strictly personal views – do NOT necessarily reflect those of FICCI**

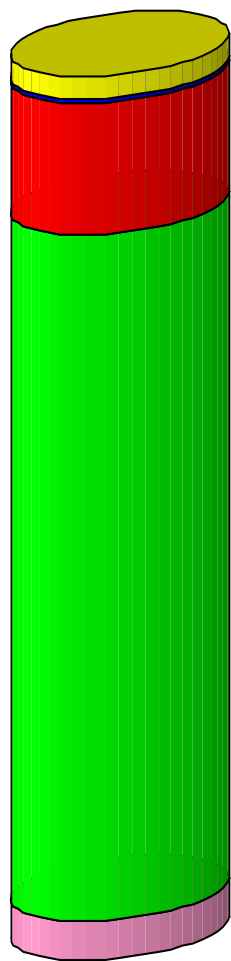
# Non-Agricultural Tariffs in India Profile and Context

- ◎ Binding Coverage – 69.8%
- ◎ Average Bound Rate – 34.3%
- ◎ Average Applied Rate (2004) – 27.9%
- ◎ Maximum Ad Valorem Duty – 150%
- ◎ Steady and Significant Reduction in Applied Duty Rate
- ◎ Currently ‘most-frequent’ rate is 15%

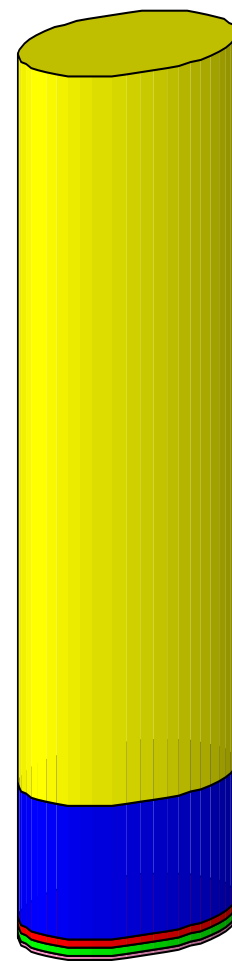
# Changing Tariffs in India (%)



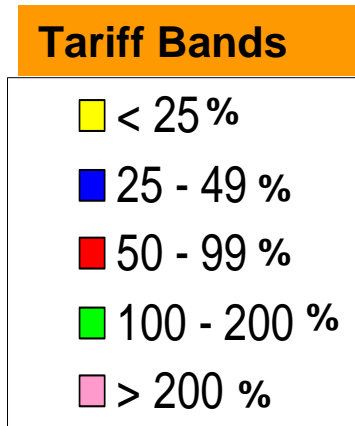
# % Share of Products within Tariff Bands



1991-92



2004-05



# WTO Negotiations on Formula : Reality Check 1

- **Tariff reduction through a ‘non-linear’ formula on a line-by-line basis**
- **Basic options on table**
  - ◎ **“Simple Swiss” – 2 “not so” different coefficients to be negotiated**
    - **‘Simple Swiss’ as suggested by Pakistan – coefficient 6 for Developed and 30 for Developing Countries**
  - ◎ **“Swiss Type” : \* ABI \* \* Caribbean**

# WTO Negotiations on Formula : Reality Check 2

- **APEC endorsement + Dalian Mini Ministerial**  
→ growing support for Simple Swiss formula with dual coefficients
- **Position on Para 8 flexibilities less clear**
- **Caribbean Formula and Pakistan Proposal – do they alter the dynamics? Or ineffectual?**
- **Caribbean Formula welcomed by Kenya, Egypt, Tunisia, Cuba, Bolivia, Argentina and India**
- **What's the status of ABI proposal?**
- **Future direction contingent on progress in agriculture**

# Tariff Reduction Formula – 1

- Simple Swiss

$$T_1 = \frac{B \times T_0}{B + T_0}$$

- Swiss Type  
– ABI

$$T_1 = \frac{B \times T_a \times T_0}{(B \times T_a) + T_0}$$

- Swiss Type  
– Caribbean Countries

$$T_1 = \frac{(B + C) \times T_a \times T_0}{[(B + C) \times T_a] + T_0}$$

- For Simple Swiss formula, India would end-up making more significant tariff cuts (*compared to Swiss Type Formula*)



# Comparative Impact of Two Formulae

| Present Bound Rate (%) | Final Bound Rate (%)         | Degree of Reduction (%) | Final Bound Rate (%)          | Degree of Reduction (%) |
|------------------------|------------------------------|-------------------------|-------------------------------|-------------------------|
|                        | Simple Swiss Formula<br>B=10 |                         | Swiss Type Girard Formula B=1 |                         |
| 5                      | 3.3                          | 33.3                    | 4.5                           | 10.0                    |
| 10                     | 5.0                          | 50.0                    | 8.1                           | 19.0                    |
| 20                     | 6.7                          | 66.7                    | 13.7                          | 31.5                    |
| 25                     | 7.1                          | 71.4                    | 15.9                          | 36.4                    |
| 30                     | 7.5                          | 75.0                    | 17.8                          | 40.7                    |
| 40                     | 8.0                          | 80.0                    | 20.9                          | 47.8                    |
| 50                     | 8.3                          | 83.3                    | 23.4                          | 53.2                    |
| 60                     | 8.6                          | 85.7                    | 25.3                          | 57.8                    |
| 100                    | 9.1                          | 90.9                    | 30.5                          | 69.5                    |
| 150                    | 9.4                          | 93.8                    | 33.9                          | 77.4                    |

# Sectoral Impact of Alternative Formulae

|  | Present Average Bound Rate (%) | Simple Swiss Formula           |                                | Swiss Type Formula            |                                 |
|--|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------------------|
|  |                                | Final Bound Rate (%) when B=10 | Final Bound Rate (%) when B=15 | Final Bound Rate (%) when B=1 | Final Bound Rate (%) when B=0.5 |
| Textiles & Clothing                      | 26.6                           | 7.3                            | 9.6                            | 15.0                          | 10.4                            |
| Leather, Rubber, Footwear & Travel Goods | 35.2                           | 7.8                            | 10.5                           | 17.4                          | 11.5                            |
| Metals                                   | 38.7                           | 7.9                            | 10.8                           | 18.2                          | 11.9                            |
| Chemicals, etc                           | 39.6                           | 8.0                            | 10.9                           | 18.4                          | 12.0                            |
| Transport Equipment                      | 35.8                           | 7.8                            | 10.6                           | 17.5                          | 11.6                            |
| Fish & Fish Products                     | 100.7                          | 9.1                            | 13.1                           | 25.6                          | 14.7                            |
| Non-Electric Machinery                   | 28.3                           | 7.4                            | 9.8                            | 15.5                          | 10.7                            |
| Electric Machinery                       | 26.8                           | 7.3                            | 9.6                            | 15.0                          | 10.5                            |

## Tariff Reduction Formula – 2

- Indian business feels need for strongly opposing “Simple Swiss” formula
  - ◆ It disregards “less than full reciprocity” principle
  - ◆ US-advocated “harmonization” neither envisaged in the Doha Mandate, nor included in July-Framework
  - ◆ With significant lowering of import-duty, India has already provided ‘real market access’ as called upon by USA
- Keep on pressing for Swiss Type formula and argue :
  - This fully complies with the Doha Mandate including “less than full reciprocity”

## Tariff Reduction Formula – 3

- Need to remain in ‘negotiation loop’ – so that even in the worst case, we have some say or influence on value of “B”
- How is Pakistani proposal as an option?
- In any case, irrespective of the formula adopted :
  - ✓ “First” focus should be on ‘formula’ before considering sectoral approach
  - ✓ Negotiate value of “B” as high as possible
  - ✓ No trade-off between higher coefficient in the reduction formula and paragraph 8 flexibilities (as suggested by USA)

# Treatment of Unbound Tariff

- Perhaps some convergence emerging on (a) full binding and (b) subjecting newly bound lines to agreed tariff reduction formula
- **100% binding seems acceptable with Para 8 flexibility**
- Malaysia proposes unbound tariffs be bound at average 25% with a maximum of 40%
- **As India's average applied tariff for unbound items is 34.4% (with 1205 of 1339 lines attracting duty between 30% and 50%), this appears preferred solution**
- If available, even Pakistan's proposal of 30 percentage points mark-up and then applying the formula ( $B = 30$ ) looks OK, provided we have Para 8 flexibility

# Sectoral Approach

- **Position of Indian Industry : sectoral tariff elimination should be “voluntary”**
- **Even though few sectors favour the approach, overall we should oppose mandatory ‘zero-for-zero’**
- **We should not take part in “critical mass” sectoral approach**
- **Second best option : “zero-for-X” along with flexibilities in implementation (as contained in TN/MA/W/35 paper)**

# Zero-for-Zero : Broad Response from Indian Industry

Textiles & Clothing

Garments sector comfortable, but textiles not sure

Gems & Jewellery

Welcome step

Leather & Footwear

Bullish

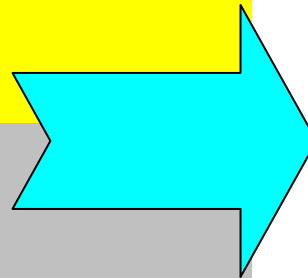
Marine Products

O.K. (by and large)

Auto-Parts

Electronics and Electrical Goods

Strongly opposed to



# Indian Business Perspective

- Keen on pro-active participation in NAMA negotiations
- Interested in addressing tariff peaks and non-tariff barriers in the target markets/ products
- On home-front, Indian business is not against tariff reduction *per se*
- Because of structural disabilities and cost-disadvantages, tariff reduction process should be carefully “phased & calibrated”



# What is at Stake – A Snapshot

| Sector                            | Total No. of Units | No. of Units in Small Scale Sector |
|-----------------------------------|--------------------|------------------------------------|
| Apparels, Clothing & Accessories  | 20,260             | 17,167                             |
| Auto & Auto Parts                 | 27,377             | 25,285                             |
| Bicycle & Parts                   | 4,125              | 3,451                              |
| Domestic Electrical Appliances    | 12,110             | 11,371                             |
| Dyes & Intermediates              | 1,647              | 1,597                              |
| Gems & Jewellery                  | 11,136             | 10,319                             |
| Leather, Leather Goods & Footwear | 55,768             | 53,291                             |
| Machine Tools                     | 3,123              | 2,471                              |
| Plastic & Linoleum Products       | 40,241             | 35,445                             |
| Rubber Manufactured Products      | N.A.               | 20,641                             |

**Your comments are most welcome**

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**THANK YOU**