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TARIFF NEGOTIATIONS IN AGRICULTURE: A DYNAMIC BLENDED FORMULA

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Summary

Market access has been a controversial issue from the very beginning of the reform process in

I. Introduction

Market access and specifically the tariff cut formula in agriculture is admittedly the make or break issue in the current round of negotiations. According to the Chairman of the Special Session of the Committee on Agriculture (SSCoA), as of the second negotiating meeting in April 2004 following the setback in Cancun, there was no indication of any emerging convergence on the blended formula contained in the Derbez text, nor was there a consensus on any other alternative. The Chairman also stated that at that stage no conclusions could be drawn on whether or not the negotiations would achieve an agreement on a framework on agriculture by J4(k)tmn ai

Clearly, the Harbinson formula is tougher than the pure UR but not as ambitious as the pure Swiss,

Table 5. Hypothetical application of the blended formula

WTO member	Average initial bound tariff (%)	Peak initial bound tariff (%)	Average tariff reduction (%)						Cut of peak tariff (%)
			<i>Assumed proportion of tariff lines between UR/Swiss/duty free categories (%)</i>						
			2.5/67.5/30	5/65/30	10/60/30	20/50/30	30/40/30	40/30/30	
US	6.4	182.7	22.9	22.4	22.2	23.4	26.0	29.6	15.0
EU	17.4	456.9	43.8	43.0	40.9	38.6	37.8	38.3	15.0
Japan	20.8	534.8	40.1	38.7	36.8	35.0	35.0		

considerable further reductions in the “ceiling”. The same is the case for other members. In general,

Again, there is a trade-off between the number of tariff lines placed under the UR category and the role of the Swiss in cutting tariffs (one of the points raised by the G-20). As it can be seen from Figure 2a and 2b, the wider the UR category, the tougher the Swiss has to be (smaller value of the Swiss coefficient) in order for an overall agreed reduction commitment to be achieved. The overall reduction commitment for all agricultural products assumed here (for illustrative purposes only) is 40% for developed countries and 27% (two thirds) for developing.

Figure 2a. Trade-off between size of UR category and Swiss Coefficient for developed countries

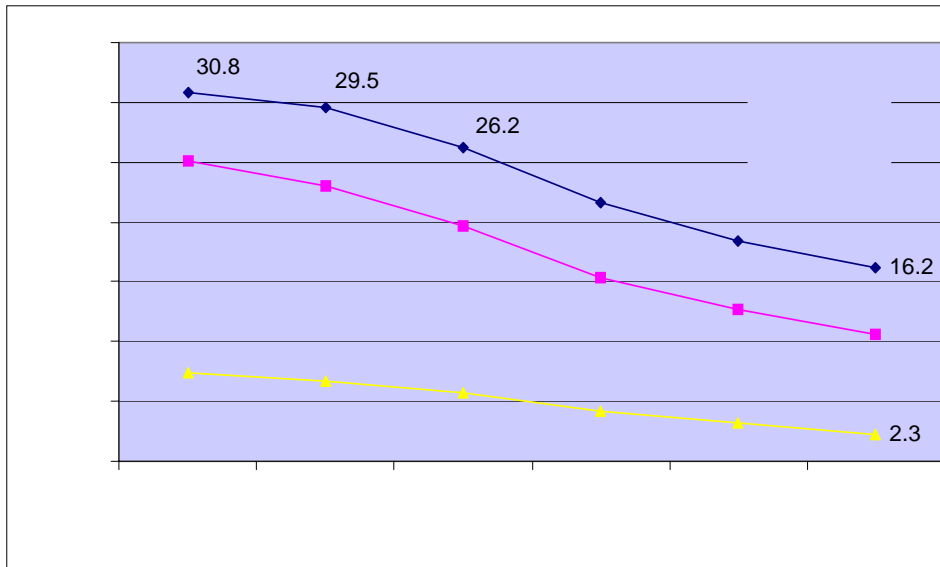


Figure 2b. Trade-off between size of UR category and Swiss Coefficient for developing countries

The third element in the formulation of the Dynamic Blended Formula is the notion of a self-adjusting additional obligation for those members not in full compliance with their “ceiling” levels. The blended formula in the Derbez text introduced the notion of a fixed across-the-board maximum tariff level which if exceeded would have penalized members in the form of “additional market access in these or other areas through a request-offer process that could include TRQs.” No explicit differentiation was made between members as regards the maximum tariff level and the effort a member would have to make to bring a tariff below that unspecified maximum. It is clear that a fixed across-the-board maximum tariff of, say 50%, is attainable making a relatively lesser effort by

member A with an initial peak tariff of, say 70%, compared to member B with an initial peak tariff of, say 250%.

The “ceiling” level defined above from the self-declaratory specification of tariff lines under the UR category avoids this problem. That level is relative, in the sense that it is determined by member-specific tariff structures, and it can also be made flexible, in the sense that it may be exceeded at a cost. That cost would be proportional to the residual non-compliance. For illustrative purposes, assume that the maximum additional TRQ is 10% of the level of consumption (an across-the-board level applicable in cases of making no effort to comply – a number to be negotiated). Assume further that member A reduced its tariff for product “x” from 70% to 55% (however, still above A’s “ceiling” level of say 50%) and member B reduced its tariff from 250% to 150% (also well above B’s “ceiling” level of say 100%). The applicable additional TRQs for these two members (for the products in question) would then be prorated by the percentages by which each member’s “ceiling” tariff is not met⁷.

An illustration of the mechanics involved is shown in Figure 3 where non-compliance is defined as the ratio between residual non-compliance (the remaining gap between the final tariff for product x and the “ceiling” level) and the reduction necessary for full compliance. The relevant calculations for the two hypothetical cases are shown in Table 6. Partial compliance would imply an additional TRQ of 2.5% for member A and 3.3% for member B for the products in question.

Figure 3. Non-compliance ratio

In summary, the approach proposed here in the form of a Dynamic Blended Formula responds to the

category. The “ceiling” tariff level would not apply for these SPs, however the lower tariff reduction commitment that would apply for such products will have to be taken into account in the calculation of the overall agreed reduction commitment for developing countries.

Table 6. Illustration of the calculation of additional TRQ for non-compliance

WTO member	(1) Initial bound tariff for product x ¹ / (%)	(2) “Ceiling” for final bound tariffs ² / (%)	(3) Final bound tariff for product x ³ / (%)	(4) Residual non-compliance ⁴ / (%)	(5) Penalty (additional TRQ) ⁵ / (%)
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Member A

In contrast to the original blended formula, the Dynamic Blended Formula avoids completely negotiations on a large number of contentious parameters, such as the proportion of tariff lines placed under the UR category and the coefficients of the Swiss formula. The key innovation of the DBF is its self-regulating built-in mechanisms which automa

VIII. Concluding remarks

Market access has been a controversial issue from the very beginning of the reform process in agriculture and continues to be the one holding back the negotiations not only in agriculture but in other sectors as well. The difficulties are understandable as both ambition and flexibility are well embedded in Article 20 of the AoA and in the Doha Declaration. All attempts to come up with a tariff reduction formula that could bridge the gap between ambition and flexibility have failed. Part of the problem is the inherent difficulties and strong sensitivities from all sides, but also to blame is the degree of ambiguity left in what was proposed which has been misinterpreted and seen with suspicion by both sides of the spectrum. Some ambiguity was desirable (as market access is only one of the pillars of the reform process in agriculture and agriculture itself is only one of the sectors being negotiated) but it is clear that too much uncertainty in what would be achieved on market access has not been conducive to an agreement. More certainty is needed and an attempt was made in this paper to suggest an approach that builds on the blended formula and could bridge the gap between ambition and flexibility.

The proposed Dynamic Blended Formula responds to the concerns raised with the original specification of the blended formula in the Derbez text but in a way that it would also meet the concerns of members seeking flexibility on market access and are prepared to undertake additional obligations for such flexibility. The DBF takes into account the differences in the initial tariff profiles of different members and the relative effort each makes to reduce tariffs of sensitive products. While the notion of self-declaration of sensitive products is retained, there are built-in mechanisms to limit the use of this provision. At the same time, additional obligations for flexibility do not become a permanent feature of the system but go away automatically (on a product by product basis) as soon as a member is in full compliance with its member-specific obligations. SDT provisions, including the envisaged Special Product category for developing countries, are easily incorporated into the DBF so

Annex A to the draft Cancún Ministerial Text (*Second Revision*, 13 September 2003)

Framework for Establishing Modalities in Agriculture

Market Access

2. The Doha Ministerial Declaration calls for “substantial improvements in market access.” Negotiations should therefore provide increased access opportunities for all and in particular for the developing countries. To achieve this, commitments shall be based on the following parameters:

2.1 The formula applicable for tariff reduction by developed countries shall be a blended formula under which each element will contribute to substantial improvement in market access for all products. The formula shall be as follows:

- (i) [...] % of tariff lines shall be subject to a [...] % average tariff cut and a minimum of [...] %; for these import-sensitive tariff lines market access increase will result from a combination of tariff cuts and TRQs.

TRQs; however, where tariff bindings are very low (below [...]%) there shall be no

