

# Tariff Negotiations in Agriculture: Seeking a Compromise

“Scenario Paper”

Panos Konandreas<sup>1</sup>

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 July 2004, which would include all three pillars of the Agreement on Agriculture (AoA). If this is to be interpreted as implying that a framework text on the two other pillars of the AoA would be possible by July 2004, this is likely also unattainable, given the explicit and implicit linkages between the three pillars that have been made all along by several WTO members who are prepared to make concessions in one of the pillars contingent upon concessions being made by others in another pillar. Hence it is imperative that a compromise is found on market access in order to increase the likelihood of an overall framework agreement by the set date of July 2004.

One of the basic problems of all approaches that have been put on the negotiating table so far is that a formula is proposed without spelling out in concrete terms what would be achieved by that formula and how it may affect different members. All of that has been left to interpretation. The latest attempt, the blended formula contained in the Derbez text<sup>2</sup>, had a number of important compromising elements, however, it had the same fate as earlier formulae, basically because questions as to how it would be applied and what its final outcome would be, were left to interpretation. An infinite number of final outcomes were possible and it is understandable that members differed in their interpretations of how the formula would be used and where it would lead. The same formula can be interpreted as overly ambitious or as too flexible, depending on the assumptions made on how it may be applied in practice.

This has not been conducive to convergence on market access. Too much emphasis has been placed by members on the formula (the “tool”) to be used in market access, leading to inflexible positions on including or avoiding a particular “tool”, and too little on defining in concrete terms the basic principles of what is to be achieved and the general shape of the final outcome.

What are the generally understood expectations on market access reform during this round of negotiations? Paragraph 13 of the Doha Declaration recalled the long-term objective referred to in Article 20 of the AoA to establish a fair and market-oriented trading system through a programme of fundamental reform. Specifically, on market access, it called for “substantial improvements in market access”. The Declaration went on to recognise the need for special

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<sup>1</sup> FAO Geneva Office. The views expressed in this paper are those of the author and do not necessarily reflect official policy of the Food and Agriculture Organization.

<sup>2</sup> [Draft Cancun Ministerial Declaration - Annex A, Second Revision \(13 September 2003\)](#)

and differential treatment for developing countries and also confirmed that non-trade concerns (NTCs) will be taken into account in the negotiations.

The above general language on market access has been the subject of continuous debate during the long negotiating process since Doha and while interpretations vary, there is a general understanding on the operational meaning of the broadly stated objectives in the Doha Declaration<sup>3</sup>. In operational terms, the concrete objectives on market access are understood to include the following:

1. substantial reduction of the average level of tariffs
2. reduction of tariff peaks (and tariff escalation)
3. accommodation of country-specific concerns on particular products; for developing countries this has been expressed in the form of Special Products (SPs) on the basis of food security and rural development considerations, while for developed countries in the form of “sensitive” products, inter alia on NTC grounds.
4. special and differential treatment (SDT) for developing country members, implying less onerous commitments compared to those of developed country members.

It is clear from the above that the Doha Declaration and what is understood to imply in operational terms contain an important contradiction. Specifically, to the extent that country-specific concerns are to be taken into account (third objective) that limits the degree to which substantial improvement in market access could be achieved (the first and especially the second objective). Hence, a compromise on what is to be achieved on market access was already embedded in what was agreed in the Doha Declaration. Essentially, the Doha text limits the set of possible acceptable solutions on market access during this Round of negotiations and a compromise between these contradictory objectives had to be found.

The remaining of the paper describes in general terms the various approaches that have been proposed on market access up to now and identifies the extend to which they meet the above objectives. The final part of the paper proposes a way forward by focussing on the basic principles of how the objectives enumerated above could be effectively addressed.

## 1. The starting point: initial agricultural tariff profiles

In order to illustrate how the different formulae that have been considered so far may affect different countries, seven illustrative country cases are being considered. These include three developed countries and four developing countries drawn from the main negotiating groups.

**Table 1. Agricultural tariff profiles of selected WTO Members**

WTO member	Average initial bound tariff (%)	Spread of bound tariffs (STD/ave) (%)	Peak initial bound tariff (%)	Average initial applied tariff (%)	Spread of applied tariffs (STD/ave) (%)	Peak initial applied tariff (%)	Applied over bound average tariffs (%)	Peak bound over average bound (%)
US	6.4	257.8	182.7	6.4	254.7	182.7	100.0	2854.7
EU	17.4	170.1	456.9	17.4	170.1	456.9	100.0	2625.9
Japan	20.8	245.7	534.8	18.5	242.7	477.9	88.9	2571.2

<sup>3</sup> [Modalities phase: revised first draft \(18 March 2003\)](#) and [Modalities phase: chair’s overview paper \(18 December 2002\)](#).

<b>Brazil</b>	35.5	29.6	55.0	12.5	43.2	55.0	35.2	154.9
<b>Colombia</b>	91.9	37.4	227.0	14.8	35.1	20.0	16.1	247.0
<b>India</b>	115.1	45.9	300.0	42.6	63.1	210.0	37.0	260.6
<b>Kenya</b>	100.0	0.0	100.0	23.1	52.4	85.0	23.1	100.0

Source: Compiled from data provided by UNCTAD, based on 6 digit HS tariff lines (some 620-670 tariff lines for each member)

Several observations can be made from the country profiles presented in Table 1. First, the average bound tariffs of the developed countries are generally less than those of the developing countries. However, in terms of average applied tariffs, the differences between the different members are less pronounced. The main difference between developed and developing countries is on the spread of both bound and applied tariffs, with the former group of countries having a spread of tariffs which is several-fold that of the latter. The same picture emerges as regards maximum tariffs. Generally, the maximum applied tariffs for developed countries are much higher and equal (or very close) to the bound levels compared to developing countries where there is a significant gap between bound and applied (“water in tariffs”). In general, the tariff profiles of the developed countries are highly skewed with many tariff lines at zero or very low single-digit levels and another set of tariff lines bound at very high levels. This is evident from the figures of the last column in Table 1. These substantial differences in the spread of initial tariffs between developed and developing countries are of significance as regards the relative impact of different tariff cut formulae, as we will see below.

## 2. Uruguay Round vs. Swiss formula

Two general approaches were put on the table from the very start of the negotiations: the approach used during the Uruguay Round (UR) negotiations, which became known as the “UR formula” and the Swiss formula, a mathematical formula used for industrial products during the Tokyo round. The UR formula implies an average overall reduction with a minimum cut per tariff line (e.g. during the UR negotiations, 36% average and 15% minimum for developed countries, and 24% and 10%, respectively, for developing countries). For illustrative purposes, the same parameters are assumed in the hypothetical application of the UR formula shown in Table 2.

**Table 2. Hypothetical application of the UR formula**

<b>WTO member</b>	<b>Average initial bound tariff (%)</b>	<b>Peak initial bound tariff (%)</b>	<b>Average tariff reduction (%)</b>	<b>Cut of peak tariff (%)</b>
<b>US</b>	6.4	182.7	36.0	15.0
<b>EU</b>	17.4	456.9	36.0	15.0
<b>Japan</b>	20.8	534.8	36.0	15.0
<b>Brazil</b>	35.5	55.0	24.0	10.0
<b>Colombia</b>	91.9	227.0	24.0	10.0
<b>India</b>	115.1	300.0	24.0	10.0
<b>Kenya</b>	100.0	100.0	24.0	10.0

How does the UR formula score in terms of achieving the four objectives mentioned above?

1. Yes
2. Marginally - can actually increase relative tariff peaks (spread between low and high tariffs)
3. Yes
4. Yes

The major opposition to the UR formula came from those members that expected effective market access, which essentially would come about by a reduction in tariff peaks.

The opponents of the UR formula had a preference for a Swiss-type formula aiming at an harmonization of tariffs between members by cutting higher tariffs more than lower tariffs<sup>4</sup>. Table 3 illustrates an application of the Swiss formula.

How does the Swiss formula score in terms of achieving the four objectives mentioned above?

1. Yes, but highly uneven both within dev'd and between dev'd and dev'g
2. Yes, dramatically for both dev'd and dev'g
3. Not at all
4. No; in fact the opposite, with average cuts for dev'g much greater than for dev'd

The Swiss fails in two key objectives of the reform, namely in accommodating country concerns with sensitive and special products and also in ensuring SDT for developing countries. Essentially, the Swiss accomplishes what the UR formula did not and vice versa. For this reason, these two approaches to market access were seen as two extremes of all possible outcomes and it was evident from the beginning of the negotiations that a compromise between the two had to be found.

**Table 3. Hypothetical application of the Swiss formula**

WTO member	Average initial bound tariff (%)	Peak initial bound tariff (%)	Average tariff reduction (%)	Cut of peak tariff (%)
US	6.4	182.7	17.8	88.0
EU	17.4	456.9	37.1	94.8
Japan	20.8	534.8	34.6	95.5
Brazil	35.5	55.0	40.5	52.4
Colombia	91.9	227.0	63.2	81.9
India	115.1	300.0	66.6	85.7
Kenya	100.0	100.0	66.7	66.7

Note:

In this illustrative application the coefficient “A” of the Swiss formula was assumed to be 25 for developed countries and 50 for developing.

### 3. Harbinson’s banded formula

A compromise between the UR and the Swiss formulae was first sought in the Harbinson draft modalities in the form of the “banded” approach<sup>5</sup>. According to this approach, the whole range of tariff lines was divided in three bands: a high band (comprising the top tariff lines), a medium band and a low band. The UR formula was to be applied within each band

<sup>4</sup> Mathematically, the Swiss formula is expressed as follows:

$$T_{\text{final}} = T_{\text{initial}} * A / (T_{\text{initial}} + A)$$

where the value of the coefficient “A” determines the upper limit of the final tariffs, i.e. no final tariff line would be greater than “A”.

<sup>5</sup> [Modalities phase: revised first draft \(18 March 2003\)](#)

(i.e. an overall average reduction was stipulated and a minimum cut per tariff line). A Swiss-type approach was proposed between bands (i.e. substantially higher average and minimum cuts for the top band relative to the middle and the bottom band). Table 4 illustrates the application of Harbinson's formula.

How does the Harbinson formula score vis-a-vis the above objectives?

1. Yes
2. Yes
3. No (possibly Yes for developing countries with the envisaged SP provision)
4. Yes

Clearly, the Harbinson formula is tougher than the pure UR but not as ambitious as the pure Swiss, especially as regards tariff peaks. However, it was rejected by both sides of the spectrum, i.e. those that favoured the UR and wanted to see only modest cuts and those that favoured the Swiss and wished to see an ambitious outcome on market access. In relative terms, however, it was members of the former group that were most unhappy with the Harbinson formula as they considered that it did not satisfy the third objective, i.e. country-specific sensitivities on particular products, and a very strong and broadly-based alliance was formed (some 70+ developed and developing countries) against the Harbinson formula. This formula was the major dividing issue when the Harbinson draft modalities text was considered in March 2003, the deadline set at Doha to reach agreement on such a text. An alternative had to be found for the process to move forward.

**Table 4. Hypothetical application of the Harbinson formula**

WTO member	Average initial bound tariff (%)	Peak initial bound tariff (%)	Average tariff reduction (%)	Cut of peak tariff (%)
US	6.4	182.7	41.3	45.0
EU	17.4	456.9	44.7	45.0
Japan	20.8	534.8	44.2	45.0
Brazil	35.5	55.0	29.6	20.0
Colombia	91.9	227.0	35.8	30.0
India	115.1	300.0	36.1	30.0
Kenya	100.0	100.0	35.0	25.0
<b>Harbinson formula</b>				
<b>Developed countries: 3 band reduction formula</b>				
tariff > 90      average reduction of 60% with a minimum 45%				
15 < tariff ≤ 90      average reduction of 50% with a minimum 35%				
tariff ≤ 15      average reduction of 40% with a minimum 25%				
<b>Developing countries: 4 band reduction formula</b>				
tariff > 120      average reduction of 40% with a minimum 30%				
60 < tariff ≤ 120      average reduction of 35% with a minimum 25%				
20 < tariff ≤ 60      average reduction of 30% with a minimum 20%				
tariff ≤ 20      average reduction of 25% with a minimum 15%				

#### 4. The blended formula

The blended formula was the next attempt to strike a compromise (see Annex I on the specification of the blended formula as contained in the draft Cancun Ministerial Text). The blended formula tried to combine ambition, by explicitly specifying that a portion of tariff lines would be subject to a straightforward application of the pure Swiss formula, and flexibility, by stipulating that a portion of tariff lines would be subject to the straightforward application of the pure UR formula. The remaining portion of tariff lines would have been reduced to zero (or between 0-5% for developing countries). Additional provisions were stipulated in the form of increased TRQs to ensure effective additional market access for sensitive products. The designation of the individual tariff lines in each of the three categories was assumed to be essentially “self-declaratory” i.e. the choice of individual WTO members.

In the first instance, one would have concluded that the blended formula was a genuine attempt to find a compromise. It was meant to combine ambition and flexibility, two key characteristics considered essential in a compromise solution. Yet, its fate was not better than that of the previous approaches. Why did it fail?

There are a large number of key parameters that would have to be fixed in order to operationalize the blended formula at the individual country level. These include:

- the proportions of tariff lines under the three categories
- which specific tariff lines would fall under each category
- the average and the minimum cut under the UR category
- the coefficient of the Swiss formula.

**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>					
			<i>5/65/30</i>	<i>10/60/30</i>	<i>20/50/30</i>	<i>30/40/30</i>	<i>40/30/30</i>	
<b>US</b>	6.4	182.7	22.2	21.7	22.5	24.7	27.7	15.0
<b>EU</b>	17.4	456.9	42.9	40.7	38.1	36.9	36.7	15.0
<b>Japan</b>	20.8	534.8	38.6	36.3	33.8	33.3	33.9	15.0
			<i>Assumed proportion of tariff lines between UR/Swiss/“duty free” categories (%)</i>					
			<i>10/85/5</i>	<i>20/75/5</i>	<i>40/55/5</i>	<i>60/35/5</i>	<i>80/15/5</i>	
<b>Brazil</b>	35.5	55.0	40.6	39.8	36.3	32.9	29.5	10.0
<b>Colombia</b>	91.9	227.0	61.1	59.4	52.5	45.4	37.1	10.0
<b>India</b>	115.1	300.0	66.0	64.0	55.5	46.9	37.2	10.0
<b>Kenya</b>	100.0	100.0	63.8	59.6	51.0	42.5	34.0	10.0

#### Assumptions:

The choice of parameters made, in order to demonstrate the application of the blended formula, were guided to some degree by what is stated in the Framework text but were largely arbitrary otherwise. The basic assumptions made are as follows:

- In all scenarios the proportion of tariff lines under the duty free category was assumed to be the same, namely, 30% for developed countries (this comprises both those that are already zero and those to become zero), and 5% for developing. Hence, the variation between the different scenarios was between the portions of tariff lines that were assumed to fall under the UR and the Swiss formulae.
- For both developed and developing countries the tariff lines assumed to fall under the duty free category were those already low, i.e. at the very bottom of the tariff range. For developed countries these tariffs are reduced to zero while for developing to 5%.
- For developed countries it was assumed that the UR formula would apply to tariff lines at the top of the range of tariffs (i.e. peak tariffs were assumed to correspond to what these countries would consider as sensitive products). The opposite was assumed for developing countries, i.e. the UR formula would apply to tariffs in the middle of the tariff range (i.e. tariff lines for which there is generally a small difference between applied and bound tariff levels and hence little flexibility).
- For the portion of tariff lines under UR category the additional specification for a minimum and an average cut contained in the blended formula was ignored (for the sake of simplicity), and a linear cut was assumed instead equal to 36% for developed countries and 24% for developing.
- Finally, for the residual portion of tariff lines under the Swiss formula a coefficient of 25 was assumed for developed countries and 50 for developing.

There is an infinite number of combinations of these parameters making the application of the blended formula highly unpredictable. Table 5 illustrates clearly that the outcome varies considerably depending on what values are chosen for the various parameters. Because of this wide range of possible outcomes of the blended formula, it is difficult to gauge it in relation to the four objectives considered above. In general terms, however, one could say the following:

1. Yes, but highly uneven both within developed and between developed and developing
2. No; to some extent if the UR category is very narrow
3. Yes, if the UR category is wide enough
4. No; because of their initial tariff profile, developing countries would be generally subjected to higher average cuts of bound tariffs.

It is evident that on all four criteria there is no clear answer as to the outcome of the blended formula. Everything depends on the parameters assumed. While the proponents of the blended formula hoped that ambiguity could foster a compromise, with much to be negotiated at a later stage, the skeptics felt that the uncertainty in the blended formula would prejudice such a negotiated outcome against their interests.

Those members that had concerns over sensitive products banked on the explicit recognition of flexibility in the blended formula and generally went along with it hoping that they would be able to negotiate a category for sensitive products that would be broad enough and flexible enough to accommodate their concerns. The skeptics, on the other hand, assumed that there was too much flexibility in the blended formula, which would be exploited by those members that resisted reform, thus yielding an outcome much less ambitious than their expectations. Essentially what was considered initially as the major advantage of the blended formula (the flexibility it offered in its application by individual members) also became its major drawback.

## **5. The overall principles of a tariff reduction formula**

As with other elements of the reform process in agriculture and other sectors, it is unrealistic to expect at this stage a complete specification of the tariff reduction formula. However, some degree of certainty as to how any tariff reduction formula may play in practice is essential for it to receive general acceptance. Some key elements of the overall principles of a tariff reduction formula, focusing particularly on what is to achieve, are discussed below.

**Average reduction commitment.** One of the reasons that some of the proposed formulae were rejected was the substantial differences in the resulting overall average reduction between members. Clarity is needed on what would amount to “substantial improvements in market access”, in terms of the overall average tariff reduction level. Would that be comparable to that attained during the Uruguay Round negotiations or the aim would be for a higher average cut? Would it be the same for all members (aside from SDT differences discussed below)?

**Balancing ambition and flexibility.** The fundamental dividing issue on market access is clearly how to accommodate commodity-specific country sensitivities within the overall objective of achieving effective market access. While the blended formula was meant as an attempt to balance these two objectives, a great degree of unpredictability was left as to how the flexibility offered would play in practice. The outcome was apparently not satisfactory neither for those demanding flexibility nor for those that would have gone along with it. The former were not sure whether they would be able to get what they needed given their particular circumstances, and the latter were afraid that, to the extent that what was offered was “open-ended”, it was likely to be abused. What was lacking in this approach was some checks and balances from both sides.

In order to remove the uncertainty on how flexibility would play in practice, more attention has to be given to its specification. The basic principle could be to introduce some “economics” into the specification in the sense that a price is placed to what is being offered. In other words the specification should be based on a system which would allow the demanders to get the flexibility they wish to have by paying a fair price for it.

The blended formula 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%. Hence the first element in the specification of flexibility would be to introduce the notion of a member-specific “flexible maximum” tariff or “ceiling” tariff<sup>6</sup>, based on the tariff profile of each member. This level is relative, in the sense that it is determined by member-specific tariff structures, and flexible, in the sense that could be exceeded at a cost. The second element would be to introduce a measure of the effort made (or not made) in complying with that maximum and institute a reward (and penalty) proportional to that effort. These two essential elements of the specification of flexibility are discussed in turn.

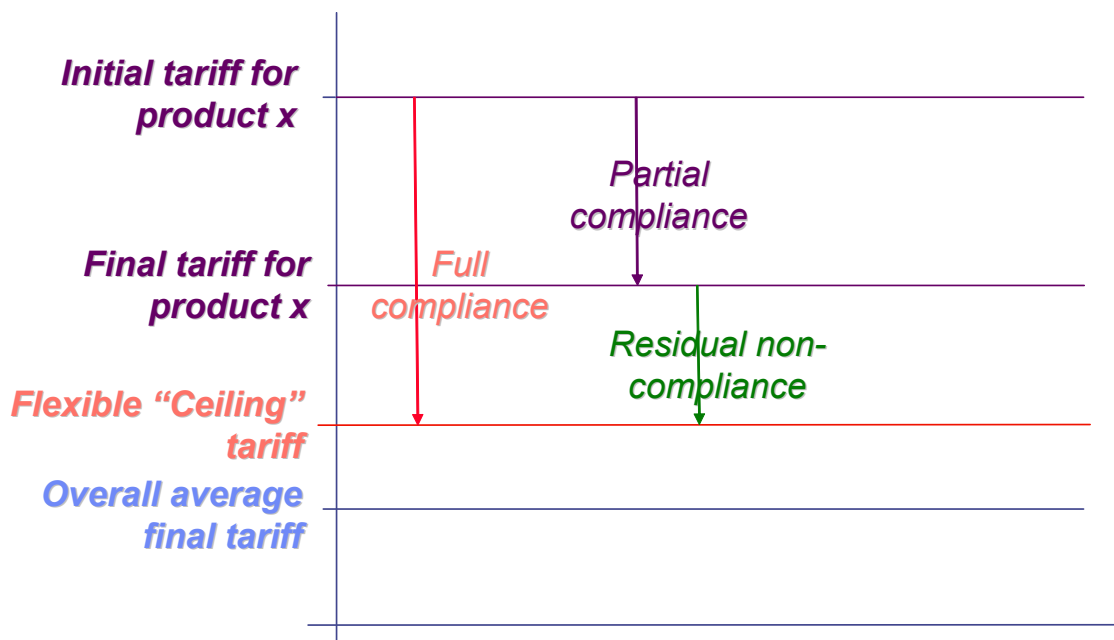
One possible definition of the “flexible maximum” tariff (or “ceiling” tariff) could be to express it as a percentage above the overall final average tariff (for all agricultural products) of each member<sup>7</sup>. The idea here is that tariff levels are relative and the same tariff could be considered high or low depending on the overall profile of an individual member. In the example given above assume further that the final average tariff to be attained by member A is 20% and that of member B is 30%. “Ceiling” tariffs are then expressed as a fixed percentage above these average levels. For example, if it is stipulated that the “ceiling” tariff should be twice the average, i.e. 100% above a member’s average tariff (an across-the-board percentage, to be negotiated), then the member-specific “ceilings” would be  $(20+20)=40\%$  for member A, and  $(30+30)=60\%$  for member B. As the average tariffs come down, so would these tariff “ceilings” but in a manner that recognises differences in tariff profiles between members as well as the effort that has to be made in order to comply with reduction commitments.

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<sup>6</sup> The terms “flexible maximum” or “ceiling” are used to indicate that these levels are not absolute maxima but to the extent they are exceeded then a penalty applies, as explained in what follows.

<sup>7</sup> Alternatively, or additionally, a measure of the spread of the initial tariff profile could also be introduced in the specification of the “ceiling” tariff levels.

The second element that requires specification is the penalty that would be applied if a member does not comply with the above “ceilings”. One way of doing that would be to scale the penalty as a proportion of the degree to which the “ceiling” is not met. For illustrative purposes, assume that the maximum penalty for non-compliance is an additional TRQ of 10% of the level of consumption (an across-the-board level, to be negotiated). Assume further that member A reduced its tariff for product “x” from 70% to 50% (however, still above A’s “ceiling” level of 40%) and member B reduced its tariff from 250% to 150% (also well above B’s “ceiling” level of 60%). The penalties 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 met<sup>8</sup>. This is illustrated in the graph below and relevant calculations are shown in Table 6. The penalty of non-compliance is an additional TRQ of 3.33% for member A and 4.74% for member B for the products in question. For those products for which final bound tariffs are below the “ceiling” level, there is no penalty.



**Table 6. Illustration of the specification of flexibility**

WTO member	(1) Initial bound tariff for product x <sup>1/</sup> (%)	(2) Average final bound tariff (%)	(3) “Ceiling” for final bound tariffs <sup>2/</sup> (%)	(4) Final bound tariff for product x <sup>3/</sup> (%)	(5) Residual non-compliance <sup>4/</sup> (%)	(6) Penalty (additional TRQ) <sup>5/</sup> (%)
<b>Member A</b>	70.0	20.0	40.0	50.0	33.3	3.33
<b>Member B</b>	250.0	30.0	60.0	150.0	47.4	4.74

<sup>1/</sup> not necessarily the same product for member A and member B  
<sup>2/</sup> assumed to be 100% above the average final bound tariff (an across-the-board percentage level, to be negotiated). Alternatively, or additionally, a measure of the spread of the initial tariff profile could also be introduced in the specification of the “ceiling” tariff levels.  
<sup>3/</sup> for each member the same tariff line as that in column (1)  
<sup>4/</sup> the ratio between (1)-(4) over (1)-(3)  
<sup>5/</sup> residual non-compliance times the maximum penalty (10% additional TRQ was assumed – an across-the-board level, to be negotiated).

<sup>8</sup> Clearly, for those tariff lines for which members reduce their tariffs down to the ceiling level or below it, there would be no penalty to be paid.

There are several important properties of the above specification that should be highlighted.

- First, the specification takes into account the differences in the initial tariff profiles of different members and the relative effort each would have to make to reduce tariffs of sensitive products.
- Second, a designation of sensitive products is not necessary and hence protracted negotiations on defining such products or allowing a self-declaratory option on the part of members are avoided.
- Third, there is also automaticity in the penalty (in the form of an additional TRQ) to be applied in cases of non-compliance, as well as a build-in incentive to members to reduce tariffs of sensitive products below “ceiling” levels and, to the extent they do so, the penalty is proportionally reduced.
- Finally, and related to the third, there is a build-in phasing out mechanism of this provision in the sense that the penalty does not become a permanent feature of the system but goes away automatically (on a product by product basis) as soon as a member is in full compliance with its “ceiling” tariff level.

**SDT provisions.** Again, several of the proposed formulae were unclear as to whether the understood differentiation between developed and developed countries would apply and to what extent. In fact, as was shown above in illustrating the different proposals, some of them would have resulted in a more onerous reduction commitment for developing countries than for developed. This lack of clarity resulted in a great deal of apprehension among developing countries and resistance on their part in what was proposed. Hence more clarity is essential on what SDT provision would apply on market access.

During the Uruguay Round differentiation on market access concerned levels of reduction commitments and implementation periods. In view of the envisaged additional flexibility for both developed and developing countries for sensitive and special products, there is a need to clarify as to how this differentiation would apply to these commitments as well. The general principle could be to express such differentiation as “differentiated symmetry” whereby all commitments by developing countries are by, say 1/3, less onerous than those of developed countries.

**Differentiation in the use of the reduction formula.** The notion of different formulae for developed and developing countries has also been a major dividing issue. To the extent that there is a better understanding on what is to be achieved in the final outcome and clear SDT provisions are in place, as discussed above, the case for a different formula is weak. However, application of the same formula with different parameters is likely to be necessary in order for such a formula to yield differentiated outcomes for developed and developing members.

## 6. Implications for the Framework Text

While ambiguity in the Framework text for agricultural negotiations (due for negotiation by WTO members July 2004) is desirable at this stage of the negotiations, some minimum certainty is also necessary. But certainty by not by focussing on a formula which would be subject to interpretation and likely counterproductive as the experience thus far has shown. Framework text should focus on better defining the general shape of the final outcome in terms of:

- clarity in reduction commitments
- clarity on SDT provisions
- clarity on flexibility allowed and associated penalties

These principles can be translated into legal language in the Framework text by using the approach suggested in this paper. It would affect specifically paragraphs 2.1, 2.2 and 2.7 of the Derbez draft.

Having defined the final outcome in those terms, the issue of defining the specific mathematical formula to be used is secondary. Several specifications are possible and the choice can be deferred to be negotiated at a later stage. Having defined the outcome, the essential properties of the final formula are already established and this would make the choice of the “tool” much easier.

## 7. 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 could remove the mistrust and bridge the gap between ambition and flexibility.

The purpose of the paper was to illustrate that possibilities for a compromise formulation exist. The focus was on providing the main parameters of this compromise formulation and on better defining the final outcome, which are essential elements in arriving at an agreement on a Framework text by the set date of July 2004. The details on specific numbers are left for a later stage of the negotiations. Intentionally, the suggested approach did not place much emphasis on the specific tariff reduction mathematical formula that could be used, as that is not really the key issue. The crux of the matter, namely bridging the gap between ambition and flexibility, has to be settled outside a particular mathematical expression. To the extent that this issue is resolved, perhaps along the lines of the compromise specification suggested in this paper, then there are many formulae that could do the rest of the job, including those already proposed but also other approaches that have been tried in other sectors or have not been considered at all<sup>9</sup>.

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<sup>9</sup> One such approach is detailed in [A compromise formula for tariff cuts in agriculture](#), P. Konandreas, *Food Policy*, Vol 28, February 2003. The approach proposed in that paper recognizes the differences in the tariff profiles of individual members and suggests a reduction formula that would result in a new tariff profile, which has the basic characteristics of the initial, but with a reduced average and a reduced spread in the tariff range (both of which being the parameters to be negotiated).

13 September 2003

**Annex A to the draft Cancún Ministerial Text**  
*Second Revision*

**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.
- (ii) [...] % of tariff lines shall be subject to a Swiss formula with a coefficient [...].
- (iii) [...] % of tariff lines shall be duty-free.

[The resulting simple average tariff reduction for all agricultural products shall be no less than [...] %.]

2.2 For the tariff lines that exceed a maximum of [...] %, developed-country participants shall either reduce them to that maximum, or ensure effective additional market access in these or other areas through a request-offer process that could include TRQs. [Within this category, participants shall have additional flexibility under conditions to be determined for a very limited number of [ ] products to be designated on the basis of non-trade concerns that would only be subject to the provisions of paragraph 2.1 above.]

2.3 The issue of tariff escalation will be addressed by applying a factor of [...] to the tariff reduction of the processed product in case its tariff is higher than the tariff for the product in its primary form.

2.4 In-quota tariffs shall be reduced by [...] %. Terms and conditions of any TRQ expansion/opening remain under negotiation.

2.5 The use and duration of the special agricultural safeguard (SSG) remain under negotiation.

**Special and differential treatment**

2.6 Having regard to their development, food security and/or livelihood security needs, developing countries shall benefit from special and differential treatment, including lower tariff reductions and longer implementation periods.

2.7 The formula applicable for tariff reductions by developing countries shall be as follows:

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

cuts and TRQs. Within this category, developing countries shall have additional flexibility under conditions to be determined to designate Special Products (SP) which would only be subject to a linear cut of a minimum of [...] % and no new commitments regarding TRQs; however, where tariff bindings are very low (below [...] %) there shall be no requirement to reduce tariffs.

(ii) [...] % of tariff lines shall be subject to a Swiss formula with a coefficient of [...].

(iii) [...] % of tariff lines shall be bound between 0 and 5%, taking into account the importance of tariffs as a source of revenue for developing countries.

In implementing tariff reductions under paragraphs 2.7(ii) and 2.7(iii) above, developing countries should benefit from an additional implementation period of [...].

2.8 The applicability and/or extent of the provisions of paragraph 2.2 above to developing countries remain under negotiation, taking into account their development needs.

2.9 A special agricultural safeguard (SSM) shall be established for use by developing countries subject to conditions and for products to be determined.

2.10 All developed countries will seek to provide duty-free access for at least [...] % of imports from developing countries through a combination of MFN and preferential access, including particularly all tropical and other products referred to in the preamble of the Agreement on Agriculture.

2.11 Participants undertake to take account of the importance of preferential access for developing countries. The further considerations in this regard will be based on paragraph 16 of the revised First Draft of Modalities for the Further Commitments (TN/AG/W/1/Rev.1 refers).