

**Comments on the WTO Secretariat's paper  
"Tariff reductions for agricultural Products: Some simulations of the  
Operation of the Blended Formula" (JOB(04)/1)**

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**I. INTRODUCTION**

A. Introduction

1. One of the most contentious issues in agriculture negotiations is the blended approach for market access presented in the proposed framework on agriculture in the Draft Ministerial Declaration produced by the Chairman of the Cancun Conference on 13 September 2003. The WTO Secretariat, in response to the request made by several delegations during consultations, has contributed to the discussion on this particular issue preparing a simulation exercise on the workings of the blended approach. The objective of this note is to comment on the methodology used by the Secretariat and draw some conclusions from the simulations' results.

B. The blended approach

2. Throughout the negotiations, discussions on the formula for tariff reductions were polarized between those supporting the Uruguay Round approach and the Swiss formula. The joint EU/US text presented in August 2003 proposed to reduce tariffs using a combination of both these formulas and a third component of tariffs to be reduced to zero. This came to be called the blended approach. An integral part of that proposal was that the same –blended– approach was to be implemented by both developed and developing countries, although the later would be entitled to Special and Differential Treatment which was not specify but included lower tariff reductions and longer implementation periods.
3. Most developing countries expressed serious concerns regarding the use of the blended approach arguing that it would not result in improved market access for their exports (i.e. sensitive sectors in developed countries could be protected by minimum tariff cuts using the Uruguay Round formula) while imposing significant tariff reductions on them (i.e. the Swiss formula would lead to drastic tariff reductions in the higher bound tariffs of developing countries which they adopted as a result of S&D provisions during the Uruguay Round). Developing countries have proposed the use of different formula or approaches for tariff reductions for developed and developing countries, arguing that their differing tariff structures would lead to a disproportionate burden of reform falling on developing countries were the blended approach to be used, and considering the significant role tariffs play in these countries for purposes of protection of rural livelihoods and food security.

C. Original objective of the study

4. The purpose of the study, as requested by several delegations, particularly developing country delegations, was two-fold: i) to assess to what extent the tariff structure of a particular country will determine the impact of the proposed blended approach for tariff reductions. The argument was that the same approach will lead to radical different results depending on the tariff structure on which the reductions were to be implemented; and ii) to compare the impact of reform in developed and developing countries. The idea was to evaluate whether or not, given the particular tariff structure of developed and developing countries, developing countries would be required to make a disproportionate effort on tariff reductions were the blended approach to be used.

**II. DISCUSSION ON THE METHODOLOGY USED BY THE SECRETARIAT AND ITS RESULTS**

A. Stylized tariff structures

5. The approach taken by the WTO Secretariat was to devise four (4) abstract or stylized tariff structures to simulate the impact of different options regarding both, the 'weight' or percentage of tariff lines placed on each of the options included in the blended approach (i.e. reduction to zero, Swiss formula and Uruguay Round approach) and the reduction target within each category (i.e. the coefficient for the Swiss formula and the average and minimum reduction required under the Uruguay Round approach).
6. A key element to consider for assessing the results shown in the Secretariat's study is to what extent the stylized tariff structures reflect the actual tariff of WTO members, and whether those tariff structures can be attributed to developed and developing countries for purposes of comparing the results of the blended approach on different groups of Members.
7. On this point, it can be said that the abstract examples used in the Secretariat's paper reflect only to a certain extent the tariff structure of some developing countries. In particular, TS2 (i.e. tariff lines bound at a uniform low rate) and TS3 (i.e. tariff lines bound at a uniform high rate) show an attempt by the Secretariat to capture features of the actual tariff structure of some developing countries. However, most developing countries do not have tariffs bound at zero as suggested in all abstract examples of the Secretariat. The implication of this is that any combination of the blended approach as reproduced in the Secretariat's paper underestimates the impact of the blended approach in developing countries that have no tariffs bound at zero (i.e. any commitment to reduce a percentage of tariff lines to, or close to zero, would result in an overall reduction of tariffs in developing countries larger than is suggested in the Secretariat's paper).

8. On the other hand, it could be argued that none of the tariff structures used as examples by the Secretariat resembles the actual tariff structure of developed countries. All of the abstract tariff profiles fail to reproduce the extent of tariff lines that developed countries have bound at zero. The Secretariat's study established 10 per cent of tariffs lines bound at zero in each of the four stylized tariff structures. However, if we look at the actual tariff schedules of some developed countries we realize that a large percentage is bound at zero. Canada for example, bound 42 per cent tariff lines at zero. For the United States this figure is 28 per cent and for the EU it is 27 per cent<sup>1</sup>. The implication of this is that the results of all the scenarios presented by the Secretariat overestimate the impact of the blended approach in these developed countries (i.e. these countries could commit to reduce to zero a large percentage of their tariffs without making any real concession).
9. On the other hand, even TS4 which, within the four stylized tariff structures may be assumed to resemble developed countries' tariff structure, fails to capture the high protection provided in those countries to a few key agricultural products as compared with the rest. That is, the actual tariff schedule of some developed countries would imply a much more skewed distribution where the average protection to agricultural products contrast with that provided to key sectors via tariff peaks (i.e. TS4 should reflect a larger difference between the highest tariff and the rest and should also reduce the number of tariff lines at the peak level). The implication of this is that the examples used by the Secretariat overestimate the impact of the blended approach as applied to the actual tariff structure of developed countries since the reduction of tariffs produced by the Swiss formula would produce in their tariff schedules lower reductions than those reflected in the abstract examples.

B. Percentage of tariff lines under each category of the blended approach: 'Weights'

10. A key element of the blended approach is the distribution of tariff lines across the different options for tariff reductions. That is, the percentage of tariff lines that would be subject to the Swiss formula, the Uruguay Round formula and duty free. The proposed framework approach would leave open for negotiations the definition of that distribution or 'weights' until the adoption of modalities at a second stage. Therefore, the WTO Secretariat had to make assumptions to run the simulations. It devised five different weights using combinations of 10-30 and 60 per cent of tariff lines placed in the three categories of the blended approach. Completely different combinations would be equally plausible.
11. In general, given that developing countries have no tariff lines bound at zero, a distribution of tariffs or weights which places a large percentage of tariff lines to be reduced up to zero or close to it, would by itself impose disproportionately large reductions on developing countries. It can be seen in

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<sup>1</sup> World Trade Organization (2001), *Market Access: Unfinished business*, pag. 49-50.

the Secretariat's paper by looking at the overall reduction produced under the scenario 60-10-30 for TS2 and TS3 (i.e. comparing within each column of Table A1 – maintaining the parameters of the Swiss and UR formula constant – the impact of changing the 'weights' or percentage of tariff lines allocated to each formula).

12. On the other hand, the fact that many developing countries tend to have high tariff rates (e.g. a tariff structure similar to TS3 in the Secretariat's paper, with the qualifications indicated earlier), the larger the percentage of tariff lines subject to the Swiss formula the larger the tariff cuts imposed on those developing countries.
13. For the developing countries whose tariff schedules may be assumed to resemble TS2 in the Secretariat's paper (i.e. most tariffs bound at a low level) the impact of changing the percentage of tariff lines subject to the Swiss formula is not as drastic as for countries with initial high bound tariffs. In fact, the minimum reduction for TS2 from all the scenarios run by the Secretariat of 24 per cent is achieved under a distribution of 10-60-30 (i.e. the largest percentage of tariff lines placed under the Swiss formula). However, the parameter used to achieve such result (i.e. the coefficient of the Swiss formula) is 100. The obvious question would be whether to agree to such parameters during the negotiations is really feasible. The most that developed countries and Cairns group members have been willing to concede on S&D has been a coefficient of 50 for developing countries. As mentioned above, the Secretariat's stylized examples underestimate reductions in developing countries by including some bound tariffs at zero. That would imply that developing countries, even those with already low tariffs across the board, will be required in any of the scenarios ran by the Secretariat to undertake tariff reductions beyond what they were requested during the Uruguay Round.
14. For developed countries, on the other hand, the use of the Swiss formula in the blended approach would fail to produce significant tariff cuts due to the skewed tariff profiles of these countries where average tariffs are quite low whereas key sensitive sectors are protected behind tariff peaks. In fact, according to UNCTAD<sup>2</sup>, 63 per cent of EU's tariff lines are bound below 14 per cent. This figure reaches 71 per cent for Japan and 90 per cent for the US. Therefore, for the Swiss formula under the blended approach to have any impact on the bound tariff of these countries, the percentage or 'weight' set for the Swiss formula should be very high. If we were to assume TS4 as a proxy for developed countries – with the caveats mentioned above - we notice that by increasing the percentage of tariff lines subject to the Swiss formula from 30 to 60 per cent overall reduction would increase from 52 (weights of 10-30-60) to 67 per cent (weights of 10-60-30). These are the results of the simulations using a Swiss coefficient of 10 and an average reduction of 60 per cent for the Uruguay Round formula – the most ambitious scenario.

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<sup>2</sup> UNCTAD (2003), *Analysis of the Blended Formula for Negotiations on Agriculture*, presentation of results of simulation using the ATPSM model.

C. Parameters of the formula

15. Another fundamental element of the blended approach is obviously the definition of the actual numbers to plug into the formulas. That is, the coefficient for the Swiss formula, and the average reduction rate and minimum reduction per tariff line specified for the Uruguay Round formula. According to the framework approach, these parameters would be defined at a later stage for the adoption of modalities. The WTO Secretariat, therefore made assumptions and ran simulations using four (4) coefficients for the Swiss formula and four (4) pairs of average targets and minimum reduction requirement per tariff line for the Uruguay Round. In both cases, the numbers chosen reflect the discussions and proposals made in the course of the negotiations so far, including the targets for reduction suggested by the Chairman of the CoA Special Session in March 2003 although in a completely different context.
16. The impact of the specific parameters chosen for the formulas can be assessed by comparing across a horizontal line for a particular tariff structure (e.g. TS2) and distribution of tariff lines (i.e. 'weights' 33-33-33) in Table A2 of the Secretariat's paper. The lower the coefficient for the Swiss formula and larger the reduction target under the Uruguay Round formula, the larger the overall reduction achieved.
17. A different way to read the Table A2 is by comparing how for any particular distribution of tariff lines (e.g. 10-30-60) and parameters chosen for the formulas (e.g. 10-60) the result of the blended approach varies significantly for different tariff profiles. For example, for a distribution of 33-33-33 and parameters of the formulas of 10-60, the Secretariat's paper quotes an overall reduction of 69 per cent for TS4 (which we may assume to resemble the closest developed countries' tariff structure for purposes of comparison) but a reduction of 73 and 83 per cent for TS2 and TS3, respectively. If we were to presume, as mentioned above, that some developing countries' tariff structures resemble these abstract models presented by the Secretariat, it is clear as shown by this example that these countries could be required to implement larger cuts than developed countries.
18. However, through the negotiations the majority of members have indicated they are willing to concede lower reduction rates and longer implementation period for developing countries (or for some of them). The Chairman's proposal made in Cancun (Derbez text) included a reference to this in paragraph 2.6 of Annex A but by using the blended approach there is no guarantee that this would be the result. It will depend on the interplay between the parameters and weights chosen for the blended approach and the working of that combination with the particular tariff structure of every developing country.
19. If we look at the Secretariat's paper Table A2 and compare the results of the simulation for the different tariff structures (i.e. TS1, TS2...) for any particular

distribution of tariff lines or weights (e.g. 33-33-33), we realized that in several of the scenarios constructed by the Secretariat the results under TS4 (i.e. assumed to be proxy for developed country) are the lowest. For example, if we use the weight 33-33-33 we can notice in the fourth column of Table A2 that the largest reduction that could be achieved under TS4 using the most ambitious parameters for the formula (i.e. 10-60) is 69 per cent. On the other hand, the lowest reduction under that particular weight for TS3 is 59 per cent and 43 per cent for TS2 (i.e. assumed to be proxies for developing countries). This would imply that developing countries reductions could be in the order of 86 per cent of that of developed countries in the case of TS3 and 62 per cent for TS2. These results are significantly above or close to the two-thirds used during the Uruguay Round to indicate the proportion between tariff reductions of developed and developing countries. It is important to say that many developing countries have questioned whether that proportion is appropriate or whether given the importance of tariffs for these countries and the wide differences between the agricultural systems and development of WTO members, developing countries should be entitled to stronger S&D than was provided during the Uruguay Round.

20. Moreover, it should also be noticed that the examples highlighted above would imply that while developed countries use parameters for the formula of 10-60, the opposite would be needed for developing countries (i.e. 100-30) to achieve the least reduction possible (the difference in the percentage of tariff reductions of developed and developing countries would be lower than that reflected in the Secretariat's paper due to the fact that while developed country's reductions are overestimated, those of developing countries are underestimated in the Secretariat's paper). As discussed above, it could be questioned whether such extreme parameters could be agreed in the course of the negotiations.
21. Based on the above discussion two considerations need to be made: first, that the blended approach seems to provide limited scope for implementing effective S&D for developing countries given that extreme parameters for the formula may be required for providing any significant difference between the reduction required from developed and developing countries; and two, provided this is so, it is not advisable to developing countries to agree to a framework approach without having clarity regarding key parameters of the blended approach. Otherwise, they would seriously undermine their chances of negotiating favorable modalities and incorporating effective S&D within them.

### III. CONCLUSIONS

#### A. On methodology

- The Secretariat's paper clearly illustrates that the blended approach would lead to radical different results depending on the tariff structure on which reductions are to be implemented. That is, the blended approach is not 'neutral' with respect to tariff profiles.

- It could be questioned whether the stylized tariff profiles prepared by the Secretariat reflect the actual tariff structure of WTO members. It seems to capture features of the tariff structure of various developing countries with the important qualification that these countries have not bound tariffs at zero. Therefore, the scenarios presented by the Secretariat underestimate the impact of the blended approach on developing countries.
- None of the tariff structures presented in the Secretariat paper resembles the actual tariff profile of developed countries. The dispersion of tariff structure of these countries is significantly larger than suggested in any of the stylized tariff profiles used in the paper. As a consequence, the results of the scenarios ran by the Secretariat overestimate the impact of the blended approach in developed countries.

#### B. On implications for the negotiations

- The blended approach provides considerable flexibility for minimizing tariff cuts to countries with highly skewed tariff profiles (i.e. developed countries). On the other hand, it does not offer flexibility to countries with homogeneous – and particularly, high - tariff profiles.
- The use of the blended approach deprives of meaning the use of a ‘formula’ for tariff reductions – as different from request and offer negotiations or other methodologies – to the extent that results will vary widely depending on the tariff structure of every Member. Some Members may be required to make deep tariff cuts whereas others may implement only moderate or insignificant tariff cuts.
- The use of the blended approach could lead to developing countries undertaken tariff reductions above what would be required from developed countries due to different tariff profiles of both groups of countries. If the blended approach were to be applied to developed and developing countries, it would be extremely important to specify that the tariff reduction to be implemented by developing countries shall be only a fraction of that required from developed countries (i.e. two-thirds as used during the Uruguay Round, or less as requested by many developing countries).
- The blended approach will lead to disproportionate tariff reductions being imposed on developing countries by virtue of their tariff structure. Especially, the use of the Swiss formula and commitments to reduce tariffs to, or close to zero, would put considerable burden on developing countries.
- Many developing countries apply tariffs which are lower than their bound levels. Were large tariff cuts to be imposed on developing countries, the flexibility provided by the ‘water’ in their tariffs could be significantly



reduced. Furthermore, depending on the final figures and parameters agreed in the negotiations, even low applied tariffs could be further reduced.

- The blended approach would not result in improved market access on key sectors of export interest to developing countries in industrialized markets because sensitive sectors will be protected through minimum cuts under the Uruguay Round formula.
- Achieving similar reduction commitments from different countries using the blended approach would require a flexible scheme where various tariff weights and parameters in the formula are used by different WTO Members.
- To implement S&D in the form of lower reduction commitments on the lines of was conceded to developing countries during the Uruguay Round (i.e. two-thirds of that required from developed countries)<sup>3</sup> extreme parameters in the formulas would be required. The negotiation process so far has indicated that agreeing to such parameters might not be feasible. As a result, the blended approach does not provide the necessary flexibility to accommodate effective S&D for developing countries.
- The outcome of the negotiations using the blended approach for market access – or indeed, by agreeing on a framework approach in agriculture instead of modalities- is uncertain. Results will depend on the parameters agree for the formulas, the weights placed under each category for tariff reductions and the specific tariff structure of each WTO Member. Under these circumstances, no agreement on a framework approach should be reached without concrete discussion on those key parameters of the blended approach.

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<sup>3</sup> It is important to point out that many developing countries have indicated throughout the negotiations that a proportion of two-third of commitments of what is required from developed countries does not reflect the development gap between both groups of countries. Neither would it seem to acknowledge the paramount importance of tariffs as a policy tool for developing countries as compared to what they represent for developed countries.



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