

The reduction of tariffs under the "linear" and "Swiss formula" in the new WTO round: Impacts on the EU sugar regime

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Three different tariff reduction formulas are used for the projections of "border protection" for EU sugar. The first formula is the linear Uruguay Round formula. The second formula is the "Swiss formula" proposed by the Cairns Group and the third formula is the linear tariff reduction formula proposed by the World Trade Organization (WTO) or the so-called "Harbinson Proposal" (Table).

Table: Tariff reduction formulas used in the projections for "border protection"

Uruguay Round formula	$t1 = [(1 - a) * t0]$, where parameter $a = 0.36$ (on average 36% reduction in tariffs) or parameter $a = 0.15$ (with a minimum 15% reduction in tariffs)
Swiss formula	$t1 = (a * t0) / (a + t0)$, where parameter $a = 25$ (no individual tariff exceeds 25%)
Harbinson Proposal formula	$t1 = [(1 - a) * t0]$ for all agricultural tariffs greater than 90% in ad-valorem basis, where parameter $a = 0.60$ (on average 60% reduction in tariffs) or parameter $a = 0.45$ (with a minimum 45% reduction in tariffs)

The WTO negotiations after the Cancún Ministerial Conference is proceeding slowly, but it is transparent that the likelihood for the EU sugar regime to escape reform is small. The probability is low, but the EU sugar regime can avoid reform or cut in the intervention price in the new WTO round with at least three conditions: 1) the Uruguay Round formula will be accepted as the reduction method in the new WTO round and the EU can use the minimum reduction rate of 15% for sugar; 2) world sugar prices will recover in the future; and 3) both developed and developing countries are allowed to use the "Special Safeguard Provisions."

If the Cairns Group Proposal for tariff reduction is implemented in the new WTO round, the EU sugar regime will have to go through drastic reforms. The EU is considered to be one of the highest cost producers in the world sugar market. Many of the sugar producers in the EU would not survive reforms that will require a 67% or two-thirds drop in price. The Cairns Group Proposal will most probably end the EU's dominance as a major exporter and producer in the world sugar market, but the EU will still remain as a major importer of sugar in the world market.

If the Harbinson Proposal for tariff reduction is implemented in the new WTO round, the EU may choose the minimum reduction percentage of 45% (instead of 60%) for sugar since sugar is considered as a "sensitive commodity." In this case, the intervention price for sugar is required to be lowered by 35%, which is only 10% more than the 25% percent cut suggested earlier by the EU Commission for reforming the EU sugar regime. Thus, the EU sugar regime may be able to survive a 35% cut in intervention price. The EU sugar regime may not come to an end if the Harbinson Proposal is accepted, although the one-third cut in price would be hard to swallow for the high cost sugar producers in the EU. For example, the high cost sugar producers in Finland may be greatly affected by a 35% drop in intervention price compared to the low cost sugar producers in France.