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**COMMUNICATION FROM THE G-20<sup>1</sup>**

The following communication, dated 7 May 2004, has been received from the Permanent Mission of Brazil, with the request that it be circulated to delegations.

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**"THE BLENDED FORMULA"**

*A Fundamentally Flawed Approach to Agricultural Market Access*

The US and the EC put forward "the Blended formula" for tariff reductions in the Joint Text presented on 13 August 2003, which was carried forward to the Derbez Text. "The Blended formula" encompasses, on a self-declaratory basis, a proportion of tariff lines subject to the Uruguay Round tariff reduction formula; a proportion of tariff lines subject to the "Swiss" formula and a proportion of tariff lines to be made duty-free.

Following failure to agree on a framework text in Cancun, the G-20 undertook an overall assessment of "the Blended formula". The conclusion was that its structural flaws would prevent proper delivery on the Doha mandate for market access. It is a meticulously structured approach to accommodate the interests of the proponents and detrimental to the interests of the majority of the Membership.

Criticism of "the Blended formula" falls into two main categories:

**I. "The Blended formula" fails to deliver "substantial improvements in market access", especially for products protected by tariff peaks.**

The tariff structures of developed countries are characterized by clusters of very high tariffs (tariff peaks) while the majority remain at fairly low levels or even duty-free.

- "The Blended formula" enables Members to define, on a *self-declaratory* basis, the tariff lines to be subjected to the Uruguay Round formula. Coupled with the average reduction element of the Uruguay Round formula, this would most likely lead to a situation in which those tariff lines of higher commercial interest to many Members would be subject only to minimal cuts - creating an unacceptably *large self-declaratory opt-out mechanism*.

- Given their typical tariff structures, the role of the Swiss- and the duty-free components of "the Blended formula" in most developed countries is merely symbolic.

- The likelihood of increased market access for the tariff lines subject to Tariff-Rate Quotas (TRQs) also remains uncertain.

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<sup>1</sup> Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Thailand, Tanzania, Venezuela, Zimbabwe.

## **II. Inequitable results arise from the application of "the Blended formula" on the different tariff structures of developed and developing countries.**

- The use of the Swiss formula for a specific range of tariff lines in homogeneous tariff structures (i.e., with little tariff dispersion) as found mainly in developing countries will lead to higher tariff reductions by those countries. Simulations undertaken using various plausible assumptions with regards to the Swiss formula revealed that Members entitled to "special and differential treatment" will be required to make proportionally higher average tariff reductions than developed Members.

- Unlike in developed countries, where the role of the Swiss- and duty-free components of "the Blended formula" is symbolic, for developing countries with homogeneous tariff structures, those components would entail very substantial tariff reduction commitments. Consequently their rural development, food security and/or livelihood security needs would be overlooked.

- In addition, "the Blended formula" does not provide for the special concerns expressed by newly acceded countries and many other developing countries, including LDCs.

- The S&D provisions currently under discussion will not compensate for these flaws of "the Blended formula".

## **III. Conclusion**

The structural flaws of "the Blended formula" would prevent proper delivery on the Doha mandate for market access. There is a shared feeling that "the Blended formula" is biased in favour of the tariff structures of its proponents, enabling them to maintain the protectionist *status quo*, since the highest tariffs would be subject to the lowest tariff reduction. In view of the difference between the tariff structures of developed and developing countries, "the Blended formula" would impose an overly onerous burden of tariff reduction on developing countries. At the same time, it would enable developed countries to protect their tariff peaks on products of export interest to several Members, while the application of the Swiss- and duty-free components on their cluster of already low tariffs would result in minimal tariff reductions.

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