

SENSITIVE PRODUCTS

Creating significant additional market access is the key to delivering sustainable long term improvement in world dairy trade

The Global Dairy Alliance Position

- There should be a low limit of 1% of tariff items that are classified as sensitive
- Over quota tariffs for Sensitive Products should be reduced by at least 60% of the formula cut applicable to non-sensitive products
- Expansion of tariff quotas should be by 7.5% of domestic consumption with the data subject to verification
- A clear linkage between the level of outside quota tariff cut and the increase in tariff quotas i.e. a lower tariff cut means a higher level of increase in quotas

What's the Issue?

The creation of the Sensitive Products category allows importing countries to limit the level of tariff reduction and thereby additional trade. Because of "water in the tariff" this often means that no trade can be expected over the reduced tariff.

The number of items under Sensitive Products could under some proposals allow a wide range of agricultural products to be classified as sensitive.

The danger is that only very limited tariff cuts will occur and that the tariff quota increases will be insufficient to compensate for the low level of tariff reduction.

What's the Solution?

Number of Items

The concession for Sensitive Products should be limited to a low number or proportion of total tariff lines. The GDA supports this being limited to 1% of all tariff lines. Proposals by the EU for 8% and 15% by the G10 would allow far too many items to be included.

Moreover there should also be a mechanism to limit the number of items per tariff chapter. This avoids concentrating the sensitive items all under a few so-called sensitive sectors such as dairy products.

Tariff Cuts

The tariff cut for a sensitive product should be a significant percentage of the tariff cut that would have occurred under the tariff reduction formula for the relevant band. The GDA considers this to be 60%.

It is important that the level of the outside quota tariff cut is related to the level of expansion of tariff quotas. Thus if there is a lower tariff cut than required under the Sensitive Products formula a compensating increase in the tariff quota is needed.

Tariff Quotas

The GDA considers that the only basis for expansion is through domestic consumption. This relates imports to a market situation rather than to the present level of quota.

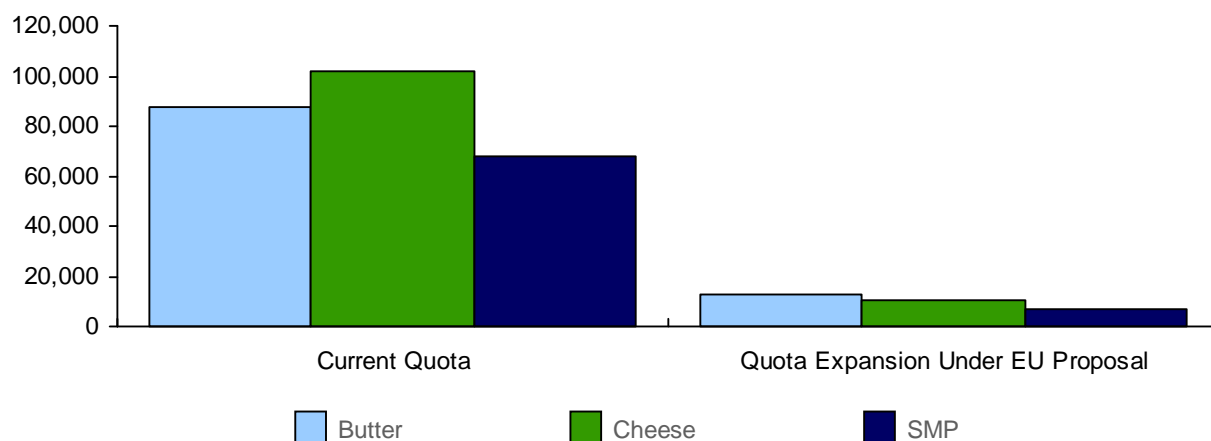
The GDA rejects the proposal from the EU because:

- It is based on imports only with no consideration for consumption
- It is an unnecessarily complex formula
- It results in very low levels of increase in existing dairy quotas (see graph over page)

The EU Sensitive Product Proposal Offers a Minimal Amount of New Trade

EU Tariff Quota Increases from EU Sensitive Product Proposal

Quantity (MT)



Butter 12,600 tonnes which is only a 14% increase in the present quota

SMP 7,100 tonnes or merely 10% extra to present quota

Cheese across all cheese quotas a very small additional volume of 10,900 tonnes that also represents 10% extra to present quota

In comparison quota expansion based on domestic consumption would provide much higher increases in new trade. For example the EU consumption of cheese is around 6 million tonnes.

Key Elements for the GDA

- The increase should be based on consumption and be additional to present quotas
- The increase should be 7.5% for the first tier* of tariff reduction and then rises by 1 % for each subsequent tier
- Data should be aggregated up to the next level of tariff line or category where there is no consumption data available for the particular quota or tariff line
- There should be a verification process in which the importing country has to provide full information on consumption calculations including data sources
- All consumption within tariff items are to be included

Additional Elements for Tariff Quotas

For GDA members there are two additional factors of major importance on tariff quotas:

- In-quota tariffs should be reduced to zero
- The disciplines on tariff quota administration need to be significantly tightened.

* This refers to the four tiers or bands for tariff cuts