

TARIFF CUTS

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

The Global Dairy Alliance Position

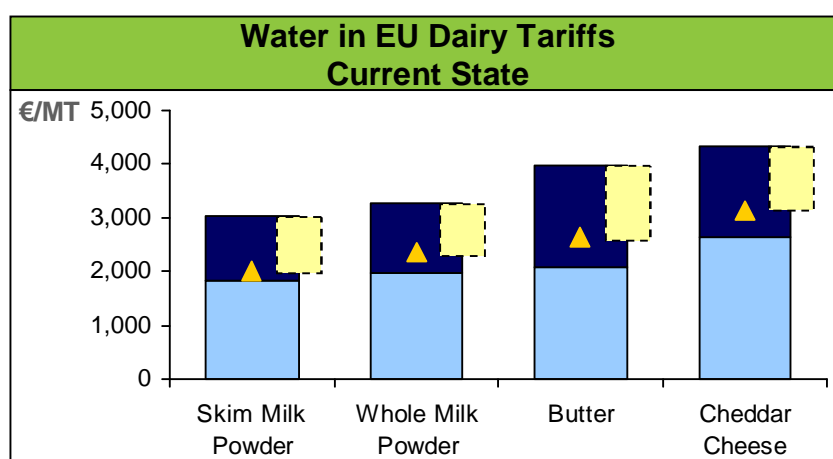
- A substantial reduction in tariffs in order to provide additional trade in dairy products
- Specific and other complex tariffs should be converted to a percentage
- Tariff reduction formulas to be simple and ensure substantially larger cuts in higher tariffs
- A tariff cap of 75% should be applied in instances where the reduction formula does not bring the end tariff below 75%
- While developing countries should not be required to meet the same level of tariff reduction commitments as their developed country counterparts this flexibility should not be achieved through ambiguous and flawed instruments such as Special Products or the Special Safeguard Mechanism

What's the Issue?

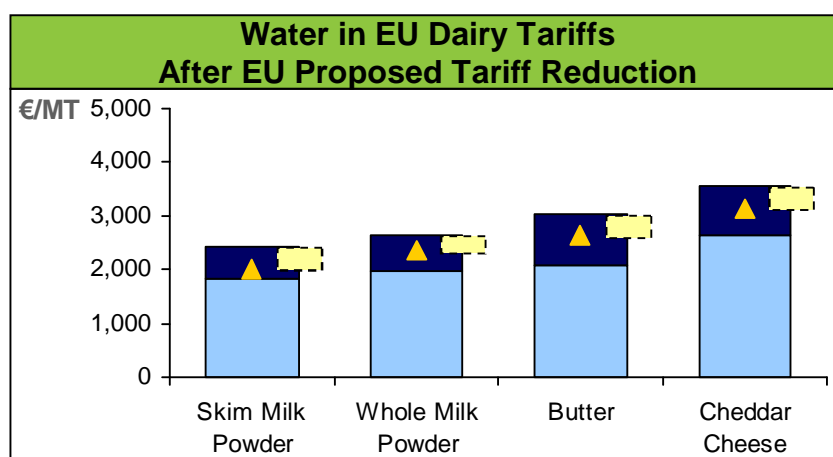
The GDA supports a system of tiers or bands for structuring tariff cuts, as in the Hong Kong Ministerial Declaration. But tariff cuts must produce additional trade and not just cut out the "water"⁽¹⁾ in tariffs.

The EU market access proposal of October 28 does not provide sufficient reduction in tariffs to provide real additional trade. This is because of the large amount of "water" in existing tariffs.

The US and G20 proposals are an improvement but still don't go far enough – tariffs will not be reduced far enough to allow new trade to occur for all dairy products in all markets



The tariff cuts required to remove the water in EU tariffs are:	Skim milk powder	86%
	Whole milk powder	72%
	Butter	69%
	Cheddar Cheese	72%



■ CIF Price
 ■ Tariff
 ▲ Domestic Price
 Water in Tariff

⁽¹⁾ "Water" in a tariff is the amount by which the tariff unnecessarily exceeds the amount required to protect the domestic price. It can be defined as follows:

$$\text{Water} = (\text{CIF/CFR Price} + \text{Tariff}) - \text{Domestic Price}$$

What's the Solution?

Tariffs must be reduced to a level that enables additional trade to occur

To create new trade, substantial tariff cuts will have to occur. For dairy exporters the meaning of “substantial” means just that – substantial; significantly more than minimal.

To achieve this the tariff reduction process must remove the “water” in developed country dairy tariffs as a result of the “dirty tariffication” that occurred in the Uruguay Round.

Accordingly the tiers should have

- A threshold for the highest tier of no more than 60%
- Cuts in the highest tier of at least 90%
- Cuts in the lowest tier of at least 60%
- No flexibility for tariff cuts within a tier.

A tariff cap must be set at 75% (of ad valorem equivalents)

Very high tariffs are no longer acceptable! However, this tariff cap should not be applied as a maximum tariff when the tariff reduction formula will produce a bound tariff at a lower level.

Tariffs must be simplified

Tariffs expressed in the form of a percentage (ad valorem) are the only real way to compare and understand tariffs. It allows for greater transparency.

All specific, compound and mixed tariffs must be abolished and replaced with ad valorem tariffs. This would encourage more trade in dairy products.

Other elements

- The treatment of Sensitive Products must be such that it also produces a substantial increase in additional trade (*see separate paper*)
- There must be significant expansion of all tariff rate quota (TRQ) commitments. This should be based on expanding quotas by a fixed percentage of consumption over a recent period
- In-quota tariffs should be reduced to zero

