

## WORKING DOCUMENT No. 11

### TARIFF ESCALATION

1. The tariff escalation formula provided below shall apply to the list of primary and processed products attached in Annex A (to be finalized).
2. In addition to the application of the tiered tariff reduction formula, tariff escalation shall be addressed in the following manner:
3. Instead of taking the cut that would otherwise apply to final bound tariffs in the band to which the processed product belongs (with the exception of the top band), the processed product shall take the cut applicable to the tariffs that fall in the [next] highest band. [A processed product in the top band shall take the cut applicable in that band increased by a factor of 0.3.]<sup>1</sup>
4. These supplementary cuts shall be moderated for the products concerned in two circumstances. First, where the absolute difference between the processed and primary product tariffs after application of the normal tariff formula would be five per cent *ad valorem* or less in any given tier [except in the case of the bottom tier], no additional tariff escalation adjustment shall be required.
5. Second, the tariff escalation adjustment formula cannot be applied in full where doing so would reduce the tariff for the processed product below that applicable to the primary product. In this situation, the rate of reduction for the processed product shall be moderated to ensure that it goes no further than equating to the actual rate for the primary product.
6. Tariff escalation treatment shall not apply to any product that is declared as Sensitive. Where the reduction for a tropical product would result in a reduction that is greater than under the tariff escalation formula, the tropical product reduction shall apply.

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<sup>1</sup> The following gives an illustration of the differences in the approaches specified when measured against a (hypothetical) base case scenario – which is the "mid-point" of the cuts proposed for developed country Members in TN/AG/W/4. Apart from the proposal to increase the cut in the top band by applying a 1.3 factor, the real differences are in fact only in the two bottom bands and the degree of that difference in the case of just those two bands is not in fact huge. Hence a "split the difference" option is provided here to emphasize the point. If one were to go down that path it could be described textually along the following lines:

Instead of taking the cut that would otherwise apply to tariffs in the band to which the processed product belongs, the processed product shall take the cut as follows:

If the product is in the top band, it takes the cut in that band.

If the product is in the second top band, it takes the cut otherwise applicable to the top band.

If the product is in the third top band, it takes a cut that is half way between the cuts applicable to the top band and the second top band.

If the product is in the bottom band, it takes the cut otherwise applicable to the second top band.

Hypothetical Illustrative Tiered Formula Cut (%)	"Next tier" Cut (%)	"Top tier" Cut (%)	"Split the Difference" Cut (%)
50	57.5	69.5	63.5
57.5	63.5	69.5	66.5
63.5	69.5	69.5	69.5
69.5	69.5	69.5 [90]	69.5

**Annex A (to be finalized)**