NAMA: what is a Swiss Formula?

Cutting higher tariffs more

- Cuts to tariffs can be either linear or non-linear. A linear cut merely reproduces the type of rate existing at a lower scale. For instance cutting duties by 30% in a linear fashion means chopping off 30% of the initial duty, regardless of how high the initial duty is.

- A non-linear cut, on the other hand, refers to cuts that are in a certain relation of direct or inverse proportionality to the initial tariff rate. In tariff negotiations non-linear cuts are cuts that are in an inverse relation, i.e. tend to cut higher duties more than lower ones, since the latter tend to be less distorting.

- The famous Swiss Formula works this way (it is called a Swiss Formula because it was proposed by Switzerland during the Tokyo Round). The Swiss formula is:

$$Z = AX/(A+X)$$

- X is the initial tariff rate; A is the maximum final tariff rate and the coefficient which is agreed to represent the level of cuts; Z is the final tariff rate that results.

- So a coefficient of 30 (representing a final maximum tariff of 30%) applied to an initial tariff of 100% produces a final tariff of about 23%. The same cut applied to an initial tariff of 15% produces a final tariff of 10%. The party with the higher initial tariff has made cuts of about 77%, the party with the lower tariff has made cuts of about 33% The final cut determined by a Swiss Formula can be phased in over a number of years.