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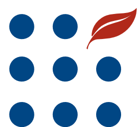

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Agricultural Trade Preferences and the Developing Countries

John Wainio, Shahla Shapouri, Michael Trueblood, and Paul Gibson

Abstract

Nonreciprocal trade preference programs originated in the 1970s under the Generalized System of Preferences (GSP) as an effort by high-income developed countries to provide tariff concessions for low-income countries. The goal of the programs was to increase export earnings, promote industrialization, and stimulate economic growth in the lower income countries. This study analyzes detailed trade and tariff data for the United States and the European Union (the two largest nonreciprocal preference donors) to determine the extent to which the programs have increased exports from beneficiary countries. For those products where the margins of preference are large and where beneficiaries have a comparative advantage and the capacity to expand prodution, these programs can create adequate incentives leading to a growing export market. The analysis finds that the programs offer significant benefits for some countries, mostly the higher income developing countries. Economic benefits in the least developed countries have been modest. An unanswered question is whether these gains will continue after the incentives are reduced.

Keywords: Tariff, agricultural trade, preferences, least developed countries, market access, World Trade Organization, WTO

About the Authors

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Summary

Preferential trade programs are an effort by high-income developed countries to provide tariff concessions for low-income developing countries, with the goal of increasing export earnings, promoting industrialization, and stimulating economic growth in the less developed countries. This is done by giving select developing countries a tariff rate below those given to all countries. Today, the United States and the European Union (EU) are the main preference-granting donors, with more than 100 designated beneficiary countries and territories. This study refers to the member nations of the EU as one country, to simplify language. There were 15 member countries in 2002, the year for the most recent data, and 25 today.

What Is the Issue?

Preferential trade programs are an issue in the ongoing World Trade Organization (WTO) Doha negotiations, when WTO members discuss market access and negotiate the size of cuts to their "most favored nation" (MFN) tariffs. Reducing MFN tariffs also reduces the margins of preference developing countries receive. These margins are measured by the degree to which preferential tariffs are below the MFN tariff.

What Did the Study Find?

Agricultural Trade Preferences and the Developing Countries notes that the two donors' programs are similar, despite differences in country and product coverage and in the level of trade concessions provided. Both countries have included more and more products over time, particularly from the world's poorest countries. However, U.S. programs offer duty-free access to all eligible products, while EU programs offer duty-free access to some products and reduced tariffs to others. Import-sensitive products are excluded altogether from the U.S. and EU programs, or the quantities of such imports are effectively limited through regulations. The volume of agricultural imports receiving preferential tariff treatment under U.S. and EU nonreciprocal trade preference programs in 2002 represented a relatively small share of total U.S. and EU agricultural imports, at 6 percent ($3.1 billion) and 18 percent (11.9 billion euros (€)), respectively. (Figures cited in this summary are based on ERS analysis of the most recent 2002 WTO data.)

Across all tariff lines, imports under U.S. programs accounted for 19 percent of total U.S. agricultural imports from the preference recipient countries, while 28 percent of EU agricultural imports from program recipients came in under EU programs. Tariff lines refer to the variety of products that fall under a particular tariff rate. When calculated based only on products facing MFN tariffs that are greater than zero, 50 percent of beneficiaries' dutiable exports to the United States and 44 percent of recipients' dutiable exports to the EU came in under nonreciprocal preferences. The proportion based on dutiable trade is much higher because 62 percent of preference recipients' exports to the United States and 36 percent of preference recipients' exports to the EU entered at MFN tariffs that already equal zero.

Overall, trade preference programs receive strong support from developing countries. ERS analysts found that, based on the size of the margins of preference provided and the levels of trade occurring under these programs, the

programs offer significant benefits for a limited number of products and countries. There are many products upon which trade preferences have no effect (either because they are not eligible or because they are already granted duty-free entry on an MFN basis), others for which the programs are extremely important (because they are eligible and would otherwise be subject to relatively high tariffs), and more still for which the programs are of modest or no significance (because they are eligible but otherwise subject to relatively low tariffs—less than 5 percent). Products excluded from nonreciprocal tariff preference programs tend to be the ones on which the tariff protection is the highest.

Based on the level of trade that takes place under nonreciprocal preferential tariffs, the distribution of the gains under both U.S. and EU programs is not uniform across recipients. Of the 171 countries eligible under EU programs only 132 actually shipped agricultural products under preferences in 2002. Only 102 of the 151 countries eligible under U.S. programs took advantage of those programs. In 2002, the top 20 beneficiaries accounted for 90 percent of total nonreciprocal U.S. agricultural imports and 66 percent of total nonreciprocal EU agricultural imports. Among the most important beneficiaries in both the U.S. and EU markets were some of the world's largest agricultural traders, including Brazil, Argentina, India, Indonesia, and Colombia.

Exports under preference programs accounted for a large share of some beneficiary countries' total exports. More than 50 percent of the total agricultural exports to the United States from 21 countries and to the EU from 49 countries received tariff preferences under these programs. Over 75 percent of the total agricultural exports from Barbados, Jamaica, Mozambique, and Swaziland to either the United States or the EU take place under these programs.

Many of the poorest developing countries do not appear to benefit from incentives provided by preferential programs. Although many of these countries have enjoyed preferential access to U.S. and EU markets for decades, their share of trade has not increased. For example, in 2002, of the 40 least developed countries (LDCs) eligible for preferences under U.S. programs, only 20 exported under the programs. Their preferential exports equaled $53 million, accounting for 1.7 percent of total U.S. imports under preferential programs. For the EU, only 44 of the 48 LDCs eligible for the programs actually participated and their exports accounted for 13.5 percent of total imports under preferential trade programs. Even so, these imports were from the larger countries, with the top five accounting for almost two-thirds of the total.

Both U.S. and EU preferential programs impose restrictions on products and beneficiaries, which limits program use somewhat. Key restrictions include the non-eligibility of certain products, many of which are of export interest to developing countries. For other products, especially those subject to tariff-rate quotas (TRQs), market access at preferential tariffs may be constrained to limited amounts. Preferences may also be withdrawn when countries become competitive in the production and export of an item.

Administrative requirements for trade and supply constraints within countries also contribute to low utilization rates of preferential programs. Chief among the administrative requirements are rules of origin that define the proportion of local content required in any product for that product to qualify for preferential access. Rules of origin can limit the ability of developing countries to import raw materials from third countries and export the processed final product to the U.S. and EU. For the lower income countries, supply constraints also limit their participation in preference programs.

How Was the Study Conducted?

ERS economists analyzed detailed trade and tariff data for the United States and the EU to determine the extent to which these programs have affected beneficiary countries' exports. The terms of preferential trade programs were covered, with a special emphasis on how the programs operate. The analysis covers differences in product and country eligibility and utilization of preferences. For the United States, comprehensive tariff and trade data were used, while for the EU, preference margins were derived from tariff data and other indicators were derived from secondary sources (trade data directly related to preferences were not readily available).

Introduction

In a nonreciprocal preferential trade arrangement, trade concessions, such as lower tariff rates, are offered unilaterally by one or more countries to another country or group of countries, typically by a developed country to a group of developing countries. An example is the Caribbean Basin Economic Recovery Act (CBERA) program between the United States and the Central American and Caribbean countries. This report focuses on the nonreciprocal preferential trade arrangements of the two largest donors, the United States and the European Union (EU). Reciprocal preferential trade arrangements, in which two or more countries mutually offer trade concessions to each other that they do not offer to other countries in the world, will not be covered here. The North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico is an example of a reciprocal preferential trade arrangement.

The theory of nonreciprocal preferential trade programs is that when a developed country opens its market to a developing country, the volume and value of that developing country's exports are increased, which leads to greater economic growth in the developing country. Over the longer term, this would provide investment to expand existing export industries and attract resources to foster development of new ones. The new investment would result in the adoption of new technologies and management practices, promote industrialization, provide employment opportunities, and lead to higher rates of productivity and national income.

Critics of nonreciprocal preferential trade programs point out that the programs have numerous shortcomings. Perhaps the most detrimental aspect of the programs is the possibility that beneficiaries may develop a dependency on one or a relatively few commodities as a result of the trade preferences. When program beneficiaries are given duty-free access to developed-country product markets that are protected by high "most favored nation" (MFN) tariffs, their exports to those markets benefit from the same protectionist umbrella provided to domestic producers in the developed country. When MFN tariffs are cut or eliminated, as they will be as a result of the Doha negotiations, developing countries will have to adjust to increased competition in those markets where they were receiving preferences.

Nonreciprocal preferential trade programs affect a large number of developing countries, but not all recipients of preferences benefit from these programs. Questions addressed in this study include: How extensive are the preferences offered under these programs in terms of country and product coverage? How large are the margins of preference—measured as the extent to which the preferential tariff is below the MFN tariff? How important are they for developing countries—what proportion of recipient country exports to the United States and EU occur at preferential versus MFN tariffs? Do preferences increase exports from recipient countries?

Economic Rationale for Nonreciprocal Preferences

Nonreciprocal trade preference programs began with the postcolonization movement of the 1950s and 1960s. In their infancy, trade preference programs of developed countries were aimed at assisting former colonies to become successful independent states. As early as 1955, amendments to the General Agreement on Tariffs and Trade (GATT) recognized the need for special provisions for developing countries to facilitate economic development. In 1964, a "trade and development" provision was added to the GATT that formally recognized the need for rapid and sustained expansion of export earnings of less developed countries to help foster economic growth. While this provision acknowledged the need for development and a general commitment by developed countries, it did not provide specific measures.

Also in 1964, Secretary-General Raul Prebisch of the first United Nations Conference on Trade and Development (UNCTAD) proposed the creation of a nonreciprocal system of tariff preferences in favor of the developing countries. But it was not until 1968, during UNCTAD II, that there was unanimous agreement to establish a mutually acceptable system of widespread, nonreciprocal, and nondiscriminatory preferences in order to assist economic development in developing countries, generally referred to as the Generalized System of Preferences (GSP). In order to put the GSP into effect, however, it was necessary to exempt developed countries from the GATT's nondiscriminatory MFN obligation to extend a tariff reduction given to one contracting party to all contracting parties. In 1971, GATT members agreed to grant a 10-year MFN waiver for the GSP, and later that year the EU became the first to put a GSP program into place. The MFN waiver was later made permanent with the adoption of the GATT Enabling Clause in 1979 (see box on legal basis of trade preference programs). By 2003, 17 countries (counting the EU as one country) had GSP schemes in operation.[1] With the expansion of the EU in 2004, five of those countries now come under the EU scheme. Since the GSP was created, several developed countries have implemented programs that go beyond the GSP in terms of eligible country and product coverage. The programs offered by the EU and United States are the two largest examples and are discussed in the following sections.

[1]The countries include Australia, Belarus, Bulgaria, Canada, Czech Republic, Estonia, European Union, Hungary, Japan, New Zealand, Norway, Poland, Russian Federation, Slovak Republic, Switzerland, Turkey, and the United States.

Proponents of these programs cite two direct ways in which nonreciprocal trade preference programs provide advantages to recipient countries. First, they increase the value of exports from recipient countries by granting exporters a price premium that is roughly equal to the size of the tariff preference minus any additional costs for exporters to meet eligibility requirements. Second, this tariff advantage stimulates export growth of the recipient countries. Because of the discriminatory aspect of preferences (imports from recipient countries facing lower tariffs than those from nonrecipients), preference-granting countries may switch from importing the now higher priced products from nonrecipients to importing more of the lower priced products from recipients (a trade diversion effect). Nonbeneficiary exporters stand to lose, as their exports are "crowded out" by the exports benefiting from the preferences.

The economic rationale for offering developing countries preferential access, according to Raul Prebisch, is that: "[P]referential treatment for

exports of developing countries ... would help the industries of [these] countries to overcome the difficulties that they encounter in export markets because of high costs" (Prebisch, 1964). As countries increased the volume of output for exports, they would be in a position to better exploit economies of scale and reduce those high costs. Most studies conclude that while preferences have increased exports from some developing countries, they can raise them significantly only for products that enjoy large "margins of preference"—the difference between the MFN tariff and the preferential tariff—and in countries with sufficient productive and export capacity to take advantage of the added economic incentives. The extent to which recipient countries will be able to respond to these tariff incentives will depend upon their supply response (the elasticity of supply). The higher the elasticity, the larger the response, and the larger the trade diversion effect will be. Depending on the share of exports of the program recipients in the

The Legal Basis of Trade Preference Programs

The "most favored nation" (MFN) principle requires that GATT/WTO members treat their fellow members in a nondiscriminatory fashion when levying tariffs. Implicitly, the MFN principle precluded special trading arrangements. In 1964, the first United Nations Conference on Trade and Development advocated the granting of special trade preferences to developing countries, which eventually resulted in the concept of a Generalized System of Preferences (GSP). To implement the GSP, members adopted the "Enabling Clause" in 1971, originally for 10 years, but renewed in 1979 for an indefinite period of time. It provides a permanent exception from MFN obligations so that developed countries "may accord differential and more favorable treatment to developing countries" through a "system of generalized, nonreciprocal, and nondiscriminatory preferences" (GSP). Countries identified as Least Developed Countries (LDCs) by the United Nations may be granted even more favorable treatment.

WTO rules provide another exception to MFN obligations, very different from that of the Enabling Clause. WTO members may establish free trade areas (FTAs), within which the duties and other restrictive regulations of commerce (except where expressly permitted within WTO rules) are eliminated on substantially all the trade between the constituent countries. While nonreciprocal arrangements do not expose domestic production in developing countries to additional competition from imports, FTAs expose all partners to economic competition with all other partners at zero duties on almost all traded goods. WTO provisions for FTA agreements are important now because the European Union and the United States are pursuing agreements under those rules with developing countries.

The WTO rules are important to developing countries because the EU has included quantitative restrictions (as tariff-rate quotas) in many of its trading arrangements with developing countries. In 2001, the EU banana import regime, which included discriminatory quotas for former African, Caribbean, and Pacific (ACP) colonies, was found to be incompatible with WTO requirements because it favored EU banana distributors over distributors of other countries and favored former colonies over other developing countries. Following the WTO panel finding, the EU requested and received a waiver to operate a revised banana regime for an interim period while implementing a tariff-only system.

donor preference-granting country, the scheme could lower the internal prices in the donor country. Trade creation would occur in addition to trade diversion, benefiting consumers in the donor country as domestic prices drop and consumption increases.

Increased export earnings are one of several dynamic, long-term effects that preference programs can have on the internal market of recipient countries. Preference programs generally change the relative price relationships or terms of trade in recipient countries. Prices for exports increase relative to their import prices, creating an incentive to invest in the export sector. If this leads to an overall increase in investment, then the recipient country's economy should grow as well.[2] It was the potential that these programs held for promoting industrialization and accelerating rates of economic growth in developing countries that led early proponents to view them as another form of development aid. The slogan "trade rather than aid" became associated with these programs because of the financial transfer made to recipients through the higher price received for their exports and the belief that these increased exports would ultimately lead to more rapid development.

In practice, the economic implications of preferential market access programs on recipients are complex and depend on a variety of factors. The possible benefits of preferences to developing countries that depend on increased export volumes, increased production, more jobs, and greater economic growth may face considerable constraints because of the internal economic situation of the program recipients. If resources in recipient countries are limited and/or are not mobile among sectors and products, countries might not be able to take advantage of market access preferences. Also, if the preferences result in a country moving scarce resources into financing high-cost production of goods in which it has no indigenous comparative advantage in producing, it could hamper long-term growth in other sectors of the economy.

Donors' program design also influences the outcome. In most preferential programs, the tariff advantages are granted to selected commodities. The less important these products are in the export profile of the recipient countries, the smaller the export expansion and revenue gains are. Even when the preferences are on products of interest to recipients, the margins of preference may be too low to provide an economic incentive.

Changes in the global trading system and/or policies of the preference-granting country also will influence the impact of the programs on recipients. For example, any decreases in MFN tariff rates of preference-granting countries as a result of regional or global trade liberalization erode the margins of preference—measured as the extent to which preferential tariffs are below the MFN tariff—granted under preferential trade programs and reduce the export incentives for the recipient countries. The deeper the cuts in these rates, the more diluted these programs become.

Other nonprogram costs, such as compliance with a donor country's import regulations, also can impede recipients from benefiting from preferences. As a result of these restrictions, some supporters believe that donor countries should incorporate financial aid and technical assistance into nonreciprocal preferential trade programs to help build recipient countries' economic capacity to take advantage of preferences.

[2]The outcome is less certain if the country merely shifts resources away from nonpreference commodities to the production and export of commodities covered by the programs. The relative price between the preferred commodity and nontraded commodities and/or export commodities not covered under the program in the recipient country is an important factor influencing the extent of the export growth and the revenue gains.

United States and European Union Preference Programs Are Extensive

The nonreciprocal preferential trade programs operated by the United States and European Union differ in structure and detail, but have many features in common and have tended to evolve over time in similar ways. Both countries have increased the number of products covered by their programs, particularly products exported by the poorest countries. While U.S. programs offer duty-free access to all eligible products, EU programs offer duty-free access to some products while simply reducing tariffs on others. Both countries tend to exclude import-sensitive products from these programs or include some of the products but effectively limit the quantity imported, through a variety of policies and regulations. They both have revised their rules of origin—program restrictions that specify where and how goods can be produced in order to qualify for preferences—by giving recipient countries more leeway to use inputs from multiple countries to produce their exports.

U.S. Preferential Trading Programs

Nonreciprocal preference programs are tools designed to promote economic growth in the developing world by providing enhanced trading relationships with the United States. The U.S. GSP program, established under the Trade Act of 1974, became operational on January 1, 1976. Additional nonreciprocal trade preference programs were implemented in 1983, through the Caribbean Basin Economic Recovery Act (CBERA) and in 1991, through the Andean Trade Preference Act (ATPA). In 2000, the United States extended nonreciprocal preferences to the majority of the Sub-Saharan African countries through the African Growth and Opportunity Act (AGOA). Through these various programs, the United States offered selected nonreciprocal trade preferences to 151 countries and territories in 2002. All products eligible to be imported at preferential rates under these programs enter duty-free.

Generalized System of Preferences

The GSP program is the largest in terms of country eligibility. In 2002, 147 countries were eligible for tariff preferences under the GSP. Even though the preferences under the GSP represent a unilateral, nonreciprocal granting of benefits, potential recipients have to comply with certain requirements to remain eligible to participate in the program. In general, participating countries agree to offer reasonable access to U.S. goods and services, protect intellectual property rights, reduce trade-distorting investment policies, eliminate trade-distorting export practices, and ensure internationally recognized worker rights (USTR, 1999).

Country eligibility is constantly under review and, as a result, the number of participating countries has fluctuated over time. Country participation is affected primarily by "graduation" out of the program, but countries have also been removed for not meeting program qualifications. When a country's per capita GNP exceeds the threshold level of income set for high-income countries by the World Bank, it automatically loses its eligibility under the program. Since the program's inception, numerous countries, including South Korea, Taiwan, Singapore, Hong Kong, Malaysia, Bahrain, Bermuda, and Brunei, have been graduated out of the program under this standard.

Countries also can lose their eligibility, at the discretion of the U.S. President, for reasons such as disrupting the world economy or negatively impacting U.S. commerce (U.S. Government, 2004). Iran, Burma, and Cuba are not extended preferences under U.S. programs for political reasons.

Another type of "graduation" occurs when one or more products of a beneficiary country lose GSP eligibility as a result of exceeding "competitive need limits" (CNL). As the main restriction in the GSP other than the noneligibility of certain products, CNLs provide a safeguard mechanism designed to prevent the extension of preferential treatment to countries that are considered competitive in the production of an item. Ceilings are set for each product and country, and with certain qualifications, a country automatically loses its eligibility for a given product the year following that in which the ceiling is surpassed.

In the 1984 re-authorization of the GSP program, the CNL was modified and the ceilings split into an upper and lower level. At the upper level, a beneficiary country loses GSP eligibility for a product if its exports exceed 50 percent of total U.S. imports of that product, or if the imports exceed a flat amount ($105 million in 2002, scheduled to increase by $5 million each year after that). At the lower level, if it is determined that a particular product from a given country is "sufficiently competitive," then the product is limited to 25 percent of U.S. imports, or a flat amount (40 percent of the upper CNL dollar value, $42 million in 2002). There are four ways countries may receive a waiver from these rules:

- Submit a petition.
- Fall in the least developed income group.
- Show the product is not produced in the U.S.
- Show that import values are relatively small (defined as less than $17 million in 2002).

Duty-free treatment under the GSP is more extensive for manufactured products than for agricultural products. Product coverage has varied over time, but relative to other U.S. preferential programs, the GSP has the least extensive coverage. The products that are prohibited by law from receiving GSP treatment include most textiles, watches, footwear, handbags, luggage, work gloves, and other apparel made partially or wholly from leather (U.S. Government, 2004). Any other products determined to be import-sensitive are not eligible for the GSP, e.g., steel, glass, and electronic components. Agricultural products subject to tariff-rate quotas (beef, peanuts, tobacco, and sugar and dairy products) are ineligible for any amounts in excess of the in-quota country/quantity.

In 1997, the GSP underwent a reform that included improved market access for the Least Developed Countries (LDCs). Since GSP treatment in the United States was already duty-free, special treatment for LDCs involved providing additional product coverage. Under a special GSP/LDC program, selected LDCs were granted duty-free treatment on an additional 1,783 tariff lines. In 2003, 41 countries were eligible for expanded benefits under the U.S. GSP/LDC program. In agriculture, many horticultural products (certain fruits and vegetables, cut flowers, and citrus juices) and fibers (cotton, flax, wool, and cashmere) are still excluded from duty-free treatment under this program.

Caribbean Basin Economic Recovery Act

The Caribbean Basin Economic Recovery Act of 1983 is the trade-related component of the Caribbean Basin Initiative (CBI). CBERA is intended to facilitate the economic development and export diversification of the Caribbean Basin economies. As with the GSP, CBERA benefits are conditioned on compliance with a set of eligibility criteria (USTR, 2001). In addition to meeting these criteria, countries must express a desire to be designated as a beneficiary under the program. Twenty-eight countries are potentially eligible to receive benefits under the CBERA, but only 24 are currently eligible participants. The other four (Anguilla, Cayman Islands, Suriname, and Turks and Caicos) have not requested program participation.

Product coverage under CBERA is greater than under the GSP program (e.g., luggage, handbags, and leather goods). Congress amended the CBERA in 1990, expanding the list of products eligible for duty-free treatment, and relaxed the constraints on imports of footwear, some apparel and textiles, and some agricultural goods, but other goods are still exempted (e.g., plastic, rubber gloves, tuna, and petroleum products). For agriculture, excluded goods are olives, mandarin oranges, wool, and cashmere, in addition to those subject to tariff-rate quotas (TRQs). For textiles and apparel, the program charges duties only for the value-added portion of the products, provided that the raw materials come from the United States.

The U.S. Congress made CBERA's trade benefits permanent by repealing the previous termination date, leaving CBERA as the only one of the four programs that has no statutory expiration date. And, unlike GSP, CBERA is not subject to country "graduation" or competitive-need limitations. Currently there are three high-income countries (Aruba, Bahamas, and Netherlands Antilles) that are eligible for preferences under CBERA.

Andean Trade Preference Act

Also known as the Andean Pact, ATPA extends preferential market access to four countries: Bolivia, Colombia, Ecuador, and Peru. The purpose is to promote broad-based economic development and viable economic alternatives to coca cultivation and cocaine production. The program offers trade benefits to help these countries develop and strengthen legitimate industries. To be eligible, each country must certify that it is cooperating in efforts to control illegal drugs. ATPA was expanded under the Trade Act of 2002, and is now called the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

In 2001, the ATPA program reached its 10-year life limit and was terminated. But, in 2002, the ATPDEA was signed, which renewed ATPA preferences for an additional 6 years and amended it to cover additional products. It currently provides duty-free access to U.S. markets for approximately 5,600 products. The product coverage for agricultural goods is almost identical to the CBERA program and, like the CBERA countries, the ATPA countries are not subject to graduation or CNL-type product limitations under the program.

African Growth and Opportunity Act

The passage of AGOA in 2000 offered tariff preferences to 48 Sub-Saharan African countries to encourage higher levels of trade and direct investment. In a slight departure from other U.S. nonreciprocal trade programs, AGOA contains provisions for providing technical assistance to help build Sub-Saharan countries' capacity to take advantage of program preferences (GAO, 2001). The U.S. President is responsible for determining annually which countries are eligible for the program based upon their degree of market orientation, free trade, rule of law, poverty reduction policies, and protection of worker rights. As of early 2004, 38 Sub-Saharan African countries were eligible for tariff preferences under the AGOA, 15 qualified for the general GSP while 23 qualified for expanded GSP/LDC treatment (see AGOA box).

The trade preferences contained in AGOA have been given to the WTO as a modification to the U.S. GSP scheme. The program extends duty-free status to 1,800 tariff lines, above and beyond the 4,600 duty-free items in the GSP program in 2000. With a few exceptions, almost all of the products accorded duty-free access under the GSP/LDC scheme are also eligible for duty-free treatment under AGOA. Some of the products included under AGOA were previously excluded from both the GSP and GSP/LDC program as "sensitive" products, including footwear, luggage, handbags, watches, and flatware. The program will phase in greater access of fabric, yarn, thread, and apparel items over 2000-08. These products receive duty- and quota-free access subject to a 1.5 percent share of total U.S. apparel imports, which increases up to 3.5 percent over 8 years. AGOA was scheduled to expire in 2008 but to encourage investment the program has been extended to 2015.

European Union Preferential Trading Programs With Developing Countries

Most preferential trading arrangements of the European Union with developing countries have been nonreciprocal. EU programs consist of a mix of policies that include tariff elimination, preferential tariffs that are lower than MFN tariffs, preferential quotas, and quotas. EU programs include the GSP program,

List of AGOA Beneficiary Countries by GSP Eligibility, 2004

GSP and AGOA Beneficiaries (15)
Botswana, Cameroon, Ivory Coast, Gabon, The Gambia, Ghana, Kenya, Mauritius, Namibia, Nigeria, Sao Tome & Principe, Senegal, Seychelles, South Africa, and Swaziland

GSP/LDC and AGOA Beneficiaries (23)[1]
Benin, Cape Verde, Central African Republic, Chad, Republic of Congo, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Guinea, Guinea-Bissau, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sierra Leone, Tanzania, Uganda, and Zambia

[1]In 2002, the year of our analysis, only 37 countries were eligible. The Democratic Republic of the Congo was added in 2003.

which contains a special scheme for LDCs known as the "Everything But Arms" Agreement (EBA); the Cotonou agreement with Africa, Caribbean and Pacific countries (ACP); and the Euro-Mediterranean agreements.

The EU describes its programs as providing stable conditions for investment because they afford trading partners a high level of predictability through a combination of contractual obligations and firm political commitment (EU Business.com). The EBA is of unlimited duration, but the Cotonou Agreement will come to an end in 2020. The EU maintains, however, that the trade preferences granted to the ACP countries will be continued and improved under Economic Partnership Agreements currently being negotiated with ACP countries.

Generalized System of Preferences

The European Union was the first to implement a GSP program in 1971, the provisions of which have been revised on numerous occasions. Originally, there were different regulations for industrial products, textiles, and agricultural goods. Today, regulations are the same for all products. Regulations used to be adopted on an annual basis, after yearly reviews which involved changes in product coverage, quotas, ceilings and their administration, beneficiaries, and depth of tariff cuts for agricultural products. On January 1, 1995, the EU adopted a new GSP for the 1995-2004 period revolving around three key features, "tariff modulation," country-sector graduation, and special incentive arrangements.

The traditional approach of granting reduced duties on limited quantities of GSP imports was replaced with tariff modulation, which provided limited preferences for unlimited quantities. Quotas and ceilings for individual countries and products were replaced by a graduated tariff reduction system based upon the import sensitivity of products. Products deemed nonsensitive were allowed to enter the EU market duty-free. Products listed as import sensitive (determined by the situation of the product sector in EU countries) were accorded a reduction in tariffs below the MFN rate, depending on the level of sensitivity of the imported product. This system of tariff modulation provided for tariff reductions of 15 percent for the most import-sensitive products and reductions of 30 and 65 percent for sensitive and semi-sensitive products, respectively. However, most agricultural products supported by the EU's Common Agricultural Policy (CAP) were totally excluded from the GSP regime, thereby receiving no tariff reductions.

At the same time, new rules were introduced to target preferences to countries that need them most. This targeting takes place in two ways. Countries can lose eligibility to export a particular product—referred to as "graduation"—when they become a dominant supplier of total EU imports of the product. As of 2003, 17 countries, including Argentina, Brazil, China, India, Mexico, Malaysia, and Thailand, had lost preferences on specific agricultural commodities. Countries also can be completely removed from the program—referred to as "exclusion"—if they surpass the income threshold set by the World Bank for high-income countries. South Korea and Taiwan have lost all preferences under the GSP (GAO, 2001). In 2002, 171 countries were eligible for tariff preferences under the EU's GSP.

Finally, a special incentive arrangement, which became operational on January 1, 1998, was also introduced. Under this arrangement additional tariff preferences were provided through the GSP under three special incentive schemes for:

- The protection of labor rights.
- The protection of the environment (applied on products originating in tropical forests).
- Combating drug production and trafficking.

The first two arrangements were available to all GSP recipients on request and offered an additional margin of preference to qualified beneficiaries complying with certain requirements related to labor standards and environmental norms. Thus, if a country qualified under both the arrangements for the protection of labor and the protection of the environment, the total reduction on specific duties in 2002 would be 90 percent (30 percent under the general arrangement and 30 percent under each special arrangement). In the case of *ad valorem* duties the total tariff reduction would be 13.5 percentage points (3.5 percentage points under the general arrangement and 5 percentage points under each special arrangement). Again, where duties include both specific and *ad valorem* duties, only the *ad valorem* portion was reduced. If the MFN duty is lower than the combined tariff reduction, the product entered duty-free. The benefits of the special incentive arrangements are also available for products from which the country concerned has been graduated out of the GSP.

The special incentives to combat drugs are only granted to Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Pakistan, Panama, Peru, and Venezuela. The number of products covered by this scheme is higher than the general scheme and they have access to the EU market duty-free except when the duty is composed of an *ad valorem* and a specific component, in which case the specific component is still applied. On March 5, 2001 a fourth special arrangement was added granting unrestricted duty-free access to all products originating in least developed beneficiary countries, excluding arms (see Everything But Arms Agreement section, which follows).

In January 2002, a new GSP scheme entered into force for the period 2002-04. (It was later extended into 2005.) The tariff modulation mechanism was simplified, maintaining duty-free access for all nonsensitive products while classifying all other products in one single category of sensitive products, replacing the previous three categories. A flat-rate reduction of 3.5 percentage points was applied to all sensitive products in the event of *ad valorem* duties. When only specific duties were applied, a 30-percent reduction was granted. When the customs duties included both *ad valorem* and specific duties, only the *ad valorem* part was reduced. However, in order to avoid any increase in preferential duties over those offered under the previous GSP scheme, the current GSP provides for a stand-still clause, under which preferential tariffs applicable at the end of 2001 would continue to apply if they were more favorable than the those resulting from the current scheme (UNCTAD, 2002).

The current GSP regime was not scheduled to enter into force until July 2005, but, in response to the Asian tsunami disaster in December 2004, the

European Commission changed the date to April 1, 2005. The new regime, which is to last through 2008, provides for further tariff concessions, particularly in the clothing and the fishery sectors. In addition, the EU will simplify the mechanism for graduation. The current criteria (share of preferential imports, development index and export-specialization index) have been replaced with a single straightforward criterion: share of the EU market expressed as a share of preferential imports. This share is 15 percent for most goods and 12.5 percent for textiles.

In addition to the general GSP scheme, there will be two special incentive schemes, rather than four. One is called "GSP Plus" and is available to especially vulnerable countries with special development needs (small, low-income economies, land-locked countries, and small island nations). It extends coverage on products which can enter the EU duty-free. The beneficiaries must meet a number of criteria including ratification and effective application of 27 key international conventions on sustainable development and good governance. To benefit from GSP Plus, countries need to demonstrate that their economies are poorly diversified, and therefore dependent and vulnerable. Poor diversification and dependence is defined as meaning that the five largest sections of a country's GSP-covered imports to the EU must represent more than 75 percent of its total GSP-covered imports. GSP-covered imports from that country must also represent less than 1 percent of total EU imports under GSP. The second special incentive scheme will be the unchanged Everything But Arms.

Everything But Arms Agreement (EBA)

Under the provisions of the Enabling Clause, the EU has provided the LDCs with deeper tariff reductions on a larger set of products than that provided to other developing countries. Like the United States, the European Union increased its GSP product coverage and further reduced tariff rates for LDCs in 1998. In 2001, the EU went one step further by adopting the EBA Agreement. The special arrangements provided under the EBA were available to 48 of the 49 countries officially recognized by the United Nations as belonging to the LDC group in 2002. The only noneligible LDC under this program was Burma, on account of its use of forced labor. The EBA, unlike other EU preferential programs, has no expiration date and is not subject to periodic review.

The EBA provides LDCs duty-free access to EU markets without quotas or other restrictions for most agricultural products (both primary and processed). The EBA coverage now extends to such sensitive products as beef and other meat, dairy products, fresh and processed fruits and vegetables, starches, oils, processed sugar and cocoa products, pasta, and alcoholic beverages. On most of these products, the pre-EBA GSP provided a percentage reduction of MFN rates, which would apply only to *ad valorem* duties, leaving specific duties still entirely applicable. For now, duty- and quota-free access under EBA are not granted on EU imports of sugar, bananas, and rice, which are instead subject to transition arrangements. Duty-free access will be provided for bananas in January 2006, for sugar in January 2009, and for rice in September 2009. In the meantime, there are duty-free TRQs for rice and sugar, which will increase annually.

The GSP program, including the EBA scheme, contains two general safeguard clauses which permit MFN duties to be reintroduced at any time if preferential imports: (1) cause or threaten to cause serious difficulties to EU producers of like or directly competing products; or (2) threaten to cause serious disturbance to EU regulatory mechanisms (UNCTAD, 2002). The second clause has its origins in the EBA initiative, whereby a more stringent safeguard measure was specifically introduced to closely monitor the new preferential market access granted to LDCs for such high-sensitivity products as bananas, rice and sugar. This clause was subsequently extended to the entire GSP program.

Lomé/Cotonou Agreement for Africa, Caribbean, and Pacific (ACP) Countries

The EU actually began offering nonreciprocal tariff preferences in the 1950s, providing preferential market access to former EU colonies for a larger set of products than the GSP program.[3] These preferences were subsumed in the first Lomé Convention, signed in 1975 with 46 countries. Lomé arrangements were continued and expanded every 5 years, and the number of countries grew to 73 by 2000. The 1984 agreement provided for virtually all imports from low-income countries (most of them ACP) to enter free of *ad valorem* duties (although where duties include both an *ad valorem* and a specific component, specific duties were still levied) with the major exception of the CAP agricultural commodities. Under this agreement the 39 Least Developed ACP Countries had duty- and quota-free access to EU markets for most of their products. The market access for the higher income ACP countries (34 ACP countries are non-LDC) did not change much and their provisions remained at a level close to the GSP program.

Unhappy with the mixed results of the successive Lomé Conventions, the EU began negotiating a new arrangement in 1998, which culminated in 2000 with the signing of the Cotonou Agreement.[4] The Cotonou Agreement seeks to switch trade cooperation from being essentially based on nonreciprocal preferential tariffs to one where the EU and the ACP States pursue mutual trade liberalization between the parties. Cotonou is meant to be a more complete arrangement than Lomé, with economic partnership agreements to cover numerous trade-related matters such as competition policy, intellectual property rights, sanitary and phytosanitary measures, etc. It also provides some financial aid to improve ACP countries' competitiveness, support their fiscal reform, upgrade their infrastructures, and promote investment. The present regime of tariff preferences is being maintained through 2007 to allow the EU time to negotiate economic partnership agreements with the ACP countries.

[3]These preferences have their roots in the Treaty of Rome, which established the European Economic Community (which later became the EU) in 1957 and provided for trading and other arrangements with former colonial territories. The European Development Fund was established to aid in the economic development of those former colonies.

[4]The EU considered the impact of nonreciprocal preferences under Lomé to have been disappointing. ACP countries' share of the EU market declined from 6.7 percent in 1976 to 2.8 percent in 1999, with about 60 percent of total exports concentrated in only 10 products (Moreau, 2000).

United States and European Union Are Important Markets for Preference Recipients

One of the main goals of preferential programs is to increase the value of exports of developing countries. Developed countries' markets are particularly attractive for developing countries because of their size and wealth. During 2000-02, developed countries accounted for two-thirds of global imports even though they make up only 15 percent of the global population. As shown in table 1, developed-country markets were the destination for about 57 percent of total merchandise exports from developing countries in 2001. The United States was the most important market destination for developing-country exports, mainly due to the large share of manufactured goods the U.S. imports from those countries. Food items and agricultural raw materials accounted for about 9 percent of all developing-country exports in 2002. The EU was the most important destination for food items and agricultural raw materials exported from developing countries, accounting for over 22 percent of the total.

The next section focuses on the amount of developing-country trade that takes place under nonreciprocal preference programs. While detailed data of imports under different preferential programs are available for the U.S., EU data is not entirely accessible, especially for trade flows under specific preference schemes. As a result, we rely heavily on several recent research reports, especially the Organization for Economic Cooperation and Development (OECD) report of 2005.

Table 1
Export destination of developing countries' products, 2002

Commodity groups	U.S.	EU	Other developed countries	Developing countries	All other countries[1]	World[2]
			$U.S. millions			
All products	507,471	343,505	250,993	836,467	19,568	2,012,111
			Percent			
Share by destination:						
All products	25.2	17.1	12.5	41.6	1.0	100.0
All food items	15.5	22.9	13.8	43.6	3.4	100.0
Agricultural raw materials	15.1	22.3	12.8	48.9	.5	100.0
Ores and metals	10.8	21.5	15.8	48.7	1.2	100.0
Fuels	20.6	14.7	16.2	35.0	.1	100.0
Manufacturing goods	28.4	16.8	11.1	42.5	.9	100.0
Share by major commodity groups:						
All products	98.8	98.0	97.3	97.8	99.7	98.1
All food items	4.5	9.9	8.1	7.7	25.8	7.4
Agricultural raw materials	.9	1.9	1.7	1.7	.8	1.5
Ores and metals	1.1	3.3	3.4	3.0	3.1	2.6
Fuels	14.0	14.7	22.3	14.4	2.3	17.1
Manufacturing goods	78.3	68.2	61.8	71.0	67.7	69.5

[1]Includes Southeast Europe and the Commonwealth of Independent States (all countries of the former Soviet Union except the Baltic states).
[2]Includes special category exports, ships' stores and bunkers and other exports of minor importance whose destination could not be determined.

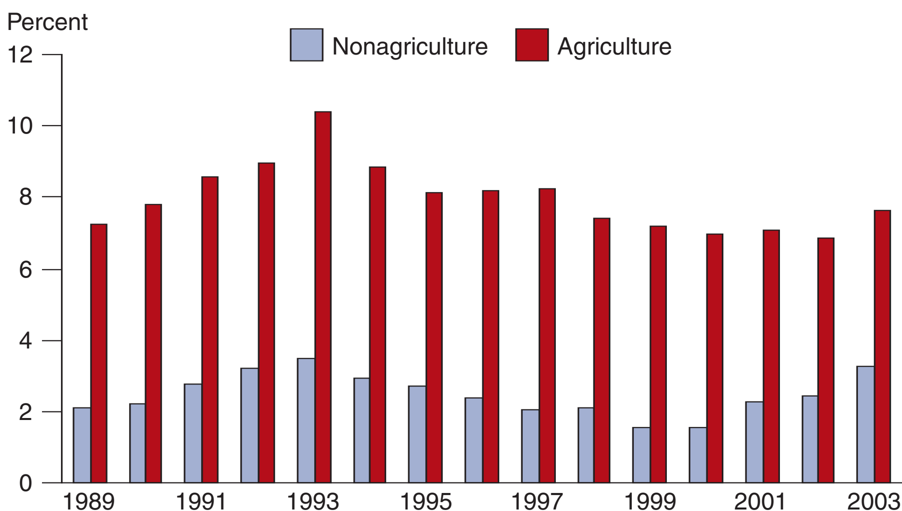
Source: United Nations Center for Trade and Development, *Hand Book of Statistics, 2003*.

Our analysis is based on data for 2002, the only year for which both U.S. and EU data were available. It's important to point out, however, that 2002 was not a "representative" year for U.S. nonreciprocal preferential trade programs. Two U.S. programs—the GSP and ATPA—expired temporarily in 2001, and were not renewed until August 2002. This had a significant impact on 2002 U.S. imports under these programs. For example, imports from the four ATPA countries (Bolivia, Colombia, Ecuador, and Peru) under ATPA and GSP dropped from $654 million in 2001 to $507 million in 2002, then recovered to $900 million in 2003. There were similar impacts on imports from countries that only qualified for GSP (CBERA countries were not impacted but AGOA countries were, on those items eligible for preferences under GSP).

Trade Under U.S. Preference Programs

U.S preference programs are very important for some program recipients, but they are only a small part of total U.S. imports, accounting for only between 1.5 and 3.5 percent during the last 15 years (fig. 1). They were slightly more important for agricultural imports, accounting for about 8 percent of total U.S. agricultural imports during this period. Total U.S. imports under nonreciprocal programs have increased almost fourfold in recent years. Growth would have been faster during this period if not for Mexico becoming a member of NAFTA. Not only did imports under the GSP decline in 1995 when Mexico was removed from the program upon joining NAFTA, but since then Mexico has displaced exports from other program recipients. One reason is that Mexico is no longer subject to CNLs for the products it used to export under the GSP. In addition, under NAFTA, it is eligible to ship a wider range of products duty-free and this has resulted in increased competition for the products of GSP/LDC, CBERA, and ATPA beneficiaries. In the agricultural sector, there is some evidence that Mexico's expansion in exports has had a negative impact on meat and sugar exports from CBERA countries (Loper et al., 2003).

Figure 1
U.S. program import share



Source: Economic Research Service, USDA.

While the nonreciprocal preferential trade programs account for only a limited share of total U.S. imports, they are important for some individual program recipients. During 2002, more than 50 percent of the total agricultural exports to the U.S. from 21 countries came in duty-free under nonreciprocal preferences. For small countries such as Cape Verde, Mozambique and Swaziland, more than 85 percent of their agricultural exports to the U.S. benefited from these programs. The programs are even more important when only dutiable trade is taken into account. Half of all dutiable agricultural imports from recipient countries came in duty-free under nonreciprocal preferences. Had MFN tariff rates been applied on the $3.1 billion of preferential trade that took place under these programs in 2002, duty collections by the United States would have been an estimated $197 million higher.[5] Total tariff revenue not collected because of the preferences ranged from $7.1 million under the AGOA program to $111.4 million under CBERA. While this is not an accurate indicator of the net financial benefit to program recipients from tariff preferences, it is a rough approximation of the overall "price premium" received by them from being able to export at zero duty.

Table 2 provides a breakdown of preferential program trade in agricultural products for the top 20 exporters to the U.S. in 2002. In this table, U.S. agricultural trade includes all products from chapters 1-24 of the Harmonized System (HS).[6] Using this definition of agricultural trade, agricultural products made up about 8.6 percent of total U.S. nonreciprocal preferential imports.[7] Of the 151 countries eligible to ship under these programs in 2002, 102 made use of preferences to export agricultural goods to the U.S. Less than 10 percent of beneficiaries account for about two-thirds of all agricultural imports under nonreciprocal programs, with Costa Rica (13.9 percent), Dominican Republic (11.7 percent), Colombia (8.1 percent), Guatemala (7.6 percent), and Thailand (6.0 percent) the main beneficiaries. For only four of the top 20 beneficiaries (Dominican Republic, Jamaica, South Africa, and Peru) did these programs account for over 50 percent of their agricultural exports to the U.S. In the case of three countries (India, Indonesia, and Chile) the programs were of little overall importance, accounting for less than 10 percent of their total exports to the U.S.[8]

Concentration levels are also high when this trade is analyzed by commodity grouping (table 3). Fresh and processed fruits and nuts, sugars and confectionery products, tobacco and tobacco products, fresh and processed vegetables, and roots and tubers accounted for 65 percent of all imports under these programs. The importance of these programs within each commodity grouping also varies widely, with more than 80 percent of U.S. imports of meats, sugars and confectionery products, and fresh vegetables from recipients brought in under preferences. For other products preferences play only a small role. Fish and shellfish, the category with the highest value of exports from recipients, is almost entirely imported at MFN rates, almost all of which are bound at zero. In all, more than three-quarters of beneficiaries' MFN exports to the U.S. entered duty-free. When preferential trade is factored in, over 80 percent of program beneficiaries' agricultural exports to the U.S. entered duty-free.

Figure 2 helps to put the value of these preferences into the wider context of available forms of tariff treatment for different countries exporting agricultural goods to the United States. The largest share of this trade (73 percent)

[5]Tariff revenue foregone is approximated by multiplying the MFN tariff rate (in *ad valorem* form) by the value of imports actually receiving preferences.

[6]The HS provides a nomenclature for classifying internationally traded goods. The definitions of HS commodity groupings up to the 6-digit level are established regularly by the World Customs Organization.

[7]As a general rule, USDA does not classify fish and fish products as agricultural items. They were included here in order to be able to compare U.S. trade under these programs with that of the EU, for which fish was included.

[8]Chile is no longer a GSP-eligible recipient by virtue of having signed a free trade agreement with the United States in 2003.

Table 2

Agricultural imports by U.S. and EU from top 20 program beneficiaries[1]

Country	Trade under preferential programs					Share of preferential	MFN		Total trade	Preferential as share of:		MFN duty free as share of total
	AGOA	ATPA	CBERA	GSP	Total		Duty free	Dutiable		Total	Dutiable	
	$ millions[2]					*Percent*	*$ millions[2]*			*Percent*		
U.S. imports from program beneficiaries:												
Costa Rica	—	—	430.3	3.6	433.9	13.9	461.6	1.9	897.5	48	100	51
Dominican Rep	—	—	364.2	1.1	365.4	11.7	88.4	1.8	455.5	80	100	19
Colombia	—	174.9	—	79.4	254.3	8.1	597.2	150.6	1,002.0	25	63	60
Guatemala	—	—	225.6	11.6	237.2	7.6	464.7	2.8	704.7	34	99	66
Thailand	—	—	—	188.4	188.4	6.0	1,254.9	457.8	1,901.1	10	29	66
Peru	—	79.7	—	65.7	145.3	4.6	104.3	26.8	276.4	53	84	38
Brazil	—	—	—	130.2	130.2	4.2	741.3	448.4	1,319.9	10	22	56
Honduras	—	—	110.2	16.7	126.9	4.1	295.0	0.6	422.5	30	100	70
South Africa	75.0	—	—	30.4	105.4	3.4	49.1	16.8	171.4	62	86	29
Ecuador	—	63.2	—	40.5	103.7	3.3	657.6	182.1	943.4	11	36	70
Chile	—	—	—	97.8	97.8	3.1	883.3	682.5	1,663.6	6	13	53
Jamaica	—	—	80.9	.8	81.7	2.6	25.6	2.4	109.7	74	97	23
Argentina	—	—	—	77.4	77.4	2.5	244.7	333.0	655.1	12	19	37
Nicaragua	—	—	77.1	—	77.1	2.5	124.5	.4	202.0	38	100	62
India	—	—	—	75.7	75.7	2.4	843.1	92.2	1,011.0	7	45	83
Poland	—	—	—	72.4	72.4	2.3	80.9	46.6	199.8	36	61	40
Philippines	—	—	—	54.5	54.5	1.7	300.7	242.8	598.0	9	18	50
Indonesia	—	—	—	49.8	49.8	1.6	775.4	102.8	928.1	5	33	84
El Salvador	—	—	35.5	5.6	41.1	1.3	48.0	.3	89.4	46	99	54
Turkey	—	—	—	35.8	35.8	1.1	206.0	67.1	308.9	12	35	67
Subtotal	75.0	317.8	1,323.9	1,037.5	2,754.2	88.1	8,246.3	2,859.7	13,860.1	20	49	59
Others	32.4	3.5	104.7	230.7	371.3	11.9	1,767.5	262.0	2,400.7	15	59	74
Total	107.4	321.3	1,428.7	1,268.2	3,125.5	100.0	10,013.8	3,121.6	16,260.9	19	50	62

See notes at end of table.

Continued—

Table 2

Agricultural imports by U.S. and EU from top 20 program beneficiaries[1]—Continued

Country	Trade under preferential programs					Share of preferential	MFN		Total trade	Preferential as share of:		MFN duty free as share of total
	ACP-LDC	ACP-non-LDC	GSP	GSP-EBA	Total		Duty free	Dutiable		Total	Dutiable	
	€ millions[2]					*Percent*	*€ millions[2]*			*Percent*		
EU imports from program beneficiaries:												
Ivory Coast	—	774.2	17.8	—	792.0	6.7	21.6	985.7	1,799.4	44	45	1
Argentina	—	—	770.4	—	770.4	6.5	1,132.2	2,555.7	4,458.3	17	23	25
China	—	—	592.9	—	592.9	5.0	470.1	595.1	1,658.1	36	50	28
India	—	—	500.9	—	500.9	4.2	195.7	539.6	1,236.2	41	48	16
Kenya	—	467.6	19.9	—	487.5	4.1	31.5	232.8	751.8	65	68	4
Ecuador	—	—	399.6	—	399.6	3.4	526.4	59.4	985.3	41	87	53
South Africa	—	—	388.9	—	388.9	3.3	1,195.5	144.7	1,729.1	22	73	69
Mauritius	—	384.9	0	—	384.9	3.2	8.3	13.3	406.5	95	97	2
Bahamas	—	382.7	0	—	382.7	3.2	1.4	1.7	385.8	99	100	0
Costa Rica	—	—	380.4	—	380.4	3.2	486.0	83.0	949.4	40	82	51
Morocco	—	—	372.1	—	372.1	3.1	938.5	76.9	1,387.5	27	83	68
Zimbabwe	—	362.0	7.3	—	369.3	3.1	7.6	34.8	411.7	90	91	2
Senegal	293.7	—		2.3	296.0	2.5	9.4	27.3	332.8	89	92	3
Colombia	—	—	295.4	—	295.4	2.5	430.0	341.6	1,067.0	28	46	40
Namibia	—	279.1	6.7	—	285.8	2.4	7.7	7.1	300.6	95	98	3
Peru	—	—	274.6	—	274.6	2.3	15.5	338.7	628.8	44	45	2
Indonesia	—	—	256.3	—	256.3	2.2	690.1	436.0	1,382.4	19	37	50
Brazil	—	—	246.1	—	246.1	2.1	2,078.7	4,916.5	7,241.3	3	5	29
Madagascar	219.8	—	—	2.9	222.7	1.9	12.9	59.4	295.0	75	79	4
Iran	—	—	213.9	—	213.9	1.8	19.9	60.2	293.9	73	78	7
Subtotal	513.5	2,650.5	4,742.9	5.2	7,912.2	66.5	8,279.0	11,509.6	27,700.9	29	41	30
Others	800.2	1,535.9	1,357.1	288.3	3,981.4	33.5	6,617.3	3,580.0	14,178.7	28	53	47
Total	1,313.7	4,186.4	6,100.0	293.5	11,893.6	100.0	14,896.3	15,089.6	41,879.5	28	44	36

— = No trade.

[1]In order to compare U.S. and EU, agricultural imports consist of HS Chapters 1—24.

[2]U.S. imports are based on free-on-board (f.o.b.) prices.

[3]EU imports are based on cost, insurance, freight (c.i.f.) prices. In 2002, $1 = 1.0626 €.

Source: United States International Trade Commission Web Database and OECD (2005).

Table 3

Agricultural imports by U.S. and EU, from program beneficiaries, grouped by Harmonized System (HS) chapters[1]

Chapter	Description	Trade under preferential programs					Commodity shares	Trade		Preferential share of total
		AGOA	ATPA	CBERA	GSP	Total		MFN	Total	
		$ millions					*Percent*	$ millions		*Percent*
U.S. imports from program beneficiaries:[2]										
08	Fruits and nuts	39.3	16.1	396.3	102.8	554.5	17.7	2,403.9	2,958.3	19
17	Sugars and sugar confectionery	—	10.5	211.7	308.4	530.6	17.0	106.4	637.0	83
24	Tobacco and tobacco substitutes	29.5	21.1	274.9	25.3	350.8	11.2	634.0	984.8	36
20	Preparations of vegetables, fruit, nuts	16.4	15.8	117.3	162.3	311.8	10.0	693.8	1,005.7	31
07	Vegetables, tubers, and roots	1.6	71.5	134.7	78.3	286.1	9.2	67.7	353.8	81
06	Trees, plants, bulbs, flowers, etc.	.7	172.9	56.0	50.0	279.6	8.9	197.0	476.6	59
22	Beverages, spirits, and vinegar	19.1	.4	92.1	54.1	165.7	5.3	407.1	572.7	29
21	Miscellaneous edible preparations	.6	1.4	43.8	91.7	137.4	4.4	99.7	237.2	58
16	Preparations of meat and seafood	—	4.5	6.4	113.9	124.8	4.0	1,421.1	1,545.9	8
18	Cocoa and cocoa preparations	—	2.0	1.3	74.1	77.4	2.5	630.4	707.8	11
02	Meat and edible meat offal	—	—	54.5	0	54.5	1.7	10.2	64.7	84
19	Preparations of cereals, flour, starch, or milk	—	1.1	9.1	38.5	48.7	1.6	97.7	146.4	33
09	Coffee, tea, maté, and spices	—	.7	1.2	44.4	46.3	1.5	1,550.7	1,597.0	3
12	Oilseeds, miscellaneous grains, etc.	—	0	11.2	23.9	35.1	1.1	161.6	196.7	18
15	Fats and oils	.2	.3	3.0	24.7	28.3	.9	245.1	273.4	10
03	Fish, crustaceans, molluscs, etc.	—	1.1	0	22.7	23.8	.8	3,615.0	3,638.8	1
13	Lac, gums, resins, etc.	—	0	7.1	14.7	21.9	.7	143.7	165.6	13
11	Malt, starch, inulin, wheat gluten, etc.	—	.4	.7	20.1	21.2	.7	8.5	29.7	71
04	Dairy produce, eggs, honey, etc.	0	.9	6.0	12.7	19.6	.6	158.5	178.1	11
05	Products of animal origin, etc.	—	0	1.3	1.4	2.7	.1	137.0	139.7	2
23	Residues and waste	—	—	0	2.3	2.3	.1	82.1	84.4	3
10	Cereals	—	.3	0	.9	1.2	0	244.4	245.7	0
14	Vegetable planting materials	0	—	—	.9	.9	0	12.2	13.1	7
01	Live animals	—	0	.1	.6	.6	0	27.0	27.6	2
	Total	107.4	321.3	1,428.7	1,268.6	3,125.9	100.0	13,154.9	16,280.9	19

See notes at end of table.

Continued—

Table 3

Agricultural imports by U.S. and EU, from program beneficiaries, grouped by Harmonized System (HS) chapters[1]—Continued

Chapter	Description	Trade under preferential programs					Commodity	Trade		Preferential
		ACP-LDC	ATPA	CBERA	GSP	Total	shares	MFN	Total	share of total
		€ millions					*Percent*	*€ millions*		*Percent*
EU imports from program beneficiaries:[3]										
03	Fish, crustaceans, molluscs, etc.	783.63	446.16	2,041.60	214.04	3,485.4	29.3	2,102.5	5,588.0	62
08	Fruits and nuts	4.52	608.14	1,167.00	1.67	1,781.3	15.0	4,075.9	5,857.3	30
16	Preparations of meat and seafood	55.71	480.43	438.08	21.55	995.8	8.4	1,175.9	2,171.7	46
17	Sugars and sugar confectionery	24.77	666.06	43.80	31.79	766.4	6.4	346.5	1,112.9	69
06	Trees, plants, bulbs, flowers, etc.	54.58	266.08	412.78	3.13	736.6	6.2	143.1	879.7	84
24	Tobacco and tobacco substitutes	184.66	271.19	230.23	2.41	688.5	5.8	324.1	1,012.6	68
15	Fats and oils	76.20	157.14	433.19	.78	667.3	5.6	1,364.1	2,031.4	33
20	Preparations of vegetables, fruit, nuts	4.48	96.01	540.44	.23	641.2	5.4	1,020.4	1,661.6	39
07	Vegetables, tubers, and roots	44.64	186.61	314.57	12.21	558.0	4.7	1,004.3	1,562.3	36
18	Cocoa and cocoa preparations	1.05	448.60	83.48	—	533.1	4.5	1,877.0	2,410.1	22
22	Beverages, spirits, and vinegar	1.08	401.92	61.73	.13	464.9	3.9	1,141.4	1,606.2	29
21	Miscellaneous edible preparations	.49	37.59	120.71	.11	158.9	1.3	139.7	298.6	53
09	Coffee, tea, maté, and spices	70.49	4.81	53.67	3.41	132.4	1.1	3,301.7	3,434.1	4
02	Meat and edible meat offal	—	81.24	22.58	—	103.8	.9	1,432.8	1,536.6	7
19	Preparations of cereals, flour, starch, or milk	.41	4.48	79.68	.11	84.7	.7	50.7	135.3	63
10	Cereals	1.38	28.02	11.63	1.94	43.0	.4	1,610.0	1,653.0	3
23	Residues and waste	.01	.50	15.98	0	16.5	.1	4,479.5	4,496.0	0
12	Oilseeds, miscellaneous grains, etc.	.62	.78	12.65	—	14.0	.1	3,160.6	3,174.7	0
13	Lac, gums, resins, etc.	4.41	—	7.41	—	11.8	.1	239.2	251.0	5
11	Malt, starch, inulin, wheat gluten, etc.	.08	.62	4.57	.03	5.3	0	15.5	20.8	26
04	Dairy produce, eggs, honey, etc.	.49	.01	3.92	—	4.4	0	192.6	197.0	2
01	Live animals	—	—	.31	—	.3	0	220.4	220.8	0
05	Products of animal origin, etc.	—	—	0	—	0	0	490.1	490.1	0
14	Vegetable planting materials	—	—	—	—	0	0	77.8	77.8	0
	Total	1,313.7	4,186.4	6,100.0	293.5	11,893.6	100.0	29,985.9	41,879.5	28

[1]In order to compare U.S. and EU, agricultural imports consist of HS Chapters 1—24.

[2]U.S. imports are based on free-on-board (f.o.b.) prices.

[3]EU imports are based on cost, insurance, freight (c.i.f.) prices. In 2002, $1 = 1.0626 €.

Source: United States International Trade Commission Web Database and OECD (2005).

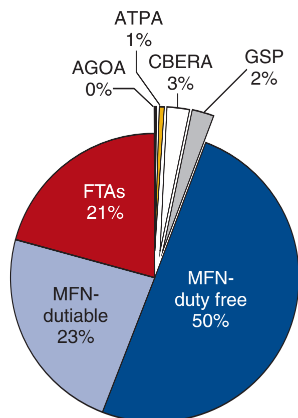
takes place at MFN rates. Over two-thirds of this MFN trade enters duty-free. Imports under free trade agreements (FTAs), of which the U.S. was partner to three in 2002 (NAFTA, the U.S.-Israel FTA, and the U.S.-Jordan FTA), accounted for 21 percent of total agricultural imports. Among different nonreciprocal preferential programs, CBERA accounted for 2.6 percent, GSP (including GSP/LDC) 2.3 percent, ATPA less than 1 percent, and only a small fraction was imported under AGOA in 2002.

Trade Under EU Preference Programs

As an EU trade and tariff database comparable to that found on the U.S. International Trade Commission website was not accessible, this analysis relies on information gathered from various sources and thus provides only a glimpse of trade in recent years under various trade programs. According to a recent study by the OECD, EU agricultural imports totaled almost 66.6 billion euros (≈ $62.6 billion) in 2002, 63 percent of which was imported from developing countries. Agricultural imports at MFN rates accounted for about 68.4 percent of the total, another 17.9 percent was imported under nonreciprocal preferential trade programs and the remaining 13.7 percent was imported under reciprocal preferential trade programs (fig. 3). About two-thirds of MFN imports came from developing countries and almost 48 percent of MFN imports entered duty-free.

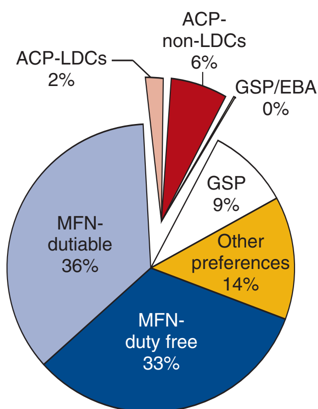
As figure 3 shows, within the nonreciprocal preferential imports considered here, the import share of the LDC group was the lowest at 2.4 percent. This included exports from LDCs under both the ACP regime and the GSP-EBA program. The remaining GSP countries accounted for 9.2 percent of EU agricultural imports and the ACP (non-LDC) countries 6.3 percent. Preferences tend to be most important to the low-income exporting countries if that importance is measured by the proportion of their trade that entered under these programs. Over 70 percent of all LDC exports to the EU were covered by preferences. About 63 percent of trade from the remaining ACP countries entered under preferences, under either ACP or GSP. By contrast,

Figure 2
U.S. agricultural imports by tariff regime, 2002



Note: See Glossary for acronym definitions.
Source: Economic Research Service, USDA.

Figure 3
EU agricultural imports by tariff regime, 2002



Note: See Glossary for acronym definitions.
Source: Economic Research Service, USDA.

most of the imports from the remaining GSP beneficiaries, those not eligible to export under the ACP program, came under MFN rates with only 18 percent covered by GSP preferences.

Of the 171 countries eligible to ship under these programs in 2002, 132 made use of preferences in exporting agricultural products to the EU. Agricultural imports from beneficiaries under nonreciprocal programs were valued at 11.9 billion euros, accounting for 28 percent of total EU agricultural imports from these countries (table 2). The main agricultural exporters under these programs in 2002 were the Ivory Coast (6.7 percent), Argentina (6.5 percent), China (5.0 percent), India (4.2 percent), and Kenya (4.1 percent).[9] The top 20 accounted for two-thirds of total nonreciprocal EU agricultural imports versus 90 percent in the U.S. Among the most important beneficiaries in both the EU and U.S. markets were some of the world's largest agricultural traders, including Brazil, Argentina, India, Indonesia, and Colombia. But there were some differences in the country composition of agricultural imports under nonreciprocal programs. China, the Ivory Coast, and Kenya accounted for significant shares in the EU market but were not important exporters to the U.S. In fact, China was not a designated beneficiary under U.S. programs, nor were Iran, Cuba, Malaysia, and Vietnam, other beneficiaries of EU nonreciprocal trade preference programs. By contrast, Thailand, Turkey, Chile, and Poland, other large exporters of agricultural products, accounted for high shares in the U.S. market while exporting only small, if any, amounts under EU programs.[10]

There were also some relatively small exporters that figured prominently in EU trade. Mauritius, the Bahamas, Senegal, and Madagascar were among the top 20 largest beneficiaries from EU programs. The latter two are LDCs and accounted for 2.5 percent and 1.9 percent of total nonreciprocal agricultural imports by the EU, respectively. The U.S., on the other hand, imported little from LDCs, with the top LDC agricultural exporter to the U.S. being Malawi, with about 1 percent of total U.S. preferential imports. As a group, the LDCs accounted for 13.5 percent (1.6 billion euros) of EU preferential imports versus only 1.7 percent ($53 million) of U.S. preferential imports.

In general, the top product categories imported by the EU under nonreciprocal programs were very similar to those imported by the U.S., reflecting the range of products produced in developing countries. The main exception was found in the fish and shellfish category, which accounted for almost 30 percent of EU nonreciprocal preferential imports versus almost zero in the case of the U.S. (table 3). Most U.S. imports of fish and shellfish take place at MFN tariffs that have been bound at zero. Other important EU product imports included fresh fruits and nuts (15 percent), processed meat and seafood products (8.4 percent), and sugars and confectionery products (6.4 percent). For both donors, imports under nonreciprocal programs would be higher except for the fact that they already have bound a large subset of their tariffs at zero. These bindings are often on tropical products, which are not widely produced in the U.S. or EU and thus do not directly compete with domestic production. For instance, in the U.S. tariff schedule, tropical products such as coffee; tea; cocoa beans, butter and paste; bananas and plantains; cashews; vanilla beans; and coconut oil all have tariffs that have been bound at zero.

[9]If nonagricultural trade is included, China accounted for 33.1 percent of the total value of EU imports under the GSP in 2002, followed by India at 11.5 percent, and Indonesia at 4.8 percent (EU Business, 2004). The main exporters under the Cotonou Initiative were Nigeria (16 percent of total EU ACP imports), Ivory Coast (9 percent), and Angola (7 percent).

[10]The EU had reciprocal trade arrangements with both Poland (now an EU member) and Turkey in 2002.

Preferential Tariff Advantages Remain Important

This section examines the scope of each country's nonreciprocal preferential trade programs in terms of commodity and country coverage and margin of preference. The reported tariffs are calculated based on simple averages (arithmetic mean of nominal duties) by programs and commodity group, using 2002 tariffs. The shortcoming of this method is that it gives the same weight to all imported commodities, while in reality the impact of tariffs will be different because countries do not import equal quantities of all products (see box on tariff data and methodology).

Even when preferential tariffs are accounted for, tariff averages, regardless of the method of calculation, do not provide a representative picture of the market access achieved through the granting of preferential tariffs. The benefits under preferential programs are highly dependent upon which commodities are included, what the MFN rate is on these commodities, as well as the MFN rates on those commodities excluded from the programs. In many cases, commodities excluded from or provided only limited access under preferential programs are important exports of

Tariff Data and Methodology

Tariff data used in this analysis was obtained from the 2002 annual tariff schedules of the U.S. and the EU.[1] These tariff schedules contain bound tariff rates, the maximum tariff rates allowable under WTO rules, as well as applied tariff rates offered under nonreciprocal trade preference programs. Agricultural commodity coverage in this report is based on chapters 1-24 of the Harmonized System (HS).[2]

Both the U.S and the EU have bound their tariffs at the HS 8 digit level and use a mix of tariff rate types in their schedules, In other words, some tariffs are listed in simple *ad valorem* terms (e.g., 10 percent), whereas other rates are listed wholly or partially in non-*ad valorem* terms (e.g., 10.2 percent + 9.31 euros/metric ton). The use of non-*ad valorem* tariffs complicates the ability to compare levels of protection across commodities and countries. Calculating averages (AVEs) puts all tariff rates in the same *ad valorem* terms. AVEs for the U.S. were calculated by the U.S. International Trade Commission.[3] AVEs for the EU were calculated by the authors, using EU import unit values at the HS 8 digit tariff line level.[4] When no import data was available at a specific tariff line, EU import unit values at the HS 6 digit level were used.

[1]Annual tariff schedules of the United States are available from the U.S. International Trade Commission's Interactive Tariff and Trade Dataweb at http://reportweb.usitc.gov/tariff/tariff_form.jsp. Tariff schedules from the European Union are available at http://www.trade.gov/td/tic/tariff/eu_schedule/. Tariffs are also available through the United Nations Center for Trade and Development's TRAINS database accessed through the World Bank at wits.worldbank.org.

[2]The Harmonized System (HS) provides a nomenclature for classifying internationally traded goods. As a general rule, USDA does not classify fish and fish products as agricultural items. They were included here in order to be able to compare U.S. trade under these programs with that of the EU, for which fish was included.

[3]AVEs for the U.S. are available at the United States International Trade Commission's Interactive Tariff and Trade Dataweb, http://reportweb.usitc.gov/tariff/tariff_form.jsp.

[4]EU import data was accessed through the World Bank at wits.worldbank.org.

preference recipients. Some countries, particularly those exporting tropical products and raw materials, may incur little or no duty in the U.S. and EU markets, while countries shipping processed foods and beverages may pay the MFN rate on a large share of their exports. The export structure of each country largely determines the extent to which it will benefit from tariff concessions provided under each program. A country whose main export is cotton may benefit little from nonreciprocal programs if cotton is not given preferential access.

Tariff Preferences in the U.S. Tariff Schedule

Table 4 illustrates the extent to which the four U.S. preferential programs (ATPA, CBERA, AGOA, and GSP) offer beneficiary countries tariff reductions over MFN rates. In 2002, the average tariff subject to U.S. MFN was 5.3 percent for all products, about double the average tariffs under ATPA, CBERA, AGOA, and GSP/LDC programs. Almost one-third of tariff lines under the MFN tariff schedule have been bound at zero. Preferential programs provided additional duty-free access for up to 86 percent of all tariffs lines. The U.S. GSP program, the most extensive of the four programs in terms of country coverage, gave beneficiaries duty-free access to an additional 34 percent of the tariffs in the U.S. schedule. This reduced the simple average GSP tariff rate to 3.4 percent, or 35 percent lower than the average MFN tariff. Under the CBERA, ATPA, AGOA, and GSP/LDC programs, duty-free access to the U.S. market expanded to more than 80 percent of all tariffs lines. This reduced the average tariff faced by recipients to between 45 and 53 percent of the MFN average.

At 9.3 percent, the average MFN tariff for agricultural products was higher than the average tariff for all products and the share of agricultural tariff lines with MFN bound duty-free rates was 24 percent.[11] Clearly, tariff protection for agricultural products remains high relative to nonagricultural products. The U.S. GSP program provided duty-free access to an additional 30 percent of agricultural products on the schedule, meaning that GSP recipients received duty-free access on 54 percent of the products on the U.S. agricultural tariff schedule. This also translated to a 14-percent lower average tariff for a GSP recipient relative to countries facing MFN tariffs, 9.3 percent versus 8 percent. Under the GSP/LDC program, which is available to selected lower income countries, the list of commodities eligible for duty-free access was more extensive, encompassing 87 percent of agricultural tariff lines

Table 4
US tariff profile (simple average), 2002

Commodities	Tariff lines	Average tariff	Duty-free lines
	Number	*---Percent---*	
All:			
MFN	10,482	5.3	31
GSP	10,482	3.4	65
GSP-LDC	10,482	2.8	82
CBERA	10,482	2.4	86
ATPA	10,482	2.5	85
AGOA	10,482	2.5	84
Agriculture:			
MFN	1,903	9.3	24
GSP	1,903	8.0	54
GSP-LDC	1,903	5.3	87
CBERA	1,903	5.1	88
ATPA	1,903	5.1	88
AGOA	1,903	5.1	88

Source: United States International Trade Commission Web Database and Economic Research Service, USDA.

[11]Simple average tariff rates for agricultural products are the mean of HS-8 digit tariff-lines in the U.S. tariff schedule. Our definition of agriculture includes HS chapters 1-24 to coincide with the definition found in previous sections. In the case of products that face "non-*ad valorem*" rates of duty, the *ad valorem* equivalents calculated by the United States International Trade Commission were used (www.usitc.gov).

(of which 25 percent were MFN duty-free). As a result of these expanded concessions, the overall simple average tariff for the beneficiary LDC countries equaled 5.3 percent, about one-third less than for other GSP beneficiaries. The CBERA and ATPA programs provide similar market access for agricultural products, with duty-free access on approximately 88 percent of tariff lines, and average tariffs of just over 5 percent. AGOA expands the GSP list of products eligible for duty-free access, providing beneficiaries duty-free access on 88 percent of agricultural products. For the 22 AGOA beneficiaries that were qualified for preferences under the GSP/LDC program in 2002, AGOA marginally expanded their benefits (see AGOA box). However, the 15 AGOA countries that only qualified for the regular GSP program before AGOA was introduced now benefit from greater market access due to the higher proportion of their products that now qualify for duty-free treatment.

Average tariffs also varied significantly by commodity groups under different programs. Among the 24 agricultural commodity groups, the highest average U.S. MFN tariff is levied on tobacco products, followed by dairy products (table 5). The average MFN tariff for tobacco products was 49.5 percent, and the average preferential rates granted under the various programs were not much lower. The products that received the greatest margins of preference were found in the commodity groups containing dairy products, fresh vegetables, and processed products made from vegetables, fruits, nuts, and cereals. The margins of preference under the GSP/LDC scheme and the CBERA, ATPA, and AGOA programs averaged between 5.5 and 7 percentage points for products in these groupings.

A more detailed examination of the distribution of individual products given preferential access shows that despite the large share of duty-free tariff lines under preferential programs, the products afforded the largest margin of preference tend to be those that already have the lowest average tariffs (table 6). Under the GSP, of the 560 tariff line products included in the program, 365 face MFN tariffs that are less than or equal to 5 percent while another 192 face tariffs of between 5 and 25 percent. Only three of the products granted preferential access under the GSP faces an MFN tariff of greater than 25 percent. Under the GSP/LDC scheme, the least developed countries are granted duty-free access on products found in 1,195 of the 1,903 tariff lines in the U.S. agricultural schedule. Over one-half of these products face MFN rates of 5 percent or less. Only 13 of the products given preferential access under the GSP/LDC face MFN rates of over 25 percent. Clearly the margins of preference on most of the products given preferential access under U.S. programs are not very large.

Products determined to be import sensitive are excluded from these programs. Among excluded agricultural products are many items of commercial interest to developing countries, including peanuts and peanut butter, beef, cotton, chocolate and chocolate-containing products, and sugar and sugar-containing products. These are the very products that many developing countries have the greatest capacity or potential to export (Topp, 2001). Overall, the simple average MFN tariff on those products that are not granted preferential access in any of the U.S. programs was 44 percent. We would caution against interpreting this average as being indicative of the overall protection given to sensitive products, however, since some imports

Table 5

U.S. tariffs by chapters (simple average), 2002

Chapter description	MFN average	GSP	GSP/ LDC	ATPA and CBERA	AGOA
			Percent		
Tobacco and tobacco substitutes	49.5	48.4	43.8	43.8	43.8
Live animals	1.4	1.2	0	0	0
Meat and edible meat offal	4.6	4.3	1.6	1.6	1.6
Fish, crustaceans, molluscs, etc.	.9	.2	0	0	0
Dairy produce, eggs, honey, etc.	20.7	20.5	13.7	13.7	13.7
Products of animal origin, etc.	.6	.1	0	0	0
Trees, plants, bulbs, flowers, etc.	2.3	.3	.2	0	0
Vegetables, tubers, and roots	5.6	3.3	.8	0	.2
Fruits and nuts	4.2	2.8	.4	0	0
Coffee, tea, maté, and spices	.9	.2	0	0	0
Cereals	1.7	1.1	0	0	0
Malt, starch, inulin, wheat gluten, etc.	2.6	.8	0	0	0
Oilseeds, miscellaneous grains, etc.	5.4	5.1	4.3	4.3	4.3
Lac, gums, resins, etc.	.8	.4	0	0	0
Vegetable planting materials	.8	.3	0	0	0
Fats and oils	3.8	2.6	.2	.2	.2
Preparations of meat and seafood	4.9	2.9	0	.6	0
Sugars and sugar confectionery	13.8	11.5	10.4	10.4	10.4
Cocoa and cocoa preparations	12.2	10.2	9.6	9.6	9.6
Preparations of cereals, flour, starch, or milk	15.4	13.3	9.1	9.1	9.1
Preparations of vegetables, fruit, nuts	8.9	6.8	3.3	2.1	2.1
Miscellaneous edible preparations	14.0	10.9	7.9	7.9	7.9
Beverages, spirits, and vinegar[1]	3.9	3.1	.7	.7	.7
Residues and waste	2.3	1.8	.6	.6	.6
Tobacco and tobacco substitutes	49.5	48.4	43.8	43.8	43.8

[1]Average tariff for ATPA countries is 1.41 percent.

Source: United States International Trade Commission Web Database and Economic Research Service, USDA.

Table 6

U.S. tariff distribution for agricultural commodities, 2002

Program	Average tariffs	Tariff lines				
		Total	Duty-free	>0-5 percent	>5-25 percent	>25 percent
	Percent	*Number*				
MFN	9.3	1,903	461	646	668	128
GSP	8.0	1,903	1,021	281	476	125
GSP/LDC	5.3	1,903	1,656	19	113	115
CBERA	5.1	1,903	1,681	9	103	110
ATPA	5.1	1,903	1,677	11	104	111
AGOA	5.1	1,903	1,684	8	101	110

Source: United States International Trade Commission Web Database and Economic Research Service, USDA.

do take place at lower MFN in-quota tariffs under the tariff-rate quotas. Clearly, however, these products are subject to a level of tariff protection of a different magnitude than those products on which the United States offers preferential rates.

Tariff Preferences in the EU Tariff Schedule

The extent to which the three EU programs (ACP, GSP, and GSP/EBA) offer tariff reductions over MFN rates to beneficiary countries is shown in table 7. Of the 10,400 customs lines in the EU, about 2,150 are already duty-free under MFN. In 2002, the average tariff subject to MFN was 7.9 percent for all products, while average rates were slightly lower under the GSP and considerably lower under the ACP scheme. The general GSP scheme covers roughly 7,000 products, of which 3,300 are classified as nonsensitive and 3,700 are classified as sensitive. Nonsensitive products enjoy duty-free access, while sensitive products benefit from a tariff reduction of 3.5 percentage points on the MFN tariff. For textiles and clothing, this reduction is 20 percent off the MFN rate. The best market access was offered to least developed countries under the GSP/EBA, which allows duty-free access to the EU for virtually all products except arms and ammunition.

For agricultural products, the EU average MFN tariff was higher than the average for the U.S., 21.9 percent versus 9.3 percent. Within the EU tariff schedule, the average agricultural tariff was also higher than that for nonagricultural products as a result of some very high tariffs on sensitive products. The proportion of duty-free MFN tariff lines for agricultural products was also lower than for all products, 14 percent versus 21 percent.

The preferences offered under the GSP program reduced the average tariff for agricultural products by only about 2 percentage points on the MFN tariff. In 2002, the preference for GSP eligible products was about 3.5 percentage points for *ad valorem* tariffs (e.g., 10 percent), 30 percent for specific tariffs (e.g., 100 euros per ton), and 3.5 percentage points on tariffs that were made up of both an *ad valorem* and a specific component. The 47 LDCs eligible for the GSP/EBA scheme, however, were provided duty-free access on 98 percent of agricultural tariff lines (duty-free access was not given on tariff lines covering imports of bananas, rice or sugar), translating to a low average tariff of 1.1 percent. Thirty-nine of the LDCs also qualified to export to the EU with preferences under the ACP program. An additional 34 countries qualified under both the general GSP program

Table 7
EU tariff profile (simple average), 2002

Commodities	Tariff lines	Average tariff	Duty-free lines
	Number	*---Percent---*	
All:			
MFN	10,401	7.9	21
GSP	10,401	4.5	66
GSP/EBA	10,401	.3	99
ACP	10,401	3.0	81
Agriculture:			
MFN	2,374	21.9	14
GSP	2,374	19.7	18
GSP/EBA	2,374	1.1	98
ACP	2,374	13.3	60

Source: World Bank WITS Trade Data Warehouse and Economic Research Service, USDA.

and the ACP program. The ACP is much more generous than the GSP, with ACP countries receiving an average preference of about 8.5 percentage points over all products.

Comparing the EU preferences with those of the U.S., we see that while the U.S. programs offer much greater duty-free access, the margins of preference are, on average larger under EU programs, particularly in the case of the ACP and GSP/EBA. In general, EU preferences would appear to provide beneficiaries with a much more advantageous trading position in the EU market, facilitated by highly protectionist MFN tariffs, than they receive in the U.S. market, where MFN rates are already low. The larger incentives provided by EU programs translate into greater exports from beneficiaries to the EU market.

EU tariffs vary significantly by commodity groups under the different programs. Among the 24 agricultural commodity groups, the average MFN tariff was more than 30 percent for 5 commodity groups (table 8). Under the GSP, the largest preferences, as measured by the difference between the average MFN and GSP rates, were found on processed products. Average preferences were almost zero on those product groups containing the EU's CAP commodities (dairy, sugar, cereals, oilseeds, and meats).

Table 8
EU tariffs by chapters, 2002

Chapter description	MFN average	GSP	GSP/EBA	ACP
	Percent			
Live animals	21.3	20.8	0	14.8
Meat and edible meat offal	29.1	28.7	0	25.2
Fish, crustaceans, molluscs, etc.	12.2	10.0	0	2.4
Dairy produce, eggs, honey, etc.	68.4	68.0	0	60.0
Products of animal origin, etc.	.2	.1	0	0
Trees, plants, bulbs, flowers, etc.	6.0	2.9	0	0
Vegetables, tubers, and roots	12.4	9.6	0	4.4
Fruits and nuts	9.8	7.0	.6	2.8
Coffee, tea, maté, and spices	3.1	1.1	0	0
Cereals	52.0	52.0	39.1	51.0
Malt, starch, inulin, wheat gluten, etc.	23.1	22.8	0	20.5
Oilseeds, miscellaneous grains, etc.	2.0	1.2	0	.8
Lac, gums, resins, etc.	2.2	1.3	0	0
Vegetable planting materials	0	0	0	0
Fats and oils	14.0	11.1	0	8.4
Preparations of meat and seafood	18.4	15.1	0	6.4
Sugars and sugar confectionery	26.1	24.9	8.5	20.4
Cocoa and cocoa preparations	34.3	28.5	0	13.0
Preparations of cereals, flour, starch, or milk	30.9	25.4	0	16.4
Preparations of vegetables, fruit, nuts	24.6	20.5	0	4.8
Miscellaneous edible preparations	12.1	7.5	0	4.3
Beverages, spirits, and vinegar	7.0	4.1	0	3.1
Residues and waste	36.2	34.3	0	29.9
Tobacco and tobacco substitutes	21.0	17.4	0	0

Source: World Bank WITS Trade Data Warehouse and Economic Research Service, USDA.

ACP preferences tended to be much larger across all of the commodity groupings, but particularly for cocoa and cocoa products, tobacco and tobacco products, seafood, and processed products made from fruits, vegetables, cereals, and meats. The distribution of individual tariff lines given preferential access shows that, except for the GSP/EBA beneficiaries, recipients of EU programs continue to face some very high tariffs in the EU market (table 9).

Table 9
U.S. tariff distribution for agricultural commodities, 2002

Program	Average tariffs	Tariff lines				
		Total	Duty-free	>0-5 percent	>5-25 percent	>25 percent
	Percent	*Number*				
MFN	21.9	2,374	333	224	1,319	498
GSP	19.7	2,374	433	449	1,038	454
GSP/EBA	1.1	2,374	2,332	0	5	37
ACP	13.3	2,374	1,415	159	457	343

Source: World Bank WITS Trade Data Warehouse and Economic Research Service, USDA.

Preferential Programs Are Not Fully Used

Being granted preferential market access does not mean countries can automatically export all products that are covered by programs, without any restrictions. According to Laird and Sapir, one of the major impediments that can reduce the potential usefulness of these programs for beneficiaries is their administrative complexity. Indeed, the U.S. General Accounting Office (GAO) found that the complexity of eligibility requirements, especially the level of accounting sophistication required for compliance can create disincentives for producers in recipient developing countries (U.S. General Accounting Office, 2001). (Note: GAO changed its name in 2004 to the Government Accountability Office. Sources cited herein are pre-2004.) Among donors' regulations, complex "rules of origin" are most often cited as the primary limiting factor restricting beneficiary countries' ability to fully utilize tariff preferences.

Rules of origin specify where and how goods can be produced in order to qualify for preferences. They are meant to ensure that the benefits of preferential tariff treatment are confined to products that are for the most part produced or manufactured in the beneficiary countries. Products that originate in third countries and merely pass in transit through, or undergo only minor or superficial processing in, a preference recipient country are not entitled to benefit from preferential tariff treatment. Producers in beneficiary countries may use imported materials to produce goods for export, provided the inputs comply with specific criteria outlined in the rules of origin for the preference program. For example, under U.S. programs the rules of origin require that the sum of the cost or value of the materials produced in the beneficiary country plus the direct costs of processing equals at least 35 percent of the appraised value at the time the product enters the United States.

In recent years, both the U.S. and EU have reformed their rules-of-origin requirements. To provide greater flexibility, certain regional groupings are considered as one area for the purpose of complying with the 35-percent local content requirement. For example, a manufacturer under the CBERA program can use imported materials from another regional beneficiary country (or from the U.S.) and the imported materials will be counted toward the minimum value-added threshold.

The cost of complying with program rules is another factor that could limit recipients' ability to use nonreciprocal preferences. In cases where the margin of preference is low, the potential price gains from utilizing preferences may be cancelled out by the costs of meeting eligibility criteria. This would seem to be more of a concern to small exporters. A good portion of these costs are fixed, which means the larger exporters can spread them out over greater quantities.

Numerous studies have reviewed preference program utilization rates, the ratio of the value of imports that received preferences to the value of imports that were eligible for preferences. Measuring utilization rates by program has proven to be very difficult since many countries qualify for preferences under more that one program. Overall utilization rates for U.S. and EU programs tend to be fairly high, although there can be considerable swings

by country and year. Despite overall utilization rates over 85 for both U.S. and EU programs, the main finding of every study we reviewed concluded that granting preferential market access to developing countries does not translate into full utilization of the programs nor does it result in increased exports for all countries. Among the reasons are weak institutional capacity and a lack of human and financial resources to effectively administer these programs. The lack of stability and predictability of these programs and tariff rates is one of the main reasons why utilization rates differ from one year to the next. A lack of knowledge about preferential programs on the part of program beneficiaries could be another reason for preferences going unutilized (U.S. General Accounting Office, 2001). To take advantage of preferential programs, potential program recipients need to understand the complicated tariff systems of the preference-giving countries and be able to keep abreast of periodic changes. In many cases tariffs for these agricultural products vary by season or there are timetables for imports under preferential programs. For countries with limited administrative capacity, the costs of monitoring that information could outweigh the benefits.

Regulations Limit Use of African Growth and Opportunity Act and Everything But Arms

Two relatively new nonreciprocal preferential programs, the U.S. African Growth and Opportunity Act program and the EU's Everything But Arms program, offer extended country and commodity coverage for many low-income countries. AGOA provided, among other items, preferential access to the U.S. market for eligible products (more than 1,800 tariff lines) from designated Sub-Saharan African (SSA) countries.[12] The commodities covered by AGOA include agricultural commodities (in particular, food items, with more than 600 tariff lines), petroleum products (20 tariff lines), minerals and manufacturing (more than 700 tariff lines), and apparel and footwear (≈ 500 lines). Agricultural commodities that are new compared with the earlier provisions for LDCs include fresh-cut roses, citrus products (fresh or juice), and vegetables (tomatoes, celery, cucumbers, and dried onions). Nonagricultural products can be grouped into apparel, footwear, handbags, gloves, luggage and trunks, and watches. The exported commodities from SSA beneficiary countries fall under different market access programs: MFN, GSP, GSP for LDCs (GSP/LDC), and the AGOA program. The GSP/LDC program expands the benefits under GSP by allowing duty-free imports for about 1,650 U.S. tariff lines. Many SSA countries are participants of the GSP/LDC program. In fact, of the 37 AGOA countries, 22 have received preferential benefits under the GSP/LDC program (see AGOA box).[13]

[12]More details of the AGOA program are available at the AGOA website, www.agoa.gov. The website also provides copies of comprehensive annual progress reports to the U.S. Congress.

[13]The Sub-Saharan African countries that are not eligible for AGOA include: Angola, Burkina Faso, Burundi, Comoros, Equatorial Guinea, Liberia, Somalia, Sudan, Togo, and Zimbabwe. Comoros, Somalia, and Sudan have not shown any interest in participating in the program (AGOA, 2002).

For the recipients of the GSP/LDC program, the AGOA provisions have limited extra benefits because they provide market access for only 243 new tariff lines; of the new commodities, about 49 are for apparel and footwear, and about 25 line items are agriculture-related products. The 15 countries that are not on the GSP/LDC list now receive duty-free access for the 1,650 tariff lines received previously only by the LDCs, plus the 243 new tariff lines received by the LDCs—so the potential benefits are greater. The share of exports under AGOA in total exports to the U.S. market for AGOA countries was 28 percent in 2001 and increased to 35 percent by 2002 but most of the share gain was because of the 20 percent decline in aggregate exports of the countries to U.S. market (table 10). In 2001, 16 of the 36 eligible

Table 10
Exports of AGOA beneficiaries to United States by program

Non-LDC-AGOA	1996	1997	1998	1999	2000	2001	2002
				$U.S. millions			
LDC-MFN	877	1,112	877	984	1,143	953	490
LDC-GSP	33	76	66	91	67	53	22
LDC-AGOA	0	0	0	0	0	363	544
Total	911	1,188	942	1,075	1,210	1,369	1,056
Non-LDC-MFN	11,261	12,154	9,618	10,206	18,415	11,444	8,236
Non-LDC-GSP	524	569	654	535	701	605	657
Non-LDC-AGOA	0	0	0	0	0	4,812	4,624
Total	11,784	12,723	10,272	10,741	19,116	16,861	13,517
All	12,695	13,911	11,215	11,816	20,326	18,230	14,573

Source: Economic Research Service, USDA.

countries used the program; this number increased to 22 by 2002. The share of AGOA exports to total exports to the U.S. was greater than 10 percent in only 13 countries, and 9 of those countries were not on the GSP/LDC list. The top three beneficiary countries, Nigeria, Gabon and South Africa, were relatively wealthy.

The EBA program is similar to the AGOA program, but covers more products. EBA grants duty-free access for imports from most LDCs, except for a few sensitive commodities (bananas, sugar, and rice) that will be liberalized gradually by 2009. Most of the commodities included in EBA previously received duty-free access to the EU under preferential programs such as the Lomé/Cotonou agreement (Brenton, 2003). Under the EBA, 919 free tariff lines were added to the earlier programs, but 44 of those tariff lines are for those products facing delayed liberalization. Out of the 919 tariff lines, LDCs had documented exports for only 80 lines in 2000 including 13 facing delayed liberalization. The export values of these items were 73.6 million euros in 2000 (≈ $70 million), about 0.5 percent of LDCs' exports to the European Union (table 11). For some countries, the benefits from EBA will come when the EU market is accessible for delayed liberalized commodities, such as sugar and bananas. For other countries, particularly the ones that were benefiting from Cotonou Agreement, the potential gains probably are small, and according to Brenton, the regulations are much more stringent than the Lomé/Cotonou agreement. For those countries that are not part of the Cotonou Agreement, EBA has provided significant export opportunities. Exporters have responded to the incentives for those commodities with high preference margins.

Supply constraints are a key element limiting the participation of beneficiary countries in preference programs. Under AGOA, only seven countries—Kenya, Lesotho, Madagascar, Malawi, Mauritius, South Africa, and Swaziland—have demonstrated strong export growth in apparel. Of these seven countries, only South Africa and Mauritius have a long history of apparel exports. Since the mid-1990s, these two countries have increased their investments in neighboring countries, including Lesotho, Malawi, Swaziland, and Madagascar. The available production capacity for these

Table 11
EU Imports from LDCs under EBA in 2001

Item	Imports: Liberalized under EBA in 2001	Delayed liberalization in 2001	All products covered by EBA	Total EU imports of all products
	€ thousands			
EU imports from LDCs:				
2000	10,657	62.963	73,620	11,733,712
2001	3,658	60,670	64,328	12,858,993
ACP/LDC imports:				
2000	10,505	62,904	73,409	7,764,664
2001	3,344	60,596	63,940	8,634,365
ACP non-LDC imports:				
2000	152	59	214	3,969,048
2001	313	74	387	4,225,518

Source: Brenton, 2003.

countries allowed them to take advantage of the AGOA program. The situation under EBA is similar for countries such as Nepal, Laos, Cambodia, and Bangladesh, which were not part of the Cotonou program, but had the production capacity and were able to quickly participate in the program.

Institutional factors and regulations also limit the participation of beneficiary countries in nonreciprocal trade preference programs. The cost of documenting the conformity to these rules is one of the main reasons for the low rate of program utilization. To become AGOA-eligible, beneficiary countries must meet certain customs-related criteria. Apparel exports can receive the preferential treatment under different provisions of the AGOA. In general, qualifying apparel must be assembled in beneficiary countries from yarns and fabric produced in the United States. Apparel assembled in beneficiary countries from regional or third-country inputs also receive preferential treatment, but this trade is subject to annual limits. Amendments to AGOA have extended this provision to 2008, with the annual limits increasing each 12 months, totaling 7 percent of total apparel imports in the United States in the last 12-month period. AGOA also requires that countries implement an effective visa system and have regulations to prevent unlawful trans-shipment of articles. Countries must follow strict customs rules and verify the origin of products shipped to the U.S. The governments of these countries also must agree to provide information and permit visits to factories for verification. Meeting these requirements can be difficult for many of these countries.

Similar to AGOA, under EBA the standard rule for apparel exports is that clothing must be made from yarn produced either in the country, in specially designated countries, or from the EU to be eligible for the full benefits.[14] However, if fabric is imported from a nondesignated country, the tariff reduction will be applied to the value-added part for the eligible EBA country. Other regulations also can affect utilization of the program. For example, when exporting fish (one of the main export items for several Sub-Saharan African countries) under EBA, a vessel must be registered and sail under the flag of the beneficiary country or the EU. The transportation costs are increased further because goods that benefit from EBA must be transported directly to the EU; transit to any other country must be documented and the goods verified to have been under the supervision of the customs authority of the transit country. Clearly, these types of regulations increase transaction costs and reduce the margin of preference and net benefits of the program.

[14]The cumulation clause for designated countries allows inputs from other countries to be considered domestic.

Preferential Programs and Economic Growth

Proponents of the preferential programs argue that the tariff advantages provided under these programs have the potential to stimulate growth in recipient countries' exports. This, in turn, will increase prices for exports relative to imports (terms of trade), and that could create incentives to invest in the production of export commodities that generate the highest return under preferential programs. In theory, if this leads to an overall increase in investment, economic growth in the recipient countries is stimulated.

In reality, the economic implications of preferential market access programs on recipients are complex and depend on a variety of factors (Bora et al., 2002). Recipients' internal factors include exchange rate, tax, and fiscal policies that affect countries' trade performance and that are almost impossible to isolate from the impacts of nonreciprocal programs. These factors complicate efforts to assess the success or failure of these programs. In addition, most countries are parties to multiple reciprocal and nonreciprocal agreements and that participation complicates attempts to measure the effectiveness of individual programs. Changes in the global trade situations and policy and market conditions of the program providers are also important factors that need to be taken into account. The indirect impacts of the programs such as allowing for development of economies of scale (i.e., enlarging recipients' markets to increase operational efficiency), improving trade knowledge of recipients, and program potential to attract foreign direct investment, are difficult to assess.

The available literature on the assessment of these programs' impacts is diverse, ranging from macro to micro studies with differences in data and methodologies (Brown, 1988; OECD, 2003). Many studies done during the first 15 years of the GSP program demonstrated that it had expanded exports (all commodities) of developing countries (Brown, 1988). The export growth was concentrated in a few products, mainly products that are based on labor-intensive production. More recent empirical research argues that the apparent loss of trade market shares of the low-income program recipients, Sub-Saharan Africa in particular, is not because of the nature of the implementation of preference programs, but because of supply constraints in program recipient countries (Nilsson, 2002; Cline, 2004). Overall research conclusions are that those programs that offer deep tariff cuts and broader commodity coverage such as CBERA and Lome/Contonou, and perhaps EBA and AGOA in the future, have the best chance of improving export performance of the program recipients (Cline, 2004).

Another important issue that influences the trade impacts of these programs is the nature of program design. Research shows that these programs tend to stimulate export growth if the commodities covered by the program are better matched to fit the export profile of the program recipients (Clark, 1997). The experience of the CBERA countries shows that for tropical commodities such as pineapples and cantaloupes, in which exporting countries have comparative advantage, the tariff preferences provided by the program led to a growing export market even after the incentives were reduced (Loper et al., 2003). However, for commodities such as meat, which would not otherwise have been exported, tariff differentials created a

policy-induced "comparative advantage." When the margin of preference declined, those exports disappeared quickly. In such cases, the limited benefits of these programs come at great costs—they encourage high-cost production and result in diverting limited resources away from more productive activities. Further, to the extent that the programs insulate producers from competitive pressures, they may slow down the adoption of new cost-reducing technologies and, thus, hinder innovation and economic adjustment. In these cases, the trade created is not based on implementation of domestic economic reforms in order to become competitive. Rather, it is based on the existence of preferences, causing recipients to become less competitive, more reliant on preferences, and highly vulnerable to preferences' removal (Stoeckel and Borrell, 2001; Topp, 2001).

The case of the sugar industry in the Caribbean is a good example of the dilemma facing the exports of developing countries benefiting from preferential programs. Trends in sugar production and exports of the Caribbean countries have been declining in the last couple of decades despite preferential access to the EU and U.S. markets. According to Mitchell's study (2004), without preferential sugar programs the export revenues of the countries would have declined more sharply, 60 percent in 2000-01, assuming no change in world prices. The reason for these declining trends is the growing production costs that stem from inefficiencies of public-sector control and management of the sugar industry. It is not clear how preferential programs contributed to the inefficiencies in the management of sugar export in these countries, but according to the Mitchell's conclusions, the sugar industries of the region will face severe challenges in the coming years. Many countries must diversify or move to alternative/value-added production such as refined sugar or ethanol production.

In addition to expanding trade, preferential programs can have long-term impacts on investment and income growth (Clark, 1997). The expansion in trade allows beneficiary countries to restructure their export sector and consequently attract investment. This leads to economic growth. The impact of preferential programs on investment is not instantaneous, and there is a limit to how much a country may benefit from these programs. Investment benefits of the program depend on recipient countries' orientation, infrastructure conditions, resource availability, and access to other preferential programs (Clark, 1997; Skripnitchenko and Abbott, 2002; and Skripnitchenko, 2003). Country-specific economic and political conditions are also influential in foreign investment decisions. The risk factors associated with any new investment abroad—such as language and cultural barriers, legal differences, incomplete information relative to local firms, and political instability—slows the investment process, even in those countries that enjoy the incentives of trade preference programs and are low-cost producers.

As for the relationship between preferential programs and an upward trend in recipients' economic growth, the evidence is less conclusive. The improvement in investment and the terms of trade between traded and nontraded sectors as a result of preferential programs is expected to lead to reallocation of resources, leading to the economic growth of program recipients. In practice, those countries with a higher level of economic development that possess adequate infrastructure are in a better position to take advantage of reduced tariffs offered by the programs (Brown, 1987 and

1989). This also means that these programs often fall short of achieving a primary aim to improve the economic and social conditions in the poorest recipient countries. This limitation is acknowledged even by those who support these programs (Stoeckel and Borrell, 2001; Topp, 2001). Constraint in expanding production capacity is the reason for the limited economic gains of preference programs in the low-income countries. Topp argues that improving the programs' effectiveness requires collective action by all program providers. He suggests that donors could more effectively use the equivalent of tariff revenue forgone under these programs by increasing direct development assistance to the poor countries (Topp, 2001).

In sum, research indicates that preferential programs have limitations in delivering the expected economic benefits, in particular in the case of lower income countries. The literature shows that improvement in program design can enhance program effectiveness. The argument is that while, in principle, these programs provide increased market access for a wide number of products, the preferences offered do not always match the export profile of the recipients. The complicated implementation procedures also limit the potential trade benefits. Preferences must actually be requested and beneficiaries must meet requirements on how and where the products are produced. Experts cite complex and restrictive rules-of-origin requirements—meant to ensure that the tariff preferences are confined to the intended recipient—as a limitation on beneficiary countries' ability to fully use tariff preferences offered under these programs. To the extent these costs approach, or even exceed, the value of the margin of preference, the incentive to increase exports declines or disappears completely (Mattoo et al., 2002). Other nonprogram costs, such as compliance with a donor country's sanitary and phytosanitary regulations, also can impede recipients from benefiting from preferences.

Future of Preference Programs

Nonreciprocal trade preference programs face an uncertain outlook and probably will decline in importance in future world trade. Erosion of preferential tariff margins under a multilateral trade liberalization setting is unavoidable. Much of the analysis of trade liberalization done in the past may have given an overly optimistic picture of the trade gains associated with global trade liberalization for developing countries, including least developing countries. The proportion that preferential trade accounts for within the total agricultural exports from beneficiaries to the U.S. and the EU is significant from the perspective of many beneficiaries, so trade models that do not account for the existence of preferences will not accurately capture the impact from cutting MFN tariffs on beneficiaries' trade. Nevertheless, it would be counterproductive from the standpoint of their own interests for many developing countries to oppose tariff liberalization, or to advocate minimal rather than deep cuts, under the misleading notion that their overall exports would decline because of the erosion of preference margins. As we have demonstrated, many important agricultural products of interest to developing-country exporters are currently excluded from nonreciprocal trade preference programs. In addition, trade preferences are not available to all developing countries on an equal basis, whereas all would enjoy the full benefits of MFN tariff reductions.

With the growing number of bilateral reciprocal agreements and advancement in multilateral negotiations, the value of preferential programs is bound to decline. Although this trend gives little comfort to the recipients, the speed and the degree of erosion may be controlled by the length of time over which MFN tariff reductions are implemented. A longer implementation period would allow beneficiary countries more time to continue to take advantage of the available trade opportunities while also easing the process of adjusting to erosion in the preferences.

In a World Bank study, Hoekman et al. (2001) analyzed the potential impact of eliminating tariff peaks (higher than 15 percent) by the EU, U.S., Japan, and Canada on trade with the least developed countries. The average EU tariff peak mostly affects agricultural imports such as meat, fish, sugar, tobacco, and footwear. In the U.S., most of the peaks affect industrial products, particularly apparel and clothing; tobacco and sugar are the most important agricultural commodities in this group. The results showed that the trade gains for LDCs would be much higher than the tariff revenues collected by the donor countries. The EU results showed that the elimination of tariff peaks would lead to a 37-percent increase in LDCs' exports of the peak items. The highest beneficiary export commodity is sugar (64 percent of the gain), followed by cereals, meat, and fruits. The U.S. results showed 35-percent trade gains for the LDCs. Most of the benefits were due to an increase in apparel trade, about 65 percent of the growth; tobacco accounted for the rest of the gains. The summary results of the study showed that if the LDCs were to receive duty-free access to the developed-country markets (U.S., EU, Japan, and Canada), then their total exports would increase by about 11 percent.

The results of the study by Hoekman et al. suggest that although there will be trade and income gains from increased market access and modification of

preferential programs, the gains are expected to be relatively moderate, even without taking into account the offsetting impact of trade regulations. This means that access to developed countries' markets is not a magic bullet. To accelerate the growth in trade and incomes in LDCs requires a host of supports, both internal and external. The internal market conditions of the countries, including the functions of economic institutions, macroeconomic performance, infrastructure, and transportation, would have a much stronger impact on trade and economic performance of the countries than the marginal gains under preference programs. These factors are critical to economic growth, even when there is preferential access to global trade markets (Barro, 1996).

Conclusions

Nonreciprocal trade preference programs have been an important part of the global trading system for the past three decades. The argument for the establishment of these programs under the General Agreement on Tariffs and Trade (GATT) was that the preferences granted would, by giving the developing countries greater access to developed-country markets, cause their exports to expand and, thereby, foster more rapid economic growth and overall development. The justification for making the preferences nonreciprocal, or unilateral, was that equal treatment of unequal partners was not equitable and, therefore, special trade preferences were required to create a level playing field in the global trading environment.

Among developed countries, the United States and the European Union have the largest markets and are important preference-granting donors. Both donors have revised their programs over time, adjusting the country and commodity coverage and other features. They both have revised their rules of origin—program restrictions that specify where and how goods can be produced in order to qualify for preferences—by giving beneficiary countries more leeway to use inputs from multiple countries to produce their products.

While there is a considerable amount of overlap in country and commodity coverage, U.S. and EU programs provide different levels of trade concessions to the recipients. The main beneficiaries from U.S. programs are the Western Hemisphere developing countries, while the countries of Sub-Saharan Africa tend to be the largest beneficiaries of EU programs. In general, the top product categories imported by both the U.S. and the EU under nonreciprocal programs are very similar, reflecting the range of products produced in developing countries. Both import large quantities of fresh and processed fruits and vegetables, sugar, tobacco and tobacco products, and cut flowers under these programs. The main exception was found in the fish and shellfish category, which accounted for almost 30 percent of EU nonreciprocal preferential imports versus almost zero in the case of the U.S. Most U.S. imports of fish and shellfish take place at MFN tariffs that have been bound at zero.

The EU provides the highest margin of preference or price differential under its GSP/EBA program, while the U.S. provides its most favorable tariff relief to CBERA/ATPA beneficiaries. For the least developing countries eligible under EBA, about 98 percent of agricultural product lines can enter duty-free to the EU market, while this share is 88 percent in the U.S. market for CBERA/ATPA countries. Those commodities that are excluded from the preferential programs face stiff tariffs in both markets, average MFN tariffs of 63 percent in the EU market and 42 percent in the U.S. market. Politically sensitive agricultural commodities such as dairy products and sugar, or products containing dairy and sugar, remain highly protected in both markets.

For preferential recipient countries, lower tariffs enhance their ability to be competitive in the EU and U.S. markets, but do not necessarily lead to full utilization of the programs. The benefits accrued by developing countries from tariff preferences are a function of numerous factors, including the extent of product coverage, the size of the margin of preference, the complexity of program rules and regulations, the costs associated with meeting eligibility requirements, and the trade-limiting effect of program

constraints. In addition, for many countries a lack of productive or export capacity limits their ability to take advantage of these preferences.

Despite these factors, nonreciprocal programs get strong support from developing countries. One reason is that the U.S. and EU are very important markets for exports of preference recipient countries. Many countries rely heavily on these programs, as indicated by the sizable share of their exports that receive preferences. In 2002, more than 50 percent of agricultural exports of 21 countries entered the U.S. market under preferential programs. The figure was even higher for the EU, where preferences covered over half of the agricultural exports from 49 countries.

The results indicate that the EU and U.S. programs continue to offer significant market access for selected products to some developing countries. However, the trade gains are not equally distributed among recipient countries and tend to be concentrated in higher income developing countries. To some extent, this is to be expected, as these countries have larger and more efficient agricultural sectors. Despite the incentives associated with these programs, the poorest developing countries have simply not been very successful at exporting agricultural goods to the U.S. They have been more successful at exporting under EU programs, where the product coverage and the margins of preference are higher, although even under EU programs the trade gains are concentrated in a relatively few LDCs. These programs have been most successful in generating large trade flows in products where beneficiary countries have a comparative advantage in production and the productive capacity to expand exports. In these cases, beneficiaries may continue to see their exports to the U.S. and the EU grow, even when the margin of preference is eroded, especially if these exports are constrained by quotas which are allowed to expand.

The uneven gains from these programs are not solely related to the nature of the programs, but also a reflection of the inadequate production capacity of the low-income recipients. For these programs to achieve their potential for LDCs, where production capacity is highly constrained by numerous factors, including poor policies, weak infrastructure, and low-skilled labor, would probably require them to be coupled with increased financial and technical assistance. How to address the problems associated with expanding production and export capacity in the lower income countries in order for them to benefit from trade liberalization will be one of the challenges developed countries will face in the Doha negotiations.

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Glossary

ACP	Africa, Caribbean and Pacific countries
AGOA	African Growth and Opportunity Act
ATPA	Andean Trade Preference Act
ATPDEA	Andean Trade Promotion and Drug Eradication Act
CAP	Common Agricultural Policy of the European Union
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CNL	Competitive Need Limitations
Cotonou Agreement	The Cotonou Agreement replaced the Lomé Convention, focusing on poverty reduction as its principal objective
Doha Development Agenda	The multilateral trade negotiations begun January 2002 as a result of agreement at the WTO Doha Ministerial
EBA	Everything But Arms Agreement
EPA	Economic Partnership Agreements
Euro (currency)	€
European Union	A union of 25 independent states, formed to enhance political, economic, and social cooperation
FTA	Free Trade Agreement
GATT	General Agreement On Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
LDC	Least Developed Countries
Lome Convention	An aid and trade agreement among African, Caribbean, and Pacific Countries and the European Union, aimed at supporting the ACP countries' efforts to achieve economic development
MFN	Most Favored Nation
NAFTA	North American Free Trade Agreement
TRQ	Tariff Rate Quota
UNCTAD	United Nations Conference for Trade and Development
Uruguay Round	Multilateral trade negotiations launched at Punta del Este, Uruguay in September 1986 and concluded in Geneva, Switzerland, in December 1993. Signed by ministers in Marrakesh, Morocco, in April 1994.
WTO	World Trade Organization