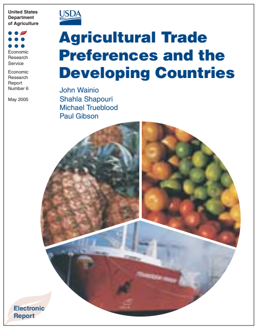
ERS Report Summary

Markets and Trade

Economic Research Service May 2005 U.S. Department of Agriculture



This is a summary of an ERS report.

Find the full report at ***www.ers.usda.gov/publications/err6***

Agricultural Trade Preferences and the Developing Countries

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

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 other 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.[1]

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.[2]

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 U.S. and 44 percent of recipients' dutiable exports to the EU came in under nonreciprocal preferences. The proportion based on

[1] *Agricultural Trade Preferences and the Developing Countries* 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.

[2] All figures cited are based on ERS analysis of the most recent 2002 WTO data.

ERS is the main source of research and analysis from the U.S. Department of Agriculture, providing timely information on economic and policy issues related to agriculture, food, the environment, and rural America.

dutiable trade is much higher because 62 percent of preference recipients' exports to the U.S. 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 U.S. 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 U.S. 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.

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 U.S. 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 U.S., 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).