July, 2009

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QUANTIFYING THE VALUE OF U.S. TARIFF PREFERENCES FOR DEVELOPING COUNTRIES

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There has been much debate over the value of preferential trade programs offered by industrial countries, granting duty-free or reduced-duty access for many exports from developing countries.[1] Some leaders from developing countries and nongovernmental organizations have argued that preference erosion would have serious development consequences and requires compensation (e.g., Oxfam 2005). Other leaders have argued that vulnerability to preference erosion is limited to only a few countries and products, and thus requires more targeted assistance (WTO 2004).

A country that is granted trade preferences would presumably see demand for its exports grow, relative to demand for exports from countries still facing most-favored-nation (MFN) tariffs. If the country receiving preferences is small, its exports would continue to be sold in the importing country at the prevailing tariff-inclusive price, with the exporter earning the difference. Thus, the benefits of such preferences for the exporting country would be increased exports and a transfer of rent from the importing country. But how important are these trade preferences to developing countries? Are the tariff margins large? Do countries fully utilize their preferential access? Is all rent actually earned by the exporting

The authors are grateful to Maya Shivakumar and Nick Grossman for their superb work assembling and analyzing data. They also thank Pat Thomas for her valuable help constructing tables and Peg MacKnight for her help with the U.S. International Trade Commission DataWeb database. The views expressed here are those of the authors only. They do not necessarily reflect the views of the U.S. International Trade Commission, any of its individual commissioners, or the U.S. Department of Agriculture.

countries? If so, how large is this rent relative to a country's overall exports? If it is significant, do trade preferences granted to one developing country come at the expense of another (Panagariya 2002)?

Only recently have studies attempted to answer some of these questions quantitatively. Alexandraki and Lankes (2004) calculate the product-level tariff margins granted by Canada, the European Union, Japan, and the United States and then use these margins to derive an aggregate value of preferences for each beneficiary country. They find that in 18 countries, the value of preferences exceeds 5 percent of the value of their exports. Their results suggest that the problem is heavily concentrated in small island economies that depend on sugar, bananas, and—to a lesser extent—textiles. But as Alexandraki and Lankes note, these values may be overstated because they assume full utilization of preferences, constant world prices, and full rent transfer to the beneficiary countries.

Brenton and Ikezuki (2004) assess the scope and value of U.S. preferences under the African Growth and Opportunity Act (AGOA) for the year 2002. They find that, overall, the least developed countries (LDCs) among the beneficiaries saw little expansion in the list of products eligible for duty-free access under the AGOA because they already had such access under the Generalized System of Preferences (GSP). Thus, countries other than LDCs would be likely to benefit more from the AGOA. But a country's eligibility for apparel preferences significantly affects the rate at which it uses AGOA preferences. Among countries that have such status, the LDCs have the least restrictive rules of origin and are therefore likely to gain more. Brenton and Ikezuki's data show wide variation in AGOA utilization and AGOA tariff preferences that averaged only about 6 percent. In only six AGOA countries did the values of preferences (AGOA plus GSP) exceed 5 percent of that country's total exports to the United States.

This chapter seeks to improve on measures of the size, utilization, and value of all U.S. nonreciprocal trade preference programs in order to shed some light on the debate. Highly disaggregated data are used to quantify the 2003 margins, coverage, and utilization of nonagricultural and agricultural tariff preferences, for all beneficiary countries in U.S. regional preference programs and in the GSP. Estimates of the overall value of preferences are made assuming full utilization and then reestimated to reflect actual utilization. Values for nonagricultural and agricultural preferences are also estimated.

The results show that U.S. regional preference programs are characterized by high coverage of beneficiary countries' exports, high utilization by beneficiary countries, and low tariff preference margins (except on apparel). The GSP has relatively poorer coverage in general and low preference margins. The GSP is little used as an alternative to the regional programs, but is heavily used by countries that have no alternatives. With 2003 actual utilization incorporated, 29 beneficiary countries were found to have U.S. tariff preferences valued at 5 percent or more of their dutiable exports to the United States, and 17 countries had preference values that exceeded 5 percent of their total exports to the United States. In nine countries, U.S. preferences were valued at 15 percent or more of their dutiable exports to the United States. Most of this value was attributable to nonagricultural tariff preferences, especially those for apparel. The remaining value was small and attributable largely to jewelry, chemicals, electrical machinery, petroleum-related products, melons, fresh-cut flowers, frozen orange juice, raw cane sugar, and fresh asparagus. The removal of apparel quantity restrictions in 2005 is likely to have reduced the value of U.S. apparel preferences since 2003. Although further analysis is needed, these results suggest that U.S. preference erosion may be significant for more countries than was previously thought.

U.S. Nonreciprocal Trade Programs in 2003

In 2003, 143 countries and territories were eligible for tariff preferences under the GSP. GSP treatment in the United States is duty free and covers "most dutiable manufactures and semi-manufactures and selected agricultural, fishery, and primary industrial products not otherwise duty-free" (Office of the U.S. Trade Representative 1999). In 1996, nearly 2,000 additional items were designated duty free for LDCs.[2] But relative to other U.S. preferential programs, the GSP covers fewer products. Products deemed import sensitive are excluded by law. Agricultural products that are subject to a tariff rate quota are not eligible for duty-free access on any quantities that exceed the quota. Other ineligible products include most textiles, apparel, watches, footwear, handbags, luggage, work gloves, and other apparel made partly or wholly from leather (U.S. Federal Code 19, chapter 12, subchapter V). The GSP has additional limitations, including periodic expiration, loss of GSP eligibility because of automatic graduation to the World Bank's high-income country category, and loss of GSP eligibility for a specific product once competitive needs limits are exceeded.[3]

AGOA granted duty-free status to more than 6,400 products imported from Sub-Saharan African countries as part of the Trade Act of 2000 (USITC 2004b), a larger set of goods than the GSP covers. In 2003, 38 countries were eligible for preferences under the act (see http://www.agoa.gov). For non-LDC beneficiaries, products are eligible for preferences under AGOA or under the GSP, but not under both. For LDC beneficiaries, however, some products are eligible for both programs. AGOA exempts beneficiary countries from the competitive needs limits. The program also grants duty-free and quota-free access to apparel made in eligible Sub-Saharan African countries from U.S. fabric, yarn, and thread. Apparel imports made with regional fabrics were subject to a cap, which was designed to grow over a period of eight years. In addition, the Special Rule for Apparel (SRA) allowed LDCs to receive duty-free access for apparel made with fabrics originating from third countries until September 2004.[4] AGOA II (part of the Trade Act of 2002) expanded preferential access and increased the cap for apparel made with regional fabric. AGOA III (2004) extended the program until 2015 and the third-country fabric provision until 2007.

The Caribbean Basin Economic Recovery Act (CBERA) is an extension of the Caribbean Basin Initiative (CBI), begun in 1984 (USITC 2005). This program eliminated or reduced tariffs on eligible products imported from designated Caribbean and Central American countries and territories. The Caribbean Basin Trade Partnership Act (CBTPA), the most recent extension of CBERA, was implemented as part of the Trade Act of 2000. In 2003, 24 countries were eligible for CBERA benefits; of those, 14 were eligible for the CBTPA. Under the CBTPA, a number of import-sensitive products became eligible for preferential duty treatment, including apparel, petroleum, and petroleum products. The CBTPA authorizes unlimited duty-free entry for imports of apparel that are assembled in CBERA countries from fabrics made and cut in the United States of U.S. yarns. If the cutting takes place in CBTPA countries, the apparel must be sewn with U.S. thread.[5] The CBTPA also provides some preferential access for apparel made from regional fabric, but unlike AGOA, it has no third-country fabric provision.

The Andean Trade Preference Act (ATPA) granted duty-free access to many imports from Bolivia, Colombia, Ecuador, and Peru beginning in 1991 (USITC 2004a). After expiring in December 2001, ATPA was renewed retroactively as the Andean Trade Promotion and Drug Eradication Act in late 2002.[6] ATPA covers more products than the GSP, and eligibility is not constrained by the GSP competitive needs limits or by the possibility of graduation. In 2002, ATPA preferential treatment was expanded to include previously excluded import-sensitive products such as petroleum and petroleum derivatives, apparel and textiles, footwear, and tuna in foil packages. ATPA allows unlimited duty-free and quota-free treatment for imports of textiles and apparel made in ATPA countries using yarn, fabric, or fabric components wholly formed in the United States. Like the CBTPA, ATPA also provides some preferential access for apparel made from regional fabric, but no third-country fabric provision.

Data Description

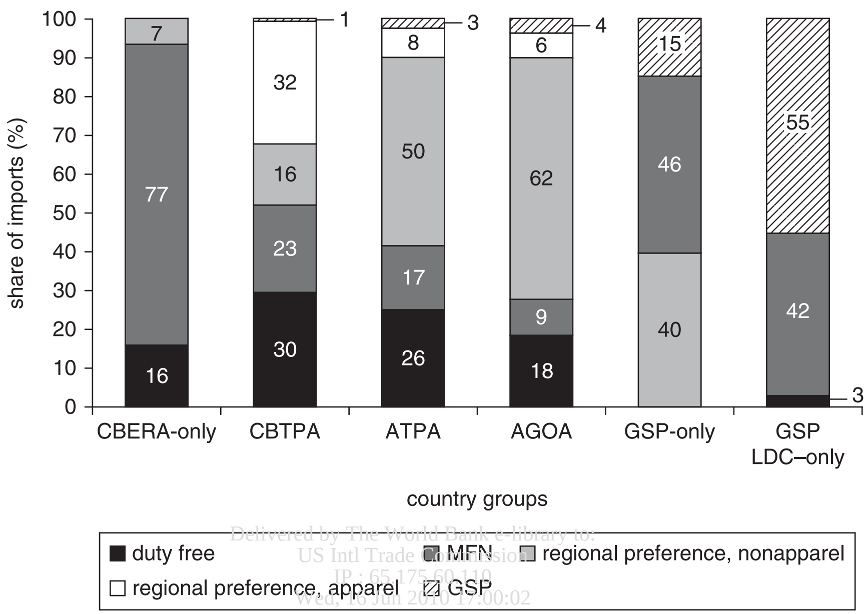
For this study, a preference database was constructed using trade and tariff data from the U.S. Harmonized Tariff Schedule (HTS) at the eight-digit level, extracted from the U.S. International Trade Commission (USITC) DataWeb database (http://dataweb.usitc.gov) and the USITC Tariff Database (http://www.usitc.gov/tata/hts/other/dataweb). All 2003 U.S. imports in Harmonized System (HS) chapters 1 through 97 were included.[7] The USITC records U.S. imports from beneficiary countries by customs value in current U.S. dollars.[8] The import data include the preferences claimed, value of total imports, dutiable imports (ex post), duties paid, quantity imported, and preference-eligibility status by country and program. The use of preferences is indicated by the preference claimed when the product entered the United States.[9]

MFN and preferential tariffs, including both ad valorem and specific tariffs, are converted to ad valorem equivalents (AVEs), using the USITC method.[10] Although the USITC Tariff Database includes AVEs of tariff rate quotas, it does not include any AVE estimates of import quotas or other types of quantitative restrictions. The implications of omitting the 2003 U.S. quantitative restrictions on apparel products are discussed later. The tariff data include detailed information on preference eligibility by product and program.

U.S. Tariff Preferences on Nonagricultural Products

Figure 2.1 shows U.S. imports of nonagricultural products in 2003 from beneficiary countries by tariff treatment.[11] The CBERA countries are split into those eligible for CBTPA and those eligible for CBERA only, since the CBTPA includes

FIGURE 2.1 Share of U.S. Nonagricultural Imports by Type of Tariff Regime, 2003



Source: USITC Trade Database and authors' calculations.

apparel preferences and covers other products more broadly. Countries that are exclusively eligible for the GSP are split into two groups: GSP-only and GSP LDC beneficiaries.

The first striking feature of figure 2.1 is the high overall use of the regional preference programs. In 2003, the United States imported about US$19.6 billion of nonagricultural products from CBTPA countries, 50 percent of which was apparel. Nearly half these imports entered the United States under the CBTPA program. Similarly, of the US$9.8 billion imported from ATPA countries (11 percent of which was apparel), nearly 60 percent entered under the ATPA program. AGOA countries accounted for US$19.1 billion of U.S. nonagricultural imports, 8 percent of which was apparel. About 68 percent of these imports entered under the AGOA preference program. In contrast, the CBERA-only beneficiaries made little use of regional preferences. Of the US$1.8 billion in nonagricultural imports from these countries, only 7 percent entered the United States under the CBERA.

The second striking feature of figure 2.1 is the low use of the GSP. Only 1 percent of U.S. imports from the CBPTA countries and from CBERA-only countries came in under this program. U.S. imports from ATPA and AGOA beneficiaries under the GSP were only 3 percent and 4 percent, respectively. Even the non-LDCs that are eligible only for the GSP made little use of the program: only 15 percent of the US$113.8 billion of nonagricultural imports from those beneficiaries entered under the GSP. In contrast, more than half of the US$8.8 billion nonagricultural imports from GSP LDC beneficiaries entered under the GSP program. Although apparel represented 13 percent of U.S. imports from GSP LDC countries, most of it was excluded from the GSP, leaving only 1 percent of apparel imports entering under the program.

Are U.S. Nonagricultural Preferences Comprehensive?

Whether countries underutilize U.S. preferences may depend partly on how extensive the preferences are. The scope of preferences is measured by calculating coverage rates, which are defined as the ratio of eligible U.S. imports to total dutiable U.S. imports, with *dutiable* defined as being subject to duty if no preference program is claimed. Apparel coverage is problematic because, strictly speaking, no apparel product is eligible, ex ante, for preferential tariff treatment. The regional programs all have product eligibility requirements—typically, rules of origin regarding the components of the garments—that may or may not be met. The AGOA program also requires country apparel eligibility and grants nearly all AGOA LDC beneficiaries SRA eligibility. In this study, overall coverage rates for countries in these programs are calculated by assuming that all apparel imports from eligible countries are potentially eligible for duty-free access. This assumption yields apparel coverage rates of 100 percent.[12] For CBERA-only and GSP countries, apparel coverage rates are calculated on the basis of actual product eligibility.

Table 2.1 shows coverage rates for all nonagricultural imports and for apparel and nonapparel imports separately. Data for regional programs are shown on the left, and data for the alternative GSP program on the right. Nearly all U.S. nonagricultural imports from CBTPA and ATPA members were eligible for preferences under these regional programs. Except for El Salvador, coverage rates for nonapparel imports were 90 percent or more under both programs. For CBERA-only countries, the scope of regional preferences was more varied. Of the 10 members, 6 had CBERA coverage rates of 90 percent or more, but the remaining 4 had rates well below 50 percent. Under the alternative GSP program, coverage of nonapparel imports exceeded 90 percent in seven of the CBTPA and ATPA countries, but overall GSP coverage rates were well below 50 percent for most beneficiaries. For CBERA-only countries, GSP coverage was similar to regional program coverage.

There is no overlap between AGOA program coverage and GSP coverage for AGOA non-LDC beneficiaries. Adding up coverage under both programs reveals that virtually all U.S. nonagricultural imports from all AGOA non-LDC beneficiaries (except Eritrea) were eligible for preferences in 2003. The same was true for nonapparel imports (except Botswana and Swaziland). Coverage rates showed more variation among the LDCs. Of the 21 AGOA LDC beneficiaries, 9 had coverage of 90 percent or more; for 9 others, AGOA coverage was negligible. For most other LDCs, low (high) AGOA coverage corresponded to high (low) GSP coverage. Thus, 14 LDCs had complete coverage, and another 4 had 50 to 90 percent coverage under the combined preference programs. AGOA coverage of nonapparel imports was generally low relative to that of the GSP, except for petroleum-related products. In eight of the countries with complete AGOA coverage, exports to the United States consisted almost entirely of petroleum-related products.[13]

Preference coverage was on average much lower and more varied for GSP-only countries (table 2.2). The mean coverage rate for the 60 non-LDCs was just 44 percent, and in nearly half the countries the GSP covered less than 30 percent of their dutiable exports. Of the 15 GSP LDC beneficiaries, half had coverage rates of 90 percent or more, while the other half had coverage rates near or below 25 percent. For countries such as Bangladesh, Cambodia, Nepal, Pakistan, and Sri Lanka, whose exports to the United States are dominated by apparel, GSP coverage rates were extremely low.

(*Text continues on p. 42.*)

TABLE 2.1 U.S. Nonagricultural Imports: Preference Coverage, Utilization, and Average Nominal Tariff Preference, 2003

	CBERA coverage[a] (%)		CBERA utilization[b] (%)			CBERA average tariff preference[c] (%)			GSP coverage[a] (%)		GSP utilization, overall[b] (%)	GSP average tariff preference, overall[c] (%)
	Overall	Nonapparel	Overall	Nonapparel	Apparel	Overall	Nonapparel	Apparel	Overall	Nonapparel		
Antigua and Barbuda	98	98	4	4	n.a.	4.5	4.5	n.a.	27	27	16	3.9
Aruba	(.)	(.)	49	50	0	3.9	3.8	4.6	n.a.	n.a.	n.a.	n.a.
Bahamas, The	29	29	100	100	100	3.4	3.4	4.2	n.a.	n.a.	n.a.	n.a.
British Virgin Islands	44	42	7	8	0	4.3	4.1	10.0	31	34	0	4.0
Dominica	99	100	98	98	n.a.	3.3	3.3	n.a.	99	100	0	3.3
Grenada	100	100	20	20	n.a.	3.8	3.8	n.a.	100	100	0	3.8
Montserrat	91	95	0	0	n.a.	2.1	2.1	n.a.	72	75	0	2.5
Netherlands Antilles	1	1	40	40	n.a.	3.6	3.6	n.a.	n.a.	n.a.	n.a.	n.a.
St. Kitts and Nevis	98	100	96	96	n.a.	2.9	2.9	n.a.	93	95	2	3.1
St. Vincent	100	100	100	100	100	4.3	4.1	4.9	100	100	(.)	4.5

	CBTPA coverage[a] (%)		CBTPA utilization[b] (%)			CBTPA average tariff preference[c] (%)			GSP coverage[a] (%)		GSP utilization, overall[b] (%)	GSP average tariff preference, overall[c] (%)
	Overall[d]	Nonapparel	Overall[d]	Nonapparel	Apparel[d]	Overall[d]	Nonapparel	Apparel[d]	Overall	Nonapparel		
Barbados	100	100	20	20	3	4.8	3.5	15.7	34	35	17	2.9
Belize	100	100	76	4	86	8.8	3.2	14.2	12	98	13	4.2
Costa Rica	99	98	73	79	70	7.4	4.9	16.8	32	92	12	3.7
Dominican Republic	99	97	76	65	82	8.2	4.3	15.8	30	86	7	3.8
El Salvador	98	60	65	77	64	11.2	5.0	15.4	2	38	32	4.0
Guatemaia	99	96	42	94	34	10.0	3.2	15.6	5	34	11	4.6
Guyana	96	91	83	81	85	12.1	4.8	18.5	40	91	21	4.3
Haiti	100	100	66	34	67	12.6	3.7	17.3	5	97	18	4.4
Honduras	100	98	71	20	76	10.5	4.4	16.1	8	96	4	4.1
Jamaica	100	100	86	57	87	9.2	5.2	17.2	3	90	6	3.6
Nicaragua	100	100	31	32	31	13.0	5.8	16.6	n.a.	n.a.	n.a.	n.a.
Panama	99	99	48	51	9	6.9	4.8	14.4	49	53	26	3.7
St. Lucia	100	100	61	89	0	9.4	4.3	18.3	11	16	41	3.5
Trinidad and Tobago	100	100	90	90	11	4.3	5.0	14.4	37	37	0	3.5

	ATPA coverage[a] (%)		ATPA utilization[b] (%)			ATPA average tariff preference[c] (%)			GSP coverage[a] (%)		GSP utilization, overall[b] (%)	GSP average tariff preference, overall[c] (%)
	Overall[d]	Nonapparel	Overall[d]	Nonapparel	Apparel[d]	Overall[d]	Nonapparel	Apparel[d]	Overall	Nonapparel		
Bolivia	100	100	90	89	90	10.1	5.3	14.3	77	98	9	4.5
Colombia	99	99	71	74	53	7.8	4.9	14.5	7	8	45	4.0
Ecuador	99	93	85	89	77	8.2	4.6	15.6	7	6	37	4.3
Peru	94	99	89	85	90	8.2	4.9	14.3	52	82	8	4.2

(*Table continues on the following page.*)

TABLE 2.1 U.S. Nonagricultural Imports: Preference Coverage, Utilization, and Average Nominal Tariff Preference, 2003 (*Continued*)

	AGOA coverage[a] (%)		AGOA utilization[b] (%)			AGOA average tariff preference[c] (%)			GSP coverage[a] (%)		GSP utilization, overall[b] (%)	GSP average tariff preference, overall[c] (%)
	Overall[d]	Nonapparel	Overall[d]	Nonapparel	Apparel[d]	Overall[d]	Nonapparel	Apparel[d]	Overall	Nonapparel		
Botswana[e,f]	99	0	89	n.a.	89	17.6	n.a.	17.6	1	49	0	2.5
Cameroon[e,f]	99	99	100	100	0	9.7	9.6	9.9	1	1	16	4.0
Congo, Rep. of	100	100	90	90	n.a.	3.8	3.8	n.a.	(.)	(.)	64	4.8
Côte d'Ivoire[e,f]	97	98	80	80	0	7.7	5.7	9.4	2	2	41	3.6
Eritrea	5	11	0	0	n.a.	8.0	8.0	n.a.	40	89	0	3.5
Gabon	100	100	62	62	n.a.	2.0	2.0	n.a.	(.)	(.)	25	3.5
Ghana[e,f]	83	80	89	88	96	11.7	4.3	13.1	17	19	99	5.0
Kenya[e,f]	98	22	93	5	94	15.7	10.2	16.8	2	72	76	4.8
Mauritius[e]	97	1	50	0	50	13.9	7.7	14.1	3	98	82	4.5
Namibia[e,f]	74	(.)	77	84	77	16.5	6.0	17.3	26	100	99	4.0
Nigeria	100	100	96	96	n.a.	6.5	6.5	n.a.	(.)	(.)	73	4.0
Senegal[e,f]	4	2	17	42	0	10.5	11.4	9.9	90	93	83	3.1
Seychelles	98	100	0	0	n.a.	1.5	1.5	n.a.	(.)	(.)	15	3.2
South Africa[e]	56	49	86	95	54	11.5	6.3	15.5	40	46	93	3.8
Swaziland[e]	96	6	90	19	90	17.2	8.8	18.4	1	15	23	3.6
AGOA LDC												
Benin	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	n.a.	n.a.
Cape Verde[e,f]	99	83	83	60	83	20.7	22.1	20.4	2	74	18	17.2
Central African Republic	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	99	99	44	3.4

Chad	100	100	81	81	n.a.	3.0	3.0	n.a.	100	100	(.)	2.0
Congo, Dem. Rep. of[i]	100	100	0	0	n.a.	2.1	2.1	n.a.	100	100	93	5.1
Ethiopia[e,f]	89	2	99	0	99	17.8	4.1	18.3	11	99	97	3.8
Gambia, The	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	73	82	29	2.5
Guinea	5	5	0	0	n.a.	7.5	7.5	n.a.	97	99	21	3.6
Lesotho[e,f]	100	0	95	0	95	18.4	n.a.	18.4	(.)	100	30	4.7
Madagascar[e,f]	99	20	95	81	95	15.6	8.3	15.9	1	75	71	4.9
Malawi[e,f]	100	10	97	100	97	18.6	5.3	19.1	(.)	90	100	3.2
Mali[e,f,h]	25	13	0	1	0	11.0	7.2	13.4	68	79	61	5.0
Mauritania	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4	100	93	2.2
Mozambique[e,f]	98	0	100	0	100	20.2	n.a.	20.2	2	78	39	3.0
Niger[e,f,h]	4	2	7	16	0	8.2	8.6	6.7	79	81	12	4.0
Rwanda[e,f]	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	98	98	4	4.0
São Tomé and Príncipe	(.)	(.)	0	0	n.a.	n.a.	n.a.	n.a.	99	100	0	2.0
Sierra Leone	13	27	0	0	n.a.	12.3	12.3	n.a.	35	73	9	3.1
Tanzania[e,f]	41	(.)	90	0	91	13.8	5.0	14.7	16	27	90	4.8
Uganda[e,f]	94	0	88	0	88	22.3	n.a.	22.3	6	98	44	3.7
Zambia[e,f]	1	1	0	0	n.a.	3.0	3.0	n.a.	97	97	100	5.1

Source: Authors' estimates.

Note: (.) = less than 1 percent; n.a. = not applicable.

a. Ratio of eligible imports to total dutiable imports.

b. Ratio of imports entering under preference to total eligible imports.

c. Difference between nominal ad valorem tariff equivalent and nominal preferential tariff. Covers all HTS eight-digit lines with eligible U.S. imports in 2003.

d. Apparel is defined as all lines within HS chapters 61 and 62 (including the non-U.S. value of production-sharing, HTS 9802.00.80). For all countries in ATPA, CBTPA, and AGOA (with apparel eligibility), overall calculation assumes all apparel is potentially eligible for apparel benefits. Thus "utilization" is actually the ratio of U.S. imports entering under a preference to total U.S. apparel imports.

e. Country is eligible for apparel benefits.

f. Country is eligible for Special Rule for Apparel for LDC.

g. AGOA benefits delayed until October 31, 2003.

h. AGOA eligibility as of December 2003.

TABLE 2.2 U.S. Nonagricultural Imports: GSP Coverage, Utilization, and Average Tariff Preference, 2003

	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)
Albania	51	69	4.2
Anguilla	94	92	2.8
Argentina	26	78	3.8
Armenia	83	100	4.5
Bahrain	34	99	3.8
Bosnia and Herzegovina	74	86	5.1
British Indian Ocean Territories	39	0	1.7
Brazil	46	64	3.9
Bulgaria	12	85	3.8
Chile	92	32	3.8
Christmas Island	68	0	3.1
Cocos Islands	64	0	4.7
Cook Islands	76	8	5.2
Croatia	76	94	3.7
Czech Republic	79	52	3.9
Egypt, Arab Rep. of	3	82	3.9
Estonia	23	92	4.2
Fiji	2	92	3.6
Georgia	33	96	2.9
Gibraltar	84	0	3.2
Hungary	71	52	3.7
India	50	87	4.0
Indonesia	39	65	4.1
Jordan	15	63	4.0
Kazakhstan	62	100	4.3
Kyrgyz Republic	7	100	5.1
Latvia	4	87	4.1
Lebanon	85	98	3.8
Lithuania	3	80	4.1
Macedonia, FYR	9	85	4.6
Moldova	1	75	2.2
Mongolia	1	12	3.1
Morocco	13	52	4.3
Niue	14	0	4.0
Norfolk Island	8	0	1.9
Oman	16	99	4.7
Pakistan	5	80	4.3
Papua New Guinea	(.)	53	3.1
Paraguay	51	97	4.4

(*Table continues on the following page.*)

TABLE 2.2 (*Continued*)

	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)
Philippines	39	65	4.0
Pitcairn Island	97	0	2.3
Poland	70	62	3.8
Romania	30	79	4.0
Russian Federation	14	87	4.0
Slovak Republic	13	74	3.7
Solomon Islands	96	0	4.3
Sri Lanka	7	90	4.6
St. Helena	99	0	4.6
Suriname	100	55	2.7
Thailand	56	76	4.0
Tokelau	22	65	4.0
Tonga	95	17	3.1
Tunisia	20	50	4.1
Turkey	31	86	3.9
Turks and Caicos Islands	100	1	2.9
Uruguay	70	93	3.7
Uzbekistan	6	68	4.4
Venezuela, R.B. de	7	96	3.8
West Bank and Gaza	84	74	6.1
Western Sahara	100	0	2.7
Zimbabwe	88	98	4.7
GSP LDC			
Afghanistan	27	0	2.7
Angola	100	94	2.0
Bangladesh	2	89	6.2
Bhutan	22	62	8.0
Burkina Faso	93	61	4.3
Burundi	0	n.a.	n.a.
Cambodia	1	72	5.7
Equatorial Guinea	100	93	1.5
Kiribati	100	0	2.9
Nepal	5	76	4.0
Samoa	8	2	4.1
Somalia	95	0	1.3
Togo	25	100	4.6
Vanuatu	100	100	3.2
Yemen, Rep. of	100	86	1.7

Source: Authors' estimates.

Note: (.) = less than 1 percent; n.a. = not applicable.

a. Ratio of eligible imports to total dutiable imports.

b. Ratio of imports entering under preference to total eligible imports.

c. Difference between nominal ad valorem tariff equivalent and nominal preferential tariff. Covers all HTS eight-digit lines with eligible U.S. imports in 2003.

Are U.S. Nonagricultural Preferences Fully Utilized?

Utilization is defined as the share of eligible imports entering the United States under the preference program. Table 2.1 shows that utilization rates are typically below 100 percent. Some of the evidence suggests that utilization rates may correlate with coverage rates. The ATPA and CBTPA members that have virtually 100 percent coverage of their exports under the regional programs had high average utilization rates: 83 percent and 63 percent, respectively. Rates for nonapparel and apparel were similarly high, although CBTPA countries showed more variable utilization than did ATPA countries. Utilization rates in CBERA-only countries tended to be lower, on average, as were their coverage rates. One might think that some of the underutilization by these beneficiaries could be explained by their use of the GSP program instead. Table 2.1 shows, however, that these countries made little use of GSP preferences.[14] In fact, almost no nonagricultural imports that were eligible both for ATPA, CBERA, or CBTPA preferences and for GSP preferences entered the United States under the GSP.

Among AGOA non-LDC beneficiaries, high combined AGOA and GSP coverage corresponded to high combined utilization. With the exception of Eritrea, Gabon, and Mauritius, each country showed combined utilization rates of 75 percent or more. Average utilization of nonapparel preferences was only 50 percent, although seven countries had rates exceeding 75 percent. For LDCs, AGOA preference coverage was less generous than GSP coverage. Overall, average utilization of each program was about 50 percent. High (low) AGOA coverage tended to correspond to high (low) AGOA utilization. But if AGOA utilization was low, GSP utilization tended to be high. Thus, average utilization of the combined preference programs exceeded 50 percent. Interestingly, the eight AGOA countries that exported exclusively petroleum-related products showed wide variation in utilization, despite complete AGOA coverage.

Of the 20 AGOA apparel-eligible countries, 11 made heavy use of apparel preferences, whereas 5 did not use them at all. Since all the AGOA exporters with high apparel utilization were eligible for the SRA, one might suspect that high utilization was driven by the ability to avoid costly rules of origin. However, of the nine AGOA apparel-eligible countries with low apparel utilization, five were SRA-eligible and two (Mali and Niger) became eligible late in the year. More analysis is therefore needed to determine the role of the SRA in preference usage.

For countries benefiting exclusively from the GSP, preference utilization appears to be quite high, despite the relatively low coverage of GSP preferences (table 2.2). For both non-LDCs and LDCs, average utilization was 60 percent. About half of the non-LDCs and LDCs had utilization rates exceeding 75 percent. Particularly noteworthy are the beneficiaries whose exports include a large share of apparel. Although GSP coverage rates for Pakistan and Sri Lanka were only

7 percent and 5 percent, respectively, their utilization rates were 80 percent and 90 percent. Similarly, for Bangladesh and Nepal, GSP coverage was only 2 percent and 5 percent, respectively, but utilization rates were 89 percent and 76 percent. This finding suggests that countries that lack the alternative of a regional preference program do make heavy use of the GSP but are constrained by the program's limited coverage.

Are U.S. Nonagricultural Preference Margins Large?

High utilization of preferences has occurred despite evidence that preference margins are generally low. The tariff preference margin is calculated as the difference between the nominal MFN tariff AVE and the nominal preferential AVE, at the HTS eight-digit level. Unweighted averages for each country and program are shown in table 2.1. Across member countries and all eligible U.S. nonagricultural imports in 2003, AGOA preference margins averaged the highest (14 percent). CBTPA preference margins ranked second, with a mean of 9 percent, and ATPA preference margins ranked third, with a mean of 8 percent. In all three programs, the range of margins was wide—from less than 1 percent to 59 percent. In contrast, CBERA-only, GSP-only, and GSP LDC programs had low average nominal preferences of 4 percent, 4 percent, and 5 percent, respectively, and much less dispersion. The range of preference margins in CBERA-only countries was narrow—from less than 1 percent to 10 percent. For GSP-only and GSP-LDC-only beneficiaries, preference margins ranged from less than 1 percent to 26 percent and from less than 1 percent to 30 percent, respectively.

Separating margins for nonapparel products from those for apparel (see table 2.1) reveals a different picture. Nonapparel preference margins average 3 to 5 percent for ATPA, CBTPA, and CBERA countries and show little variation across countries within each program. AGOA nonapparel preference margins are much higher—5 to 10 percent for more than half the countries, and 10 to 20 percent for a few (such as Cape Verde, Kenya, Senegal, and Sierra Leone). A major exception was petroleum. Despite the importance of petroleum in U.S.-AGOA trade, average preference margins by country did not exceed 2 percent, and most were well below 1 percent.

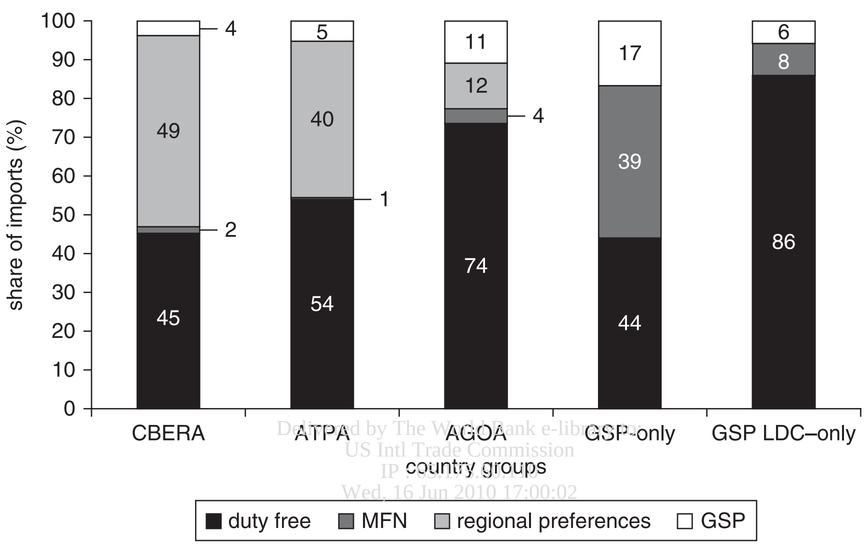
Apparel preference margins stand in sharp contrast to margins for nonapparel products. Again if one assumes that all apparel exports from eligible countries are potentially eligible for U.S. tariff preferences, average apparel margins under the AGOA, CBTPA, and ATPA legislation are two or three times as high as those for nonapparel for nearly all member countries. AGOA apparel margins show wide variation, from a high of 22.3 percent for Uganda to a low of 6.7 percent for Niger.

U.S. Tariff Preferences on Agricultural Imports

Figure 2.2 shows U.S. agricultural imports in 2003 from beneficiary countries by tariff treatment.[15] About US$3.9 billion of U.S. agricultural imports entered duty free under nonreciprocal trade preference programs. The largest portion of this preferential trade—about 40 percent, or US$1.5 billion—came in under the GSP. Only a small portion (about US$20.4 million) came in under the GSP LDC program. The CBERA program accounted for 37 percent (US$1.4 billion) of preferential imports, followed by the ATPA program, under which a further 20 percent (US$784 million) was imported. Still relatively new in 2003, the AGOA program accounted for the remainder (US$122 million).

The regional preference programs are particularly important for countries in the Caribbean and Andean regions; almost 50 percent of U.S. agricultural imports from these countries and 40 percent from ATPA countries in 2004 entered the United States under these programs. The GSP program has dwindled in importance for these countries, with only 4 percent of CBERA and 5 percent of ATPA agricultural exports to the United States entering under the GSP. When countries in these regions had a choice between using either the regional preference program or the GSP, they used the regional program in almost 90 percent of cases. The AGOA countries made almost equal use of the two programs, shipping about 11 percent of their agricultural exports to the United States under the GSP and

FIGURE 2.2 Share of U.S. Agricultural Imports by Type of Tariff Regime, 2003



Source: USITC Trade Database and authors' calculations.

12 percent under AGOA. This is because AGOA is an extension of GSP. Thus, product coverage under the two programs does not overlap. Countries that qualified only for the GSP or the GSP LDC programs relied much less on U.S. market preferences. Less than 17 percent of agricultural exports from the GSP beneficiaries came in under preferences, whereas less than 6 percent of exports from GSP LDC beneficiaries entered under the program. Unlike nonagricultural imports, a large percentage of U.S. agricultural imports from these beneficiary countries already had MFN duty-free status.

Are U.S. Agricultural Preferences Comprehensive?

Program coverage varies widely across programs and countries. Table 2.3 shows the share of dutiable agricultural trade that was eligible for preferences in 2003. For participants in the CBERA and ATPA programs, virtually 100 percent of dutiable exports to the United States were covered by regional preferences. None of these beneficiaries shipped much to the United States that was not either duty free under MFN status or eligible for preferences. But duties on the relatively small subset of products not covered by these programs tended to be prohibitively high, averaging about 43 percent.

For some countries and territories, the GSP program alone provided broad coverage for imports. More than 90 percent of the dutiable agricultural exports from 11 of the 26 CBERA and ATPA beneficiaries were eligible for duty-free treatment under the GSP, although that program was seldom used. For the others, however, the regional programs expanded the range of products that were eligible for preferences. In the Bahamas, Costa Rica, Jamaica, Nicaragua, and the Netherlands Antilles, for example, the CBERA program offered much more preferential coverage than the GSP. Aggregating across beneficiaries within each program, one finds that 42 percent of ATPA and 48 percent of CBERA program imports consisted of products not covered under the GSP. Although the remaining products were covered by both the GSP and regional preferences, exporters generally opted for the regional program.

AGOA agricultural coverage was generally quite low for both non-LDCs and LDCs. Only Benin had 100 percent coverage under AGOA. As noted earlier, AGOA does not extend preferences to tariff lines already covered by the GSP for non-LDC beneficiaries. Thus, the sum of coverage rates provided by both programs reflects the overall preferential access provided to their exports in the U.S. market. When the coverage rates of both programs are taken into account, the range of preferences offered to AGOA non-LDC beneficiaries approaches 100 percent. All AGOA LDC beneficiaries already had 100 percent coverage rates under the GSP, with the exception of Tanzania. But the combined coverage of GSP and AGOA also afforded Tanzania full coverage.

TABLE 2.3 U.S. Agricultural Imports: Preference Coverage, Utilization, and Average Nominal Tariff Preference, 2003

	CBERA			GSP		
	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)	GSP coverage[a] (%)	GSP utilization[b] (%)	Average tariff preference[c] (%)
Antigua	100	52	14.8	98	0	0.2
Aruba	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bahamas, The	100	87	4.1	n.a.	n.a.	n.a.
British Virgin Islands	100	100	3.3	100	0	3.3
Dominica	100	61	4.3	71	40	6.4
Grenada	100	0	0.5	100	0	0.5
Montserrat	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands Antilles	100	89	6.4	0	n.a.	n.a.
St. Kitts and Nevis	100	100	0.1	100	0	0.1
St. Vincent	100	71	5.4	99	0	2.0

	CBTPA			GSP		
	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)
Barbados	100	97	8.3	82	0	1.1
Belize	100	98	11.0	60	3	3.2
Costa Rica	100	95	6.4	40	11	6.6
Dominican Republic	100	96	7.1	87	1	4.9
El Salvador	100	70	6.3	83	36	4.9
Guatemala	100	83	6.3	79	17	5.0
Guyana	100	87	4.7	99	11	4.8
Haiti	100	95	6.3	100	4	4.9
Honduras	100	82	7.9	89	20	4.5
Jamaica	100	98	6.6	41	5	4.0
Nicaragua	100	100	8.0	0	n.a.	n.a.
Panama	100	94	7.0	96	5	3.6
St. Lucia	100	76	4.3	100	13	3.6
Trinidad and Tobago	100	93	9.4	91	6	3.5
	ATPA			**GSP**		
	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)
Bolivia	100	90	2.6	92	7	2.8
Colombia	100	90	6.6	59	16	4.6
Ecuador	100	91	6.0	55	15	4.8
Peru	100	79	5.6	56	34	3.8

(*Table continues on the following page.*)

TABLE 2.3 U.S. Agricultural Imports: Preference Coverage, Utilization, and Average Nominal Tariff Preference, 2003 (*Continued*)

	AGOA			GSP		
	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)
Botswana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cameroon	0	n.a.	n.a.	100	92	0.5
Congo, Rep. of	0	n.a.	n.a.	100	100	4.7
Côte d'Ivoire	(.)	100	2.3	100	100	4.8
Djibouti	0	n.a.	n.a.	100	100	1.9
Eritrea	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gabon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ghana	1	42	10.0	99	92	4.9
Kenya	87	60	2.7	13	100	4.3
Mauritius	0	n.a.	n.a.	97	94	4.9
Namibia	0	n.a.	n.a.	100	100	3.3
Nigeria	1	0	7.2	99	84	3.3
Senegal	17	100	8.2	83	100	6.6
Seychelles	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	80	88	9.5	16	96	4.2
Swaziland	10	77	21.9	89	100	3.4
AGOA LDC						
Benin	100	0	1.7	100	0	1.7
Cape Verde	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Central African Republic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Chad	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Congo, Dem. Rep. of[d]	0	n.a.	n.a.	100	100	1.0
Ethiopia	39	6	1.3	100	92	3.1
Gambia, The	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Guinea	0	n.a.	n.a.	100	100	6.1
Lesotho	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Madagascar	0	n.a.	n.a.	100	71	3.7
Malawi	92	30	9.2	100	49	6.3
Mali[e]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mauritania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mozambique	0	n.a.	n.a.	100	100	3.4
Niger[e]	(.)	0	0.1	100	0	3.2
Rwanda	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
São Tomé and Príncipe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sierra Leone	60	0	3.1	100	33	11.3
Tanzania	59	94	6.8	41	67	2.8
Uganda	42	68	2.3	100	72	0.7
Zambia	41	0	92.4	100	59	5.8

Source: Authors' estimates.

Note: (.) = less than 1 percent; n.a. = not applicable.

a. Ratio of eligible imports to total dutiable imports.

b. Ratio of imports entering under preference to total eligible imports.

c. Difference between nominal ad valorem tariff equivalent and nominal preferential tariff. Covers all HTS eight-digit lines with eligible U.S. imports in 2003.

d. AGOA benefits delayed until October 31, 2003.

e. AGOA eligibility as of December 2003.

Table 2.3 shows coverage rates for those countries that qualified for preferences only under the GSP or GSP LDC programs. In general, these coverage rates tended to be low, averaging just 33.5 percent for all 61 countries and territories. In countries that were exclusively GSP LDC eligible, coverage rates were twice as large as in GSP-only countries.

Are U.S. Agricultural Preferences Fully Utilized?

The availability of preferences does not mean that all beneficiaries' products covered by these programs actually enter duty free. Complex and costly program regulations can limit the ability to use these preferences. Rules of origin are most often cited as the primary factor restricting beneficiaries' ability to use tariff preferences (Wainio and others 2005). Table 2.3 shows the utilization rates for each program in 2003. For agricultural exports from CBERA and ATPA countries, those rates were quite high. Except in Peru, ATPA utilization rates were 90 percent or more. Nine of 14 CBTPA countries exhibited utilization rates above 90 percent, whereas the others' rates were between 70 percent and 87 percent. CBERA-only countries showed more variability in using CBERA preferences, but rates were still fairly high. Thus, utilization of regional preferences was quite high but not complete. In contrast, beneficiaries of ATPA, CBERA, and CBTPA made little use of the GSP. In countries that did not completely use a regional program, however, the alternative GSP preferences were utilized. Thus, nearly all beneficiaries' eligible agricultural products entered under one of the preference programs. In sharp contrast, nonagricultural products from ATPA, CBERA, or CBTPA beneficiaries generally had both low coverage and low utilization under the GSP.

The results are more mixed for AGOA countries. Although 14 such countries had overall utilization rates exceeding 90 percent, 2 countries (Benin and Niger) failed to make use of either AGOA or the GSP, even though some of their exports to the United States were eligible for preferences under these programs. Several others failed to use AGOA and made only limited use of the GSP. Still relatively new in 2003, AGOA was used in agriculture by only 10 of the 38 eligible recipients, while 22 AGOA countries used the GSP.

Despite the relatively low coverage rates under the GSP, GSP-only countries recorded high utilization rates (table 2.4). Utilization averaged 89 percent, and nearly three-quarters of the 61 countries that used the GSP and GSP LDC programs did so at rates of 80 percent or more. Countries that were eligible only for the GSP LDC program showed lower average utilization (60 percent), although their coverage rates were far higher than those of GSP non-LDC beneficiaries.

TABLE 2.4 U.S. Agricultural Imports: GSP Coverage, Utilization, and Average Tariff Preference, 2003

GSP	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)
Albania	100	34	1.9
Anguilla	100	100	6.0
Argentina	36	87	4.5
Armenia	57	98	5.5
Bahrain	n.a.	n.a.	n.a.
Bosnia and Herzegovina	90	85	5.8
British Indian Ocean Territories	n.a.	n.a.	n.a.
Brazil	24	95	4.0
Bulgaria	68	97	4.3
Chile	14	83	3.8
Christmas Island	n.a.	n.a.	n.a.
Cocos Islands	n.a.	n.a.	n.a.
Cook Islands	0	n.a.	n.a.
Croatia	87	99	4.6
Czech Republic	88	81	6.2
Egypt, Arab Rep. of	28	98	4.2
Estonia	99	97	3.7
Fiji	98	100	3.9
Georgia	23	82	4.6
Gibraltar	n.a.	n.a.	n.a.
Heard Island and McDonald Island	100	100	7.0
Hungary	71	68	4.2
India	40	95	4.2
Indonesia	37	97	4.4
Jordan	84	76	5.3
Kazakhstan	0	n.a.	n.a.
Kyrgyz Republic	n.a.	n.a.	n.a.
Latvia	6	98	4.2
Lebanon	89	97	4.6
Lithuania	2	83	5.4
Macedonia, FYR	76	97	6.6
Moldova	30	71	6.6
Mongolia	0	n.a.	n.a.
Morocco	49	41	6.8
Niue	n.a.	n.a.	n.a.
Norfolk Island	100	57	2.4
Oman	20	92	1.4
Pakistan	49	99	4.2
Papua New Guinea	100	100	3.4
Paraguay	68	100	3.7

(*Table continues on the following page.*)

TABLE 2.4 U.S. Agricultural Imports: GSP Coverage, Utilization, and Average Tariff Preference, 2003 (*Continued*)

GSP	Coverage[a] (%)	Utilization[b] (%)	Average tariff preference[c] (%)
Philippines	41	86	4.9
Pitcairn Island	100	100	5.6
Poland	88	69	5.3
Romania	14	63	4.3
Russian Federation	84	95	3.5
Slovak Republic	24	84	4.5
Solomon Islands			n.a.
Sri Lanka	93	94	3.8
St. Helena	n.a.	n.a.	n.a.
Suriname	100	100	1.8
Thailand	39	96	4.9
Tokelau	100	0	1.7
Tonga	98	100	7.0
Tunisia	94	98	4.2
Turkey	43	97	4.3
Turks and Caicos Islands	n.a.	n.a.	n.a.
Uruguay	11	94	5.3
Uzbekistan	100	100	3.8
Venezuela, R.B. de	95	99	3.7
West Bank and Gaza	100	100	1.3
Western Sahara	n.a.	n.a.	n.a.
Zimbabwe	n.a.	n.a.	n.a.
GSP LDC			
Afghanistan	1	0	3.6
Angola	n.a.	n.a.	n.a.
Bangladesh	100	68	5.9
Bhutan	100	100	3.0
Burkina Faso	100	62	3.7
Burundi	n.a.	n.a.	n.a.
Cambodia	100	88	10.6
Equatorial Guinea	n.a.	n.a.	n.a.
Kiribati	n.a.	n.a.	n.a.
Nepal	100	92	5.0
Samoa	100	23	4.0
Somalia	100	0	0.2
Togo	69	100	8.3
Vanuatu	100	0	9.6
Yemen, Rep. of	n.a.	n.a.	n.a.

Source: Authors' estimates.

Note: (.) = less than 1 percent; n.a. = not applicable.

a. Ratio of eligible imports to total dutiable imports.

b. Ratio of imports entering under preference to total eligible imports.

c. Difference between nominal ad valorem tariff equivalent and nominal preferential tariff. Covers all HTS eight-digit lines with eligible U.S. imports in 2003.

Are U.S. Agricultural Preference Margins Large?

Agricultural products deemed to be import sensitive are excluded from preferential access under U.S. programs. These products tend to have the highest MFN tariffs, whereas products accorded preferential access tend to face low MFN rates. Of the 1,432 agricultural tariff lines facing an MFN rate greater than zero, 1,204 (84 percent) are included in at least one of the nonreciprocal trade preference programs. The MFN tariffs levied on these products in 2003 ranged from less than 1 percent to 79 percent, with the average equal to 6.4 percent. About 55 percent of the products that are granted some preferential access under these programs face MFN tariffs of at least 5 percent. Many of these tariffs are levied as in-quota rates on products facing tariff rate quotas, so they are granted preferential access on only a limited quantity of imports. Clearly, the margin of preference—the extent to which the preferential tariff is below the MFN tariff—on most of these products is somewhat limited.

Tables 2.3 and 2.4 show the simple average nominal tariff preference, or preference margin, that each beneficiary faced on the subset of agricultural products it exported to the United States under these programs. The averages ranged from 0.1 percent for exports from St. Kitts and Nevis under the CBERA to 21.9 percent for exports from Swaziland under AGOA. The overall average across the 101 countries and territories was about 5.4 percent, with the average preference margins under AGOA (9.6 percent) and the CBERA (7 percent) being the highest. Few exported a product mix that faced an average nominal tariff preference greater than the 6.4 percent average tariff across all products eligible for duty-free treatment. One might expect that beneficiaries would tend to export products that face higher MFN rates because preferential exports would have a greater competitive advantage over products from countries paying MFN rates. But many of the agricultural products that beneficiaries tend to export under these programs, particularly those produced in tropical climates, already face low MFN tariffs in the United States.

Quantifying the Value of U.S. Preferences

As noted above, U.S. tariff preferences should raise exports from the beneficiary country to the United States, relative to exports from other countries whose exports face the nonpreferential tariff. The preference will also imply a rent transfer to the exporter, because the beneficiary's exports will face no tariff (or a reduced one) but will sell at the nonpreferential tariff-inclusive price in the U.S. market. The value of the tariff preference would then comprise the rent earned on the level of exports before the preference is applied and the rent earned on the additional exports sold as a result of the preferences.

Following Alexandraki and Lankes (2004), the following simplifying assumptions are made:

A.1. Products are perfect substitutes regardless of their country of origin.
A.2. The exporting country is a price taker in world markets.
A.3. All rents from preferential access accrue to the exporter.
A.4. A change in the U.S. trade policy regime will not lead to a change in world prices.

It is also assumed that in programs with apparel preferences, all apparel is potentially eligible for those preferences. Under these assumptions, the duty savings from preference programs can be approximated by the difference between the duties that would have been collected on existing levels of U.S. imports from a beneficiary in the absence of any program and the actual duties collected given the program. The value of preferences is then the beneficiary's duty savings as a share of its dutiable exports to the United States. Assuming that preferences are fully utilized, their value can be calculated using equation 2.1:

$$Value_j = \sum_i (t_i^{MFN} - t_{ij}^{p}) \left(\frac{Customs\ Value_{ij}}{Customs\ Value_j} \right) * Eligibility_{ij}, \qquad (2.1)$$

where i is the HTS eight-digit product, j is the exporting country, p is the preference program, and *Customs Value* is the value of dutiable exports to the United States. $Eligibility_{ij}$ equals 1 if the product is eligible for any U.S. preference and 0 if it is not.

Note that calculating equation 2.1 will yield an upper-bound estimate on value for at least two reasons. First, imports from beneficiaries are overstated, since they would be below existing levels in the absence of preferences. Second, the MFN tariff overstates the price increase in the U.S. market attributable to tariffs, because some U.S. trading partners are part of reciprocal preferential trade agreements such as the North American Free Trade Agreement (NAFTA).

The four assumptions listed earlier and the assumptions of complete apparel eligibility and full utilization of preferences all suggest that equation 2.1 would yield upper-bound estimates. Market power and the degree of rent transfer are difficult to quantify. However, the preference utilization rates presented herein reveal that utilization is less than full, often even at the HTS eight-digit level. To incorporate this incomplete utilization, the value of preferences is recalculated using equation 2.2:

$$Value_j = \sum_i (t_i^{MFN} - t_{ij}^{p}) \left(\frac{Customs\ Value_{ij}}{Customs\ Value_j} \right) * Eligibility_{ij} * Utility_{ij}, \qquad (2.2)$$

where $Utility_{ij}$ is the percentage of imports (again, at the HTS eight-digit level) that entered the United States under any preference program.

Table 2.5 shows the value of all preference programs for all beneficiaries and for all LDC beneficiaries. It then shows the value of preferences for beneficiaries of both regional programs and the GSP and for beneficiaries of GSP alone. For each group, the table shows the value of all preferences for all beneficiaries and for individual countries with duty savings that exceed 5 percent of total dutiable exports to the United States. The first set of columns shows the values assuming full utilization (from equation 2.1) and decomposes these values into the shares attributable to nonagricultural and agricultural preferences. The second set of columns shows the values after incorporating actual utilization (from equation 2.2).

The overall figures in the first set of columns in table 2.5 suggest that the potential duty savings from all U.S. preference programs is a small share of beneficiaries' dutiable exports to the United States. Across beneficiary groups, however, countries in the CBTPA program and in the AGOA LDC program show duty savings that exceed 10 percent of dutiable exports to the United States. Most of this value is attributable to nonagricultural preferences. The most striking feature of table 2.5 is that 35 countries show preference values exceeding 5 percent of dutiable exports to the United States: 3 CBERA-only, 12 CBTPA, 2 ATPA, 15 AGOA, and 3 GSP beneficiaries. Values range from 5.1 percent (Mali) to 22.8 percent (Cape Verde) and tend to be highest for members of the CBTPA and AGOA. For Belize, Botswana, Cape Verde, El Salvador, Ethiopia, Guatemala, Haiti, Honduras, Kenya, Lesotho, Madagascar, Mauritius, Swaziland, and Uganda, the value of U.S. preferences exceeded 15 percent of dutiable exports to the United States in 2003. The second notable feature is that a large proportion of beneficiaries in regional programs make the list, but only three from the GSP-only group do. The third interesting feature is that almost universally the largest proportion of the value of preferences is attributable to nonagricultural preferences.

The second set of columns in table 2.5 shows that the incorporation of actual utilization significantly changes the assessment of the value of preferences for quite a few beneficiaries. The overall values of preferences for those in the CBTPA and AGOA LDC programs fall but remain quite high—at 8.8 percent and 13.6 percent of dutiable exports, respectively. The number of countries with preferences valued above 5 percent of dutiable exports drops to 29. Nearly all those that are members of regional programs remain on the list, but only one of the exclusively GSP-eligible beneficiaries remains. The magnitudes of the values, however, change significantly. The countries for which the value of U.S. preferences exceeds 15 percent of dutiable exports now includes only Belize, Botswana, Cape Verde, Ethiopia, Kenya, Lesotho, Madagascar, Swaziland, and Uganda. The CBTPA beneficiaries show the largest adjustment in value after incorporating utilization, although values for half of them still exceed 10 percent. With a few exceptions, AGOA member countries show virtually no change in the value of preferences.

TABLE 2.5 U.S. Imports: Value of Preferences, 2003

Beneficiaries	Assuming full utilization				Incorporating actual utilization			
	Value (% of total exports to U.S.)	Value (% of dutiable exports to U.S.)	Nonagriculture (% of dutiable exports to U.S.)	Agriculture (% of dutiable exports to U.S.)	Value (% of total exports to U.S.)	Value (% of dutiable exports to U.S.)	Nonagriculture (% of dutiable exports to U.S.)	Agriculture (% of dutiable exports to U.S.)
All preference programs								
All	2.0	3.0	2.8	0.2	1.5	2.3	2.1	0.2
All LDC	2.0	2.2	2.1	0.1	1.8	1.9	1.9	0.0
CBERA-only and GSP								
All	0.4	0.5	0.5	0.0	0.4	0.4	0.4	0.0
Antigua and Barbuda	1.0	5.1	4.4	0.7	0.2	0.8	0.1	0.6
Dominica	3.5	5.3	4.4	1.0	3.4	5.2	4.3	0.9
St. Vincent	4.4	5.3	5.2	0.1	4.3	5.3	5.2	0.1
CBTPA and GSP								
All	8.7	12.7	12.0	0.7	6.0	8.8	8.0	0.7
Barbados	2.6	5.6	1.1	4.5	2.4	5.1	0.6	4.5
Belize	8.2	17.5	4.8	12.7	7.8	16.5	3.8	12.7
Costa Rica	4.2	9.9	7.1	2.9	3.5	8.2	5.4	2.9
Dominican Republic	9.8	12.2	11.8	0.4	7.9	9.9	9.5	0.4
El Salvador	15.3	16.1	16.0	0.1	10.1	10.7	10.5	0.1
Guatemala	12.4	15.6	14.3	1.3	5.1	6.4	5.1	1.3
Guyana	2.5	12.5	11.2	1.4	2.2	11.3	10.0	1.3
Haiti	17.3	18.1	18.0	0.1	12.3	12.9	12.8	0.1
Honduras	14.2	16.1	15.7	0.4	11.2	12.7	12.2	0.4
Jamaica	3.1	9.9	8.3	1.7	4.5	8.8	7.1	1.6
Nicaragua	11.9	14.6	14.2	0.4	4.7	5.7	5.3	0.4
St. Lucia	5.2	6.8	6.7	0.1	1.2	1.6	1.5	0.1

ATPA and GSP								
All	2.7	3.8	3.0	0.8	2.2	3.1	2.3	0.8
Bolivia	5.5	7.9	7.8	0.1	5.2	7.5	7.4	0.1
Peru	5.2	6.2	5.3	0.9	4.8	5.7	4.8	0.9
AGOA and GSP								
All	1.4	1.8	1.7	0.1	1.1	1.4	1.3	0.0
Botswana	11.8	21.8	21.8	0.0	10.7	19.9	19.9	0.0
Kenya	14.4	17.4	17.4	0.1	13.4	16.3	16.2	0.1
Mauritius	15.6	16.6	16.6	0.0	8.0	8.6	8.5	0.0
Namibia	6.2	13.1	13.1	0.0	4.8	10.3	10.3	0.0
Swaziland	17.7	18.5	18.3	0.2	15.8	16.5	16.4	0.2
AGOA LDC and GSP								
All	9.7	14.4	13.7	0.7	9.1	13.6	13.0	0.5
Cape Verde	17.3	22.8	22.8	0.0	14.6	19.2	19.2	0.0
Ethiopia	1.6	15.6	14.9	0.7	1.6	15.5	14.8	0.7
Lesotho	18.8	18.8	18.8	0.0	17.9	17.9	17.9	0.0
Madagascar	8.6	16.5	16.5	0.0	8.2	15.8	15.8	0.0
Malawi	13.0	14.5	6.7	7.9	10.9	12.3	6.5	5.8
Mali	1.8	5.1	5.1	0.0	0.8	2.1	2.1	0.0
Mozambique	7.7	8.1	5.8	2.3	7.7	8.1	5.8	2.3
Tanzania	0.9	7.4	6.6	0.8	0.8	6.8	6.0	0.7
Uganda	1.0	18.8	18.8	0.0	0.9	16.9	16.9	0.0
Zambia	0.3	5.7	2.7	3.0	0.2	3.4	2.7	0.7
GSP-only								
All	0.9	1.4	1.3	0.1	0.7	1.1	1.0	0.1
St. Helena	0.6	5.7	5.7	0.0	0.0	0.0	0.0	0.0
Tonga	0.2	6.2	1.1	5.0	0.2	5.1	0.1	5.0
GSP-LDC-only								
All	0.4	0.4	0.4	0.0	0.4	0.4	0.4	0.0
Vanuatu	0.3	6.6	1.5	5.2	0.1	1.5	1.5	0.0

Source: Authors' estimates.

TABLE 2.6 U.S. Nonagricultural Imports: Value of Preferences, 2003

Beneficiaries	Incorporating actual utilization (% of total dutiable nonagricultural exports to the U.S.)		
	Value	Nonapparel	Apparel
CBERA-only and GSP			
St. Vincent	5.5	5.5	0.0
Dominica	5.3	5.3	0.0
CBTPA and GSP			
Guyana	13.6	2.8	10.8
Haiti	13.0	0.2	12.8
Honduras	12.8	0.1	12.7
Jamaica	12.7	0.1	12.6
El Salvador	10.9	0.1	10.8
Dominican Republic	10.6	1.1	9.5
Belize	9.9	0.1	9.8
Costa Rica	8.2	1.2	7.0
Nicaragua	6.1	0.1	6.0
Guatemala	5.8	0.2	5.6
ATPA and GSP			
Bolivia	7.6	4.1	3.5
Peru	5.2	1.0	4.2
AGOA and GSP			
Botswana	19.9	0.0	19.9
Swaziland	17.2	0.0	17.2
Kenya	16.9	0.0	16.9
Namibia	10.3	0.4	9.9
Mauritius	8.6	0.1	8.5
AGOA LDC and GSP			
Ethiopia	22.0	0.3	21.7
Malawi	19.9	0.0	19.9
Cape Verde	19.2	0.6	18.6
Lesotho	17.9	0.0	17.9
Mozambique	17.8	0.0	17.8
Uganda	17.1	0.1	17.0
Madagascar	15.9	0.1	15.8
Tanzania	7.3	0.6	6.7

Source: Authors' estimates.

Once again, the largest proportion of value for all countries comes from nonagricultural trade preferences.

Although the value of preferences may be low for some countries when measured against total dutiable exports, it may represent a large share of the value of their nonagricultural or agricultural exports. Table 2.6 lists countries whose nonagricultural preferences exceed 5 percent of dutiable nonagricultural exports to the United States, after incorporating utilization. This list is nearly the same as the list in table 2.5. For 17 of these 29 countries, preference values exceeded 10 percent. With a few exceptions, most of this value is attributable to apparel preferences. Other significant products include petroleum-related products, chemicals, jewelry, and electrical machinery.[16]

Table 2.7 lists 23 countries and territories whose agricultural preference values exceeded 5 percent of dutiable agricultural exports to the United States, after incorporating actual utilization. Most do not appear in table 2.5. Five of these beneficiaries had preference values exceeding 10 percent. Half of the total preference value of all agricultural products in 2003 was accounted for by five products: melons, fresh-cut flowers, frozen orange juice, raw cane sugar, and fresh asparagus.

There are at least three reasons why apparel accounts for such a large share of the value of preferences for many countries. First, apparel often accounts for a large share of exports; second, apparel exporters had high apparel utilization rates; and third, apparel exports had relatively high preference margins. But the removal of quantitative restrictions on apparel in January 2005 (with the completion of the Agreement on Textiles and Clothing) reduced the relative prices of apparel imports from China, South Asia, and the member countries of the Association of Southeast Asian Nations, for which quantitative restrictions had been high. Thus, U.S. apparel imports from the CBTPA, ATPA, and AGOA beneficiaries were likely to fall relative to their 2003 levels. Even if tariff preference margins in 2005 remained similar to those in 2003, these margins would be applied to a smaller value of apparel imports, thus reducing the value of the preferences below those shown in tables 2.5 and 2.6.

Data from the U.S. Department of Commerce suggest that between 2003 and 2005 U.S. apparel imports from Sub-Saharan Africa dropped by 3.1 percent and imports from members of the CBI dropped by 0.2 percent; in contrast, apparel imports from ATPA countries rose by 35.9 percent (ITA OTEXA 2006). These aggregate figures do not suggest a radical drop in the value of apparel preferences. But changes in imports varied greatly within these regions.[17]

The results in table 2.5 suggest that more countries may be affected by the removal of U.S. preferences than previously thought. To facilitate a comparison, table 2.5 includes the value of preferences calculated with respect to total exports to the United States. Using an approach similar to this study, Brenton and Ikezuki

TABLE 2.7 U.S. Agricultural Imports: Value of Preferences, 2003

Beneficiaries	Incorporating actual utilization (% of total dutiable agricultural exports to the U.S.)			
	Value	Fresh and processed fruits and vegetables	Sugar	Other
CBERA-only and GSP				
Netherlands Antilles	5.7	0.0	0.0	5.7
CBTPA and GSP				
Barbados	22.5	0.0	0.0	22.5
Belize	20.6	19.2	1.3	0.0
Guatemala	11.0	8.7	1.3	1.0
Honduras	9.2	7.3	0.4	1.5
Costa Rica	8.3	7.3	0.1	0.8
Trinidad and Tobago	5.4	0.0	0.0	5.4
ATPA and GSP				
Peru	11.0	10.2	0.3	0.5
Colombia	6.7	0.3	0.6	5.8
Ecuador	6.1	2.2	0.2	3.8
AGOA and GSP				
Senegal	6.8	2.8	0.0	4.0
AGOA LDC and GSP				
Malawi	8.6	0.0	0.3	8.3
Guinea	5.6	2.5	0.0	3.1
GSP-only				
Tonga	7.5	7.5	0.0	0.0
Lebanon	6.8	5.3	0.4	1.1
Heard Island and McDonald Island	6.4	0.0	0.0	6.4
Paraguay	6.4	0.0	6.3	0.1
Anguilla	6.0	0.0	0.0	6.0
Pitcairn Island	5.6	0.0	0.0	5.6
Bosnia and Herzegovina	5.5	0.0	0.0	5.5
GSP-LDC-only				
Cambodia	9.9	9.9	0.0	0.0
Bangladesh	6.9	0.4	0.0	6.5
Togo	5.7	0.0	0.0	5.7

Source: Authors' estimates.

(2004) find six AGOA countries whose preference values in 2002 exceeded 5 percent of total exports to the United States after incorporating preference utilization: Lesotho, Madagascar, Malawi, Mauritius, Kenya, and Swaziland. In the present study, the results for 2003 include these six (with similar value estimates), plus Botswana, Cape Verde, and Mozambique, with much higher value estimates. Both studies find that most of this value is attributable to preferential access for apparel. Using more aggregated data and assuming full utilization, Alexandraki and Lankes (2004) identify 18 countries for which the value of all preferences from Canada, the European Union, Japan, and the United States combined, exceeded 5 percent of total exports. Table 2.5 shows 19 countries—half of Alexandraki and Lankes' list and 10 additional countries—for which the value of U.S. preferences alone exceeds 5 percent of total exports, if full utilization is assumed. After actual utilization is incorporated, 17 have values that exceed this threshold.

Concluding Remarks

Close examination of U.S. import data reveals that members of ATPA, the CBTPA, and the CBERA tended to have very high utilization of regional preferences but lower utilization of the GSP. CBERA utilization was on average lower and more varied than utilization under the other regional programs. AGOA non-LDC beneficiaries showed high combined utilization of AGOA and GSP preferences. In many cases, they fully used both preference programs. AGOA LDC beneficiaries—for which AGOA coverage was less generous than GSP coverage (particularly for nonagricultural, nonapparel products)—showed somewhat lower combined utilization rates, making more use of the GSP than the AGOA. In general, utilization of preferences was strongly related to preference coverage—except for the GSP program. Beneficiaries eligible for GSP only exhibited high GSP utilization rates, despite relatively low coverage rates. This finding was particularly true for beneficiaries whose exports were dominated by apparel.

Although utilization rates are high, average tariff preference margins in the regional programs for nonapparel exports were relatively low for most beneficiaries. The AGOA countries generally had higher nonagricultural preference margins than did other beneficiaries. For all apparel-eligible countries, preference margins on apparel were about three times those of other nonagricultural products. For nonagricultural products, these low margins are mainly the result of low U.S. MFN tariffs. In contrast, for agricultural products, low preference margins are largely attributable to the exclusion of products that face high tariffs. Overall, average GSP preference margins are lower than those offered by regional preference programs, largely because of less extensive product coverage and the lack of apparel preferences.

Although the erosion of U.S. tariff preferences may not have large impacts on development, it may be more significant for a larger number of countries and products than previously thought. After actual utilization was incorporated, the values of U.S. 2003 tariff preferences in 29 countries exceeded 5 percent of dutiable exports to the United States. In 17 countries preference values exceeded 5 percent of total exports to the United States. For nine of these countries, U.S. preferences were valued at 15 percent or more of dutiable exports. The largest proportion of this value was attributable to nonagricultural preferences, particularly preferences on apparel. The removal of U.S. quantitative restrictions on apparel trade reduced apparel imports from CBI and AGOA countries, raised apparel imports from ATPA countries, and led to a wide variation in increases and decreases in imports across beneficiaries in 2005. Thus, more research is needed to clarify the effect of the completion of the Agreement on Textiles and Clothing on the value of U.S. nonreciprocal preferences.

Several other caveats bear noting. This study assumed that the difference between the MFN tariff and the preferential tariff accurately represented the rent transfer on each dollar of exports from the beneficiaries. But the existence of NAFTA and other regional agreements would tend to reduce the prevailing tariff-inclusive U.S. price below the MFN tariff-inclusive price, lowering the rent a beneficiary could earn. In addition, to the extent that this rent is actually shared by the exporters, the intermediaries, or the United States itself, the value of U.S. preferences for beneficiaries would fall. Finally, this analysis has assumed that world prices are unaffected by the introduction of tariff preferences. Yet some beneficiaries are large enough to affect the prevailing price in the U.S. market, thus lowering the value of their preferences. These limitations suggest that further research is needed to assess the importance of preference erosion for beneficiaries.

Notes

1. In this chapter, the term *developing countries* includes territories that are possessions of industrial countries or administer themselves through the governments of such countries (for example, the Netherlands Antilles, the British Virgin Islands, Australia's Christmas Island, New Zealand's Cook Islands, and disputed territories such as Western Sahara and the West Bank).

2. In 2003, 41 countries were eligible for expanded benefits under the U.S. GSP LDC program.

3. Competitive needs limits are ceilings set for each product and each country. They are intended to prevent the extension of preferential treatment to countries that are considered competitive in the production of an item. Barring certain qualifications, a country automatically loses its eligibility for a given product in the year following that in which the ceiling is exceeded.

4. Although Botswana and Namibia are not LDCs, they were given third-country fabric provision eligibility in 2003.

5. For additional eligibility criteria, see USITC (2005: 1–10).

6. Hereafter, ATPA refers to both ATPA and the Andean Trade Promotion and Drug Eradication Act.

7. Note that HS chapters 61 and 62 include the value of apparel entering the United States under the production-sharing program (HTS 9802.00.80), although that value is not broken out separately.

8. Customs value is equivalent to free-on-board value.

9. In some cases, the claim is later denied, but these cases represent a tiny proportion.

10. U.S. AVE tariffs for HTS eight-digit items with specific or compound rates are estimated by the following steps.

a. If there is U.S. MFN import trade for an HTS item, the AVE is estimated by dividing duties by dutiable U.S. imports. Trade entering under special tariff preference programs is not included.

b. If there is no U.S. MFN import trade for an item, the quantity and customs value of all U.S. imports under that item are used, and the MFN-specific and compound rates are applied to calculate the tariffs that "would have been collected" had the trade entered as MFN trade rather than under a special program. The duties thus calculated are divided by the customs value to estimate the AVE.

c. If there is no U.S. import trade for an item in a given year, the quantity and customs value of imports (MFN trade if available, all trade if not) of that item from the previous full year are used, and the MFN-specific and compound rates for the current year are used to calculate the tariffs that "would have been collected" had the trade entered as MFN trade in the current year. The duties thus calculated are divided by the customs value to estimate the AVE.

d. If there is no U.S. import trade for the given year or the previous year, the Office of Tariff Affairs and Trade Agreements of the USITC is asked to provide an estimated AVE.

11. *Nonagricultural products* are defined as all those not specified in annex 1 of the WTO Agreement on Agriculture. Detailed data are available from the authors on request. All values are based on imports in HS chapters 1 through 97.

12. The alternate extreme would be to assume that the apparel trade that qualified for preferences in 2003 is the maximum that could have qualified that year. This assumption would imply that utilization rates were always 100 percent.

13. The eight countries were Cameroon, Chad, the Republic of Congo, the Democratic Republic of Congo, Côte d'Ivoire, Gabon, Nigeria, and the Seychelles.

14. Colombia and Ecuador have higher GSP utilization rates but very low GSP coverage rates.

15. *Agricultural products* are here defined as those specified in annex 1 of the WTO Agreement on Agriculture. Detailed data are available from the authors on request.

16. Although the value of preferences for some AGOA countries derives exclusively from petroleum-related exports, none of these countries showed values exceeding 1 percent of dutiable exports to the United States.

17. For example, within Sub-Saharan Africa, apparel imports from Swaziland grew by 14.4 percent while imports from Mauritius fell by 38.1 percent. Within the CBI, imports from Nicaragua grew by 47.9 percent, while those from the Dominican Republic fell by 12.9 percent.

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3

WHAT ARE EUROPEAN UNION TRADE PREFERENCES WORTH FOR SUB-SAHARAN AFRICAN AND OTHER DEVELOPING COUNTRIES?

Fabien Candau and Sébastien Jean

As European Union (EU) Trade Commissioner Pascal Lamy put it, "In the days before we had a Common Foreign and Security Policy, . . . the principal instrument of EU foreign policy was trade preferences" (Lamy 2002: 1403). This fact has led to a situation in which "the [European Commission] maintains preferential trade arrangements with virtually all countries" (Sapir 1998: 717), the only exceptions being the Democratic People's Republic of Korea and a handful of non-European developed countries. The EU is by far the largest market for developing countries' agricultural exports in general and is especially important for most former colonies. The EU's trade preferences are thus important from the perspective of development. This situation is undoubtedly what the ministers of trade of the member states of the African Union had in mind when they recognized, in the Grand-Baie Declaration of June 20, 2003, "the vital importance of long-standing preferences for African countries," and subsequently expressed on three occasions

The study described here benefited from partial financial support by the World Bank. It also received partial financial support under the Agricultural Trade Agreements project funded by the European Commission (Specific Targeted Research Project, contract 513666). The authors thankfully acknowledge Lionel Fontagné's contribution to an earlier stage of this work. They are grateful to the European Commission services for access to the customs data. Special thanks go to Reinhard Binder, Jacques Gallezot, David Laborde, and Xavier Pichot for their help and comments; Louise Curran and Stefano Inama for useful suggestions; and Will Martin for guidance.