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THE IMPACT OF AGRICULTURAL TRADE PREFERENCES, WITH PARTICULAR ATTENTION TO THE LEAST-DEVELOPED COUNTRIES

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Improving the ability of the least-developed countries (LDCs) to participate fully in world markets can accelerate development and poverty reduction. Their dependence on agriculture, together with the high duties levied on many agricultural imports by industrial countries, suggests that preferences on agricultural products could help boost exports and growth in developing countries.

In practice, however, preferences have had little impact for most developing countries. First, many agricultural products produced in developing countries are subject to zero duties in industrial countries, and therefore no trade preference can be given. Usually these are tropical products that are not produced in industrial countries. Second, the primary agricultural products and processed products with very high duties are typically excluded from preferences or the preference margin is very small. For a small number of products, however, preference margins are substantial, although usually within strict quantitative limits and only for certain countries. Countries that have been granted preferential access for sugar and tobacco, for example, have received large transfers because of preferences. These factors, together with restrictive rules of origin for many processed products, have severely limited the role of trade preferences in encouraging agricultural diversification in developing countries. Many countries remain dependent on the export of staple products, for which world prices have fluctuated wildly.

While the United States, the European Union (EU), and Japan all offer preference schemes, comparing them is difficult since each scheme differs in important respects: the group of eligible countries, the products covered, and the magnitude of the preference granted. Administrative requirements, especially rules of origin, also vary across schemes and across products. These differences are a major weakness of the current system of preferences.

This chapter reviews these schemes, concentrating on the preferences offered to least-developed countries, and discusses some of the key problems with preferences:

- They are unilateral concessions from industrial countries that must be renewed, and specific products can be withdrawn at short notice, creating too much uncertainty to stimulate new investment.

The authors are grateful for the comments of M. Ataman Aksoy and Harry de Gorter.

- The most highly protected products, with the highest potential margins of preference, are often excluded or receive only small preference margins.
- Rules of origin for processed products constrain the ability of countries to expand into these products.
- Differences and inconsistencies between preference schemes prevent developing-country suppliers from developing global market strategies.

If trade preferences are to assist developing countries,

- The schemes should be made permanent and comprehensive, with no product exclusions.
- They should be harmonized, preferably at the World Trade Organization (WTO), with common and simple rules of origin.
- The domestic investment environment in beneficiary countries must be improved so that producers and investors can exploit the opportunities that arise from trade preferences to develop competitive businesses that will survive once those preferences are eroded.
- Developing countries need to diversify into a broader range of exports and not become dependent on the preferential access granted for a narrow range of products.
- Beneficiaries should ensure preferences are integrated as one element of a strategy for broad-based export expansion.
- Preferences for a small group of developing countries should not act as a brake on the multilateral liberalization of agricultural products under the WTO. Many developing countries receive little or nothing from preferences but would gain from a reduction of subsidies in rich countries (which, for example, would benefit cotton producers in Western Africa) and from multilateral tariff reductions in all countries. Such liberalization can be achieved only through negotiations at the WTO.

Trade Preferences in Principle and in Practice

Trade preferences allow products from developing countries to enter industrial-country markets with lower import duties than are applied to other countries' products under the importing country's most-favored-nation (MFN) tariffs. The principal scheme governing such preferences is the Generalized System of Preferences (GSP), which originated in the work of the United Nations Conference on Trade and Development (UNCTAD) in the 1960s to introduce a harmonized preference scheme across donor countries (UNCTAD 2001). Because preferences for particular countries are at odds with the fundamental nondiscrimination principle of the General Agreement on Tariffs and Trade (GATT) and the WTO, the Decision on Differential and More Favorable Treatment, Reciprocity, and Fuller Participation of Developing Countries (called the Enabling Clause) was adopted under the GATT in 1979 to allow industrial countries to offer more favorable treatment to developing countries on a nonreciprocal basis.

Potential Benefits of Trade Preferences

Tariffs introduce a wedge between the world price of a product and the price in the domestic market. Tariff preferences give suppliers in beneficiary developing countries access to part or all of this price premium that normally accrues to the importing-country government as tariff revenue. The acquisition of these rents raises returns in the developing country and, depending on the nature of competition in domestic product and factor markets, stimulates expansion of the activity concerned, with implications for wages and employment.

The arguments underlying trade preferences are that the small scale of industry and the low level of development in developing countries lead to high costs, which reduce the ability to compete in global markets, and to lack of diversification, which increases risks. Developing countries, especially least-developed countries, face much higher trade-related costs than other countries in getting their products into international markets. Some of these costs may reflect institutional problems within the countries themselves, such as inefficient practices and corruption, and these problems require a domestic policy response. But some costs also reflect weak transportation infrastructure in many countries and firms' lack of access to standard trade-facilitating measures such as insurance and trade finance.

Trade preferences can provide the premium over the normal rate of return that is required to encourage investment in these economies. The increase in trade attributable to preferences leads to more output and, if there are scale economies, to lower costs, which stimulate further trade.[1] It is important, however, that the sectors that receive preferences and investment are those in which the country has a comparative advantage in the long term and that investment not be based on a false comparative advantage based on the margin of preference.

Why Do Trade Preferences Fall Short of Their Potential?

Assessments of the impact of trade preferences suggest that they have not transformed the export and growth performance of most developing-country beneficiaries, although performance may have been worse without them and a few countries may have benefited substantially. Trade preferences have not enabled beneficiaries as a group to increase their market shares in the main preference-granting markets.[2] Why?

UNCTAD's objectives of harmonizing preference regimes across countries and making preferences general and nondiscriminatory among developing countries were never achieved. Industrial countries have often excluded the most heavily protected products, many of which offer the greatest scope for gains by developing countries. The segmented markets for preferential-access goods make the program a weak mechanism for integrating developing countries into the world economy.

Industrial countries that grant preferences unilaterally determine which countries and which products are included in their schemes and what rules govern the provision of preferences—and graduation from the program. Preference schemes typically are not permanent programs but require legislative renewal. And preference-granting countries have the discretion to remove countries and products from the program, creating uncertainty and discouraging investment in developing countries to exploit available opportunities. Recently, however, the European Union introduced the Everything but Arms program for the least-developed countries, introducing an element of permanency into preference schemes for the first time.

Most highly protected products are excluded from preference schemes. When preferences are granted on some products for which domestic prices in industrial countries are much higher than world prices, such as sugar in the European Union, traded quantities are limited to avoid undermining the distortionary policies that generate the large divergence between domestic and world prices. Nevertheless, in these instances preferential access can lead to substantial gains for preferred suppliers.

How much of the available rents are actually obtained by suppliers in developing countries depends on the nature of competition in the industry and the rules and regulations governing the granting of preferential access, among other factors. If there is little effective competition among buyers, then exporters may be unable to acquire much of the price premium. Ozden and Olarreaga (2003) find that only a third of the available rents for African exports of clothing to the United States under the African Growth and Opportunity Act (AGOA) actually accrue to exporters. Furthermore, satisfying the rules governing preferences raises costs and reduces the extent to which the preferences raise actual returns. The cost of satisfying the rules of origin in preferences schemes is a major reason for low rates of utilization (UNCTAD 2001; Brenton and Imagawa 2004).[3]

Undesirable Effects of Preference Schemes

Tariff preferences can lead to several adverse effects. Negotiations under the Doha Round have shown that preferences can be used to bolster external support for highly protectionist policies in industrial countries and to weaken proposals that would substantially reduce such levels of protection. Preferences can also create a degree of dependence that constrains flexibility and diversification and results in high-cost production of preferred products (Topp 2001). And the beneficiaries of trade preferences are not always the poorest constituents in developing countries. When rents do accrue to the developing country, they tend to accrue to the owners of the most intensively used factors. With agricultural preferences, the main beneficiaries are the owners of land. Preferences could have a strong impact on poverty if the landowners are poor or, when they are not poor, if policies for redistribution are in place. So even when preferences create substantial transfers for producers in developing countries, they may not necessarily stimulate the long-term growth of exports or reduce poverty, and they can lead to a less-diversified export base.

The Nature and Impact of Preferences Offered by the United States, the European Union, and Japan

The impact of a particular scheme of trade preferences on individual countries is determined by several factors:

- The scope of preferences in terms of the range of products covered.
- The importance of products eligible for preferences in the export and production structure of the beneficiary country.
- The margins of preference, determined by the height of the MFN tariff and the size of the preference.
- Actual utilization of preferences. To a large extent this reflects the costs of satisfying the rules, mainly the rules of origin, governing preferences. If the costs of compliance exceed the margin of preference, the preference will not be used.
- The extent to which preferences facilitate diversification into a broader range of products. This is determined by the coverage of the scheme, the margins of preference on products not currently exported, and the rules of origin relating to these products.

Whether such preference opportunities are actually exploited depends on the domestic investment environment in the beneficiary country and the extent to which legal characteristics of the preference scheme constrain investment decisions. The economic impact of the preferences offered by the United States, the European Union, and Japan vary enormously across beneficiary countries. For some countries exports are dominated by products that do not receive preferences, and there has been little success in diversification. This is especially the case for countries dependent on products that are currently subject to zero import duties in developed countries, such as coffee and cocoa. For other countries, however, all exports are eligible for preferences to a particular market and the potential impact of preferences is much greater. The actual utilization of preferences, from very low rates to full utilization, also varies substantially across countries. Also of importance is that utilization rates tend to be lower for processed products.

The Scope of Preferences

Whether trade preference schemes assist the integration of developing countries into world markets depends on the breadth of the preferences offered in terms of the number and importance of eligible products.

Products subject to tariff quotas complicate the assessment of the impact of trade preferences. During the Uruguay Round of world trade negotiations, industrial countries agreed to reduce tariffs on a range of sensitive agricultural products but only for limited quantities of imports, often creating two or more tariff lines for each product: the duty on in-quota quantities and the duty (often very high) on additional out-of-quota imports. Preferences are offered on the in-quota quantities only, and once the quota is reached, preferences are no longer available. Quotas can be global (available to all eligible countries) or bilateral (limits are specified for a particular country). With bilateral limits, quantities may not be sufficient to induce investments in raising capacity, whereas for preferences based on global tariff quotas, uncertainty over when the quota will be filled dampens interest in investment or even in exporting.

Thus the lack of preferences for out-of-quota quantities is important in assessing the impact of preference schemes. The analysis here includes out-of-quota rates in calculating the average duty on products not covered by preferences even if the quotas are not exceeded, because of the discouraging impact of the tariff quotas. This approach differs from that of preference-giving countries, which typically assume that if exports from a preference-receiving country or group of countries do not exceed the preferential quota, the product is fully covered by the scheme and the out-of-quota rates are not relevant. Of course, the obvious response is that if the out-of-quota rates are not relevant, there is no reason not to offer full duty- and quota-free access.

U.S. Preferences under the GSP and AGOA

The United States has offered preferences under the Generalized System of Preferences (GSP) since the mid-1970s, with a significant increase in coverage for low-income countries in 1997. The current GSP program expires at the end of 2006. In 2003, 143 developing countries were eligible for preferences under the GSP. There are no partial preferences, so the preferential rate on all included products is zero. However, the preferences can be withdrawn at any time. In addition, the GSP contains safeguards in the form of benefit ceilings for each product and country, known as competitive need limitations (these do not apply to LDCs). A country loses its GSP eligibility for a product if it supplies more than 50 percent of U.S. imports of that product or if its exports exceed a certain dollar value.[4]

The African Growth and Opportunity Act of 2000 offers improved market access to 48 Sub-Saharan African countries subject to certain criteria regarding basic human rights and the rule of law. The competitive needs limitations of the GSP do not apply to AGOA preferences. The current scheme expires in 2015. So far, 38 countries have been granted eligibility for AGOA preferences.

The average duty on agricultural goods from countries that do not receive preferences in the United States is 7.3 percent (table 4.1). The preferences available under the GSP for non-LDCs reduce the average tariff to 6.2 percent. The impact of the GSP on LDCs is more substantial, reducing the average tariff to just under 4 percent. AGOA has little impact on the LDCs, reducing the average tariff by just 0.2 percentage points, but it offers non-LDCs enhanced preferences similar to those available to LDCs under the GSP. All these average tariffs include the out-of-quota duties for tariff quota products.

Comparing MFN duties on the products covered by preferences and average duties on products excluded from preferences shows that the average margin of preference on products under the GSP is 3.6 percent for non-LDCs and 5 percent for LDCs (table 4.2). AGOA enhances the preferences available for non-LDCs by including products subject to an average duty of 7 percent. However, the average tariff on products excluded from preferences is more than 30 percent. The GSP and AGOA do not affect the maximum duty that can be applied to imports from LDCs (more than 160 percent for groundnuts, an important product for a number of African countries).

The duties shown in tables 4.1 and 4.2 are unweighted averages. They do not capture actual duties being levied on developing-country exports but rather the duties that would apply if developing countries exported a completely diversified bundle of agricultural products. In practice, the duties actually levied on many countries are close to zero since these countries export a bundle of exports

TABLE 4.1 Average Unweighted Tariffs on Agricultural Products in the United States, 2003
(percent)

Category	Non-LDC	LDC
MFN rates	7.3	7.3
GSP beneficiaries	6.2	3.9
AGOA beneficiaries	3.8	3.7

Note: Because of the potential effect on decisions to export and invest, average tariffs include out-of-quota tariffs on tariff quota products even if quotas are not filled.

Source: Calculated using data from U.S. International Trade Commission dataweb.

TABLE 4.2 Average Unweighted MFN Tariffs on Agricultural Products Covered by GSP and AGOA in the United States, 2003
(percent)

Category	Non-LDC	LDC
Total GSP	3.6	5.4
GSP	3.6	3.6
GSP LDC	—	7.0
Total AGOA	7.0	9.4
Excluded lines	32.5	32.8

— Not available

Note: Data for calculated duties and customs value for the GSP group were used to derive ad valorem equivalents for specific duties. When there are zero duties from the GSP group of countries, data for total imports were used to calculate the ad valorem equivalent.

Source: Calculated using data from U.S. International Trade Commission dataweb.

TABLE 4.3 Number of Agricultural Tariff Lines Liberalized under GSP and AGOA Programs in the United States, 2003

Category	Non-LDCs		LDCs	
Total tariff lines	1,723		1,723	
Total GSP	519		1,038	
GSP LDC	519	(38)	547	(158)
AGOA	541	(120)	26	
Duty-free lines	440		440	
Dutiable lines (MFN)	223		219	

Note: The numbers in parentheses are the number of product lines relating to in-quota duty rates for products subject to tariff quotas.
Source: Calculated using data from U.S. International Trade Commission dataweb.

concentrated on zero or low-duty products. Developing countries in Africa currently export almost no products that are subject to tariff quotas—the main exceptions are sugar and tobacco. But this may simply reflect the fact that very high duties can be levied once the quota is reached.[5] Liberalization of many of these products under AGOA or GSP is unlikely to have a substantial impact on trade in the short term, but it could encourage investment in future capacity in certain countries.

Data on the number of tariff lines liberalized under U.S. preference programs show that a quarter of tariff lines already have zero MFN duties (table 4.3). For the LDCs, AGOA liberalizes only an additional 26 agricultural tariff lines, or less than 2 percent of the total number of agricultural lines and just under 12 percent of the remaining dutiable lines (those lines for which the MFN duty is not zero). The main products liberalized under AGOA have already been liberalized for LDCs under the GSP. For non-LDCs, AGOA adds 541 products to the 519 products already eligible for duty-free preferences for developing countries under the GSP. Hence, the potential impact is much greater for non-LDCs.[6]

Under AGOA more than 200 agricultural tariff lines have MFN duties but no preferences. These amount to 17 percent of the number of dutiable agricultural tariff lines in the U.S. schedule, although they protect much more than 17 percent of U.S. agricultural production. More than 150 of these lines relate to the over-quota rates for products subject to tariff rate quotas. These products include certain meat and dairy products, many sugar products, chocolate, prepared foodstuffs, and tobacco products.

EU Preferences under the GSP and Cotonou Agreement

The current GSP scheme of the European Union, which runs to the end of December 2004, has two categories of products: nonsensitive, for which duties are suspended; and sensitive, which face a flat rate reduction of 3.5 percentage points from the MFN rate. A number of products, including meats, dairy products, certain vegetables, cereals, some prepared foodstuffs, and wine are entirely excluded from the scheme. Among eligible products, proportionate reductions are high for most industrial products, for which the average MFN tariff is 4 percent, but relatively low for many agricultural products, for which the average MFN tariff is almost 20 percent. The EU tariff structure for agricultural products is extremely complicated, with more than 45 percent of product lines subject to non-ad-valorem duties. This complexity is reflected in similar complexity in preferences granted.

Specific duties, those based on physical rather than monetary values, are reduced by 30 percent, except when they are combined with ad valorem duties (as in a range of processed agricultural products of interest to developing countries), when they are not reduced. Typically, the specific duties provide the greatest part of the protection on these products. For a number of products, primarily fruits and vegetables, the European Union applies a system of minimum reference prices that vary by season, despite the dubious compatibility of the approach with WTO rules. This can lead to a very complex structure of preferences (box 4.1). Minimum duties specified in the European Union's Common Customs Code do not apply to products covered under the GSP.

Within the GSP, the European Union discriminated in favor of the least-developed countries. All imports of industrial products and a range of agricultural products from these countries entered duty free, but a significant number of agricultural products still faced some market access barriers. These were removed under the Arms initiative introduced in 2001, which grants duty-free access, without any quantitative restrictions, to imports of all products from the least-developed countries, except arms and munitions. Liberalization was immediate except for three products (fresh bananas, rice, and sugar), for which tariffs gradually will be reduced to zero (in 2006 for bananas and in 2009 for rice and sugar). The effect of the Arms initiative will be limited in the short run since the LDCs were not exporting the products that were immediately liberalized (Brenton 2003).

Because preferences for the least-developed countries are granted for an unlimited period and are not subject to periodic review, the Everything but Arms program should provide greater certainty of market access and therefore stimulate a greater production response by existing products and a conducive environment for exports of a wider range of products. This is a crucial aspect of the program. The challenge for developing countries is to create a climate that allows investment to take place in activities in which a comparative advantage can be sustained in the long run.

However, these changes may be partly undermined by the inclusion of a new reason for suspending preferences: "massive increases in imports of products *relative to the usual levels of production and export capacity*" (our emphasis). This could constrain large-scale investment to transform the production capacity in a particular country and discourage diversification into new products.[7]

The European Union offers enhanced preferences beyond those of the GSP to Sub-Saharan African, Caribbean, and Pacific countries (the ACP countries) under the Cotonou Agreement. There are individual protocols for bananas, beef, veal, and sugar. These products accounted for three-quarters of the value of ACP preferences in the late 1990s, including industrial products, which are all eligible for duty-free access (McQueen 1999).

TABLE 4.4 Average Unweighted Tariffs on Agricultural Products in the European Union, 2002
(percent)

Category	Average Tariff
MFN rates	17.3
GSP beneficiaries	15.3
ACP beneficiaries	6.9

Note: For seasonal rates, the duty applied on July 1 is used, the high season for most fruits and vegetables. For products for which it is not possible to calculate an ad valorem equivalent of the complex duties that are applied (for example, for chocolate the duty depends on the milk and sugar content), an ad valorem duty of 30 percent was assigned for the MFN rate and 20 percent for the ACP rate. These are conservative assumptions since many of these complex duties are likely to be prohibitive. In 2002 there were 161 lines for which the ad valorem equivalent could not be computed.

Source: Calculated from EU Commission data and World Trade Organization Integrated Data Bank.

The average duty in the European Union is very high, at more than 17 percent. Countries eligible for GSP benefits on agricultural products face a slightly lower average duty of 15.3 percent, and ACP countries face a much lower average duty of about 7 percent (table 4.4). The average duty that would be levied on products covered by the GSP if those preferences were removed is about 14 percent (table 4.5). Full preferences tend to be granted on agricultural products with lower MFN rates, whereas those with higher MFN rates tend to receive only partial preferences. Products not granted preference under the GSP scheme tend to be very-high-duty products, with an average tariff of more than 25 percent.

The average duty on products covered by the Cotonou Agreement is more than 21 percent, and the preferences available are much deeper than those under the GSP. And while very-high-duty products tend to receive only partial preferences, many high-duty products excluded from the GSP receive preferences under Cotonou. The average duty on excluded products is just under 10 percent. Nevertheless, preferences do not reduce the

Box 4.1 The EU System of Entry Prices: The Example of Tomatoes

The EU entry price system for imports of vegetables such as tomatoes consists of two sets of tariffs that vary according to the price and season. If the import price is higher than a specified level (which varies by season), only an ad valorem duty is applied. If the import price is lower than this level, then a specific duty is applied as well, which varies by price and season. No preferences are granted under the GSP. For African, Caribbean, and Pacific (ACP) countries, preferences are granted from January to April and in the final 10 days in December. The preference takes the form of a reduction in the ad valorem duty; there is no reduction in the specific duty. This form of entry price system is applied to 34 agricultural products, mainly fruits and vegetables.

Entry Prices and Duties for Tomatoes

Time	Entry Price (euros per 100 kg)	MFN	ACP	GSP	GSP LDC
Jan–Mar	84.6	8.8	3.5	No preference	0
April	112.6	8.8	3.5	No preference	0
May 1–14	72.6	8.8	No preference	No preference	0
May 15–31	72.6	14.4	No preference	No preference	0
June–Sept	52.6	14.4	No preference	No preference	0
Oct	62.6	14.4	No preference	No preference	0
Nov 1– Dec 20	62.6	8.8	No preference	No preference	0
Dec 21–Dec 31	67.6	8.8	3.5	No preference	0

Specific Duties When Import Price Falls below Set Levels

Import Price (euros per 100 kg)	MFN Duty	ACP Duty
January		
82.9 to 84.6	8.8% + 1.7 euro/100 kg	3.5% + 1.7 euro/100 kg
81.2 to 82.9	8.8% + 3.4 euro/100 kg	3.5% + 3.4 euro/100 kg
79.5 to 81.2	8.8% + 5.1 euro/100 kg	3.5% + 5.1 euro/100 kg
77.8 to 79.5	8.8% + 6.8 euro/100 kg	3.5% + 6.8 euro/100 kg
0 to 77.8	8.8% + 29.8 euro/100 kg	3.5% + 29.8 euro/100 kg
July		
51.5 to 52.6	14.4% + 1.1 euro/100 kg	14.4% + 1.1 euro/100 kg
50.5 to 51.5	14.4% + 2.1 euro/100 kg	14.4% + 2.1 euro/100 kg
49.4 to 50.5	14.4% + 3.2 euro/100 kg	14.4% + 3.2 euro/100 kg
48.4 to 49.4	14.4% + 4.2 euro/100 kg	14.4% + 4.2 euro/100 kg
0 to 48.4	14.4% + 29.8 euro/100 kg	14.4% + 29.8 euro/100 kg

For example, an ACP exporter of tomatoes that tries to sell in the EU market in January at a price of, say, 67 euros per 100 kilograms would face an ad valorem equivalent duty of 49.8 percent with the MFN rate being 53.3 percent. A higher cost non-ACP producer who sells at 80 euros per 100 kilograms would face a duty of 13 percent. The duty-inclusive price of the low-cost supplier, even with preferences, is higher than the duty-inclusive price of the high-cost supplier. Hence, specific duties act as an implicit preference toward high-cost suppliers and against lower-cost developing countries, although in this case, if sufficient information is available, there is an opportunity for the low-cost ACP supplier to raise its price and pay a lower duty.

maximum duty that can be applied (a duty of more than 200 percent on milk and cream).

Cotonou preferences cover 81 percent of agricultural tariff lines (table 4.6). Of the remaining lines, 14 percent have zero MFN duties, and 5 percent cover products excluded from preferences. Again, this 5 percent of lines will be protecting much more than 5 percent of EU agricultural output. Cotonou provides full preferences (100 percent duty reduction) for 50 percent of the total number of tariff lines and partial reductions for 31 percent of products (typically removal of the ad valorem component but not the specific duty). Most of the products are highly sensitive and highly taxed imports. The ad valorem equivalent of these specific duties is often very high (see table 4.5).

TABLE 4.5 Average Unweighted MFN Tariffs on Agricultural Products Covered by GSP and Cotonou Agreement, 2002
(percent)

Category	Average Tariff
Total GSP	14.1
Lines with full preferences	7.0
Lines with partial preferences	15.2
Excluded GSP lines	26.3
Total Cotonou	21.3
Lines with full preferences	13.7
Lines with partial preferences	33.0
Excluded Cotonou lines	9.6

Source: Calculated using data from EU Commission and World Trade Organization Integrated Data Bank.

Japan's GSP Scheme

Japan offers GSP preferences to 164 developing countries. The current scheme expires in 2011. The scheme provides enhanced preferences for LDCs, with partial preferences deepened to 100 percent cuts and (since April 2003) greater product coverage (which is not captured here). There are no explicit quantitative ceilings on preferences, although there are safeguard mechanisms and a country's exports are excluded if they exceed 25 percent of Japan's total imports and 1 billion yen in value.

The average MFN tariff on Japanese imports of agricultural products in 2002 was 15.6 percent (table 4.7). GSP preferences reduced this to 15.1 percent for non-LDCs, an average preference margin of 0.5 percentage point. The average margin for the slightly deeper preferences for LDCs was 1.4 percentage points. Again, it must be noted that

TABLE 4.6 Number of Tariffs Lines Liberalized under EU Preferences for ACP Countries, 2002

Category	Tariff Lines: Number	Tariff Lines: Share of Total (percent)
Total lines	2,354	
MFN duty-free	334	14
Total ACP	1,905	81
Full reduction preferences	1,181	50
Partial reduction preferences	724	31
Dutiable MFN lines	115	5
Main sectors containing products excluded from preferences	Wine	
Main sectors containing products subject to partial preferences	Meat, dairy, fruits and vegetables, grains and flour, prepared food stuffs	

Source: Calculated using data from EU Commission.

TABLE 4.7 Average Unweighted Tariffs on Agricultural Products in Japan, 2002
(percent)

Category	Non-LDCs	LDCs
Average MFN	15.6	15.6
Average applied preferential duty	15.1	14.2

Note: Specific duties were converted to ad valorem equivalents based on the total value and quantity of imports from developing countries. When that information was not available, the value and quantity of imports from all sources was used. For tariff lines for which there were no imports, an ad valorem equivalent of 30 percent was assumed—probably an underestimate since these duties are likely to be prohibitive.
Source: Calculated using data from United Nations Conference on Trade and Development TRAINS.

TABLE 4.8 Average Unweighted MFN Tariffs on Agricultural Products Covered by GSP in Japan, 2002
(percent)

Category	Non-LDCs	LDCs
Total GSP	10.4	9.8
Full preference	7.3	9.8
Partial preference	12.0	
Excluded lines (MFN)	20.8	21.5

Source: Calculated using data from United Nations Conference on Trade and Development (TRAINS).

TABLE 4.9 Tariffs Lines Liberalized under Japan's GSP Preferences, 2002

Category	Non-LDCs		LDCs	
	Number of Tariff Lines	Share of Total (percent)	Number of Tariff Lines	Share of Total (percent)
Total lines	2,014		2,014	
MFN duty-free	393	20	393	20
Total GSP	221	11	298	15
Full preferences	80	4	298	15
Partial preferences	141	7	0	
Dutiable lines (MFN)	1,400	70	1,323	66
Main sectors containing products excluded from preferences	Meat, fish, dairy, cereals, prepared meat and fish, sugar, cocoa, prepared food products			

Source: Calculated using data from the United Nations Conference on Trade and Development (TRAINS).

these are not average duties paid since few imports are in the high-duty categories.

The average duty on products covered by the GSP was 10.4 percent for non-LDCs and 9.8 percent for the LDCs (table 4.8). The duty on products excluded from preferences is high relative to duties on products covered by preferences, even when conservatively estimated, at about 21 percent (see note to table 4.7).

Some 20 percent of agricultural tariff lines in Japan are subject to zero duties, while preferences under the GSP cover 11 percent of agricultural products for non-LDCs and 15 percent for LDCs (table 4.9). The 2003 reform of the GSP added an additional 198 products (or 10 percent of total tariff lines) to preferences for LDCs. For non-LDCs most products under preferences receive only a partial reduction in duties, and 71 percent of agricultural products are excluded from preferences, while preferences were not available for 67 percent of tariff lines for LDCs in 2002 (falling to 57 per cent in 2003).

Proportion of Trade Covered by Preferences

U.S. Preferences

Examination of the proportion of developing-country exports covered by U.S. preference programs shows that (table 4.10)

- Exports of processed agricultural products are much smaller than exports of primary agricultural products.
- For a large proportion of primary product exports (more than 70 percent for the three groups of countries), there are no preferences since the MFN duty is zero. A much larger proportion of processed exports is eligible for preferences.
- Preference use is high for primary products (more than 80 percent) and higher than the rate of preference use for processed products.
- Products not eligible for preferences constitute a small proportion of current exports.

EU Preferences

Several findings stand out in an examination of the proportion of exports covered by EU preferences (table 4.11) and show the following:

- The value of agricultural exports to the European Union is much larger than that of exports to the United States, for both processed and primary products. Again, the value of exports is smaller for processed products than for primary products.
- A much larger proportion of exports are eligible for preferences than in the United States because fewer export products have MFN duties of zero. Two-thirds or more of exports are eligible for preferences.
- Products not eligible for preferences constitute a very small proportion of current exports.

Japanese Preferences

An examination of the proportion of developing country exports covered by GSP exports to Japan shows the following: (table 4.12)

- As a market for the exports of agricultural products of African LDCs, Japan is smaller than the European Union and about the same size as the United States.
- Exports from other LDCs, including those in Asia, are considerably smaller than those from

TABLE 4.10 Exports to the United States under AGOA and by other LDCs under the GSP, 2002
(US$ millions)

Category	*GSP and AGOA Preferences* GSP+AGOA Non-LDCs	GSP+AGOA LDCs	GSP LDCs
Basic agricultural commodities			
Total exports to United States	600	247	122
Exports duty free	431 (72)	190 (77)	114 (93)
Exports for which preferences requested	149 (25)	47 (19)	7 (6)
Exports eligible, but preferences not requested	15 (1)	11 (4)	1 (1)
Exports not eligible for preferences	6 (1)	0 (0)	0 (0)
Processed agricultural products			
Total exports to United States	133	51	2.3
Exports duty free	55 (41)	9 (18)	0.9 (41)
Exports for which preferences requested	61 (46)	31 (61)	0.6 (29)
Exports eligible, but preferences not requested	11 (8)	10 (20)	0.7 (30)
Exports not eligible for preferences	5 (4)	0	0

Note: Numbers in parentheses are shares of exports for each category of agricultural exports.
Source: Calculated using data from U.S. International Trade Commission dataweb.

TABLE 4.11 Exports to the European Union from ACP Beneficiaries, 2002
(US$ millions)

Category	*Africa* Africa LDC	Africa Non-LDC	Caribbean	Pacific
Basic agricultural commodities				
Total exports to the European Union	1,904	5,159	1,018	310
Exports duty free	533 (28)	2,065 (40)	55 (5)	68 (22)
Exports for which preferences requested ACP+GSP	1,188 (62)	2,623 (51)	874 (86)	223 (72)
Exports eligible, but preferences not requested	183 (10)	471 (9)	89 (9)	19 (6)
Exports not eligible for preferences	0.2 (0)	0.5 (0)	0.18 (0)	0 (0)
Processed agricultural products				
Total exports to the European Union	303	1,414	455	15
Exports duty free	30 (10)	16 (1)	8 (2)	1 (10)
Exports for which preferences requested ACP+GSP	235 (78)	1,186 (84)	416 (92)	8 (57)
Exports eligible, but preferences not requested	37 (12)	212 (15)	30 (7)	5 (34)
Exports not eligible for preferences	0.1 (0)	0 (0)	0.1 (0)	0 (0)

Note: Numbers in parentheses are shares of exports for each category of agricultural exports.
Source: Calculated using data from EU Commission.

TABLE 4.12 Exports to Japan from LDCs in 2002
(US$ millions)

Category	All LDCs	African LDCs	Other LDCs
Basic agricultural commodities			
Total exports to Japan	381	241	140
Exports duty free	131 (34)	124 (51)	8 (5)
Exports for which preferences requested	62 (16)	52 (22)	10 (7)
Exports eligible, but preferences not requested	3.7 (1)	3 (1)	0 (0)
Exports not eligible for preferences	184 (48)	62 (26)	122 (87)
Processed agricultural products			
Total exports to Japan	40.8	39.4	1.4
Exports duty free	36.7 (90)	36.2 (92)	0.5 (35)
Exports for which preferences requested	3.5 (9)	2.8 (7)	0.6 (44)
Exports eligible, but preferences not requested	0.3 (0.8)	0.3 (0.7)	0.1 (3.8)
Exports not eligible for preferences	0.3 (0.7)	0.1 (0.2)	0.2 (16.5)

Note: Numbers in parentheses are shares of exports for each category of agricultural exports.
Source: Calculated using data from Ministry of Finance, Japan.

African LDCs. This may reflect the structure of protection and preferences in Japan.

- For African LDCs, more than 50 percent of exports of basic agricultural products enter the Japanese market at zero duty MFN rates. Of the remaining exports to Japan, 23 percent are eligible for preferences, and 26 percent are excluded from preferences. For other LDCs, only 5 percent of exports of basic agricultural products enter duty free under zero percent MFN rates, just 7 percent are eligible for preferences and 87 percent are excluded from preferences.

- Exports of processed products to Japan are a very small share for African LDCs and are non-existent for non-African developing countries.

Within the overall figures for each preference-granting market, there are large variations across countries. For example, while the value of exports eligible for preferences exceeds 20 percent of total exports to the European Union for non-LDC African countries, it is less than 20 percent for 11 LDC African countries and higher than 80 percent for 11 other LDC African countries. There are also important differences across schemes for the same country. For example, 90 percent of Guinea-Bissau's exports to the European Union are eligible for preferences, yet none of its current exports to the United States receive preferences because the exports are subject to an MFN rate of zero. For Mozambique, by contrast, 97 percent of exports to the European Union and 86 percent of exports to the United States are eligible for preferences.

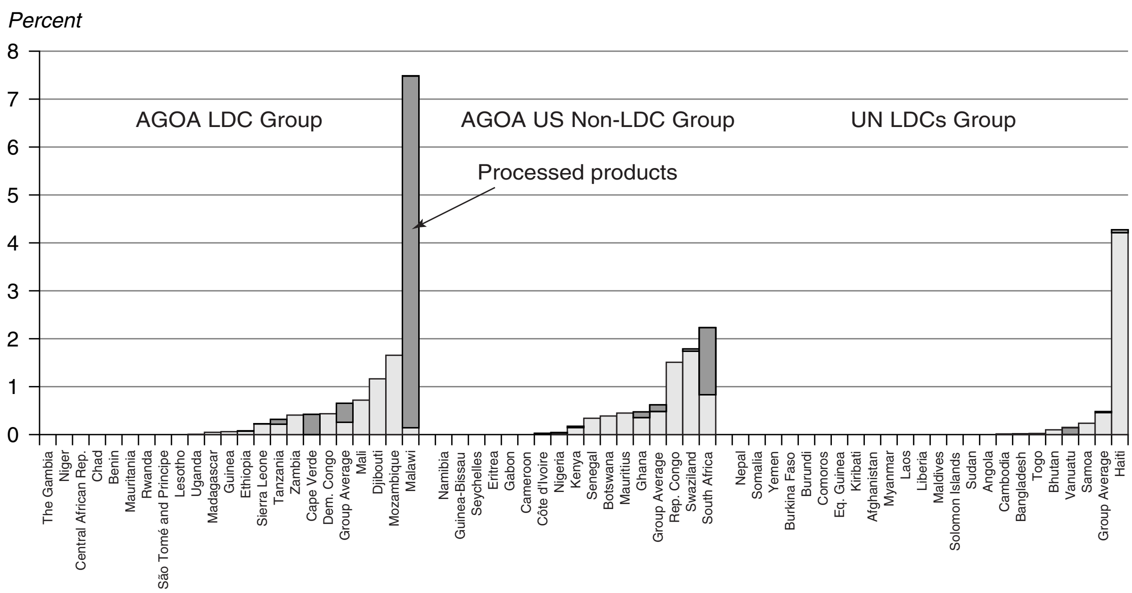
There are also substantial variations across countries in their use of available preferences. For example, in 2002, only 10 percent of Ethiopia's exports to the European Union that were eligible for preferences made use of those preferences, while 85 percent of eligible exports to the United States did. Botswana used 99 percent of available preferences in the European Union but only 22 percent of those in the United States.

The Value of Preferences

An estimate of the value of trade preferences to the exporting countries was also calculated, using the amount of exports actually receiving preferences and the margin of preference to derive the tariff revenue that would have been paid without preferences. This overstates the actual transfers to developing countries because some of the rent will be acquired by importers in the preference-granting country, especially if there is a single buyer, and because of the administrative costs incurred by exporters, such as compliance with rules of origin.[8]

Average transfers to LDCs under AGOA and the GSP amount to less than 1 percent of their agricultural exports to the United States in 2002 (figure 4.1). For most countries, preferences have a negligible impact under the current structure of exports. Preferences of this magnitude will not encourage additional investment in these countries and will do little to mitigate the high transaction costs these countries

FIGURE 4.1 The Value of Preferences Requested under GSP and AGOA Programs of the United States, as a Share of Agricultural Export to the United States
(percent)



Source: Calculated using data from USITC dataweb.

face in accessing world markets. Malawi may be an exception. It receives a transfer equivalent to just over 7 percent of the value of exports to the United States, thanks largely to exports of processed products (mainly tobacco). Haiti is the only other LDC to receive significant preferences. It is granted more favorable treatment than the GSP under the Caribbean Basin Initiative, mainly for exports of tropical fruits such as mangoes. Preferences for non-LDCs in the United States are also small, with the average transfer being less than 1 percent of the value of exports to the United States.

Under the Cotonou and GSP preference schemes, the highest transfers go to non-LDCs, mainly as rents on sugar exports (figure 4.2). Mauritius, for example, is a major beneficiary receiving transfers in 2002 equivalent to more than 52 percent of the value of its agricultural exports to the European Union in that year. The value of preferences for sugar accounted for more than 30 percent of the value of exports for Fiji, the Republic of Congo, Swaziland, and a number of Caribbean countries. Among LDCs, preferences on sugar resulted in substantial transfers to Burkina Faso, Malawi, and Mozambique.

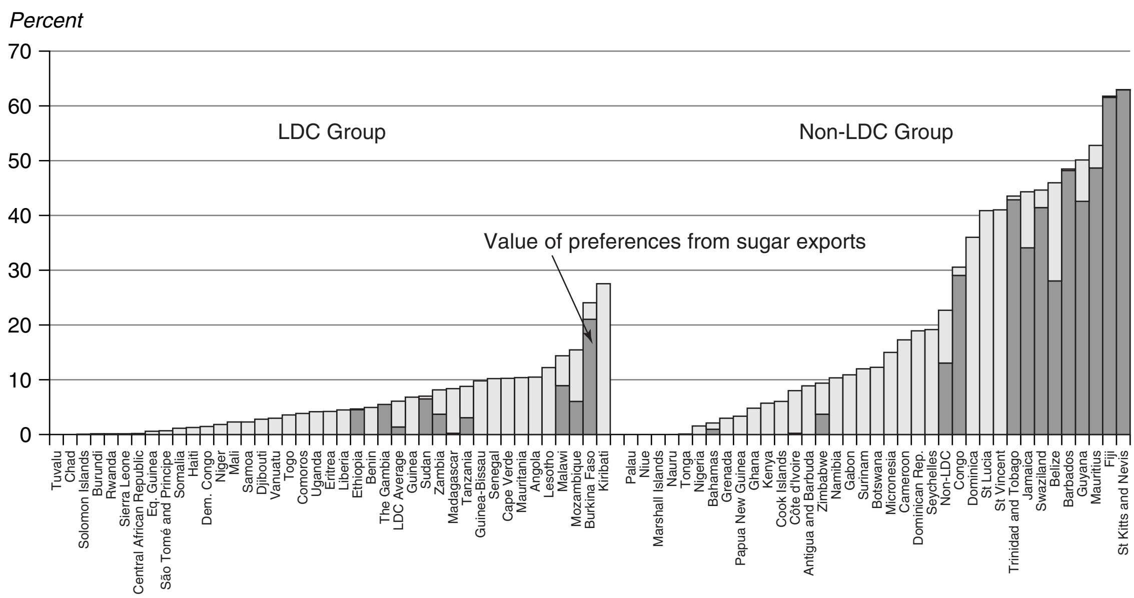
While transfers to a small number of LDCs under the Cotonou Agreement are substantial, the average transfer across all LDC beneficiaries amounts to 6 percent of the value of their exports to the European Union. A large number of countries receive little or no benefit from EU preferences on agricultural products. For 10 of the LDCs, including Chad, Niger, and Rwanda, the value of EU preferences amounts to less than 2 percent of the value of exports.

As with the U.S. and EU programs, Japanese preferences for a few countries under the GSP program in 2002 are substantial, primarily for fish products (figure 4.3). For the majority of LDCs, however, transfers due to preferences are zero. Only 6 of the 46 LDCs receive a transfer greater than 1 percent of the value of agricultural exports to Japan in 2002.

Preferences and Export Diversification

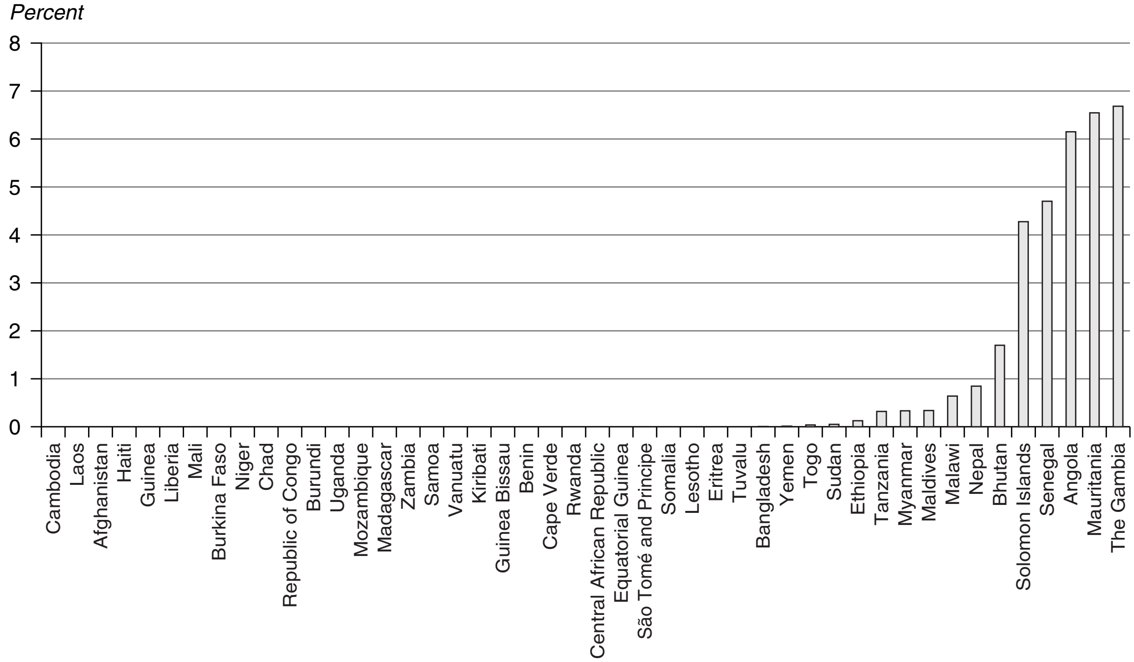
A key problem for the least-developed countries has been their export reliance on a small number of agricultural commodities. This export concentration leaves them vulnerable to external shocks and the downward trend in commodity prices. Preferences could provide incentives for investment in sectors in which countries have a comparative advantage but that are not being exploited because of difficulties in accessing export markets.

FIGURE 4.2 The Value of Preferences Requested under Cotonou and GSP Programs of the EU, as a Share of Agricultural Export to the EU
(percent)



Source: Calculated using data from EU Commission.

FIGURE 4.3 The Value of Preferences for LDCs under the GSP Program of Japan, as a Share of Agricultural Export to Japan
(percent)



Source: Calculated using data from Ministry of Finance, Japan.

Preferences have done little to increase the diversification of agricultural exports. Only 4 of the 38 countries eligible for preferences under AGOA have significantly diversified their exports of agricultural products over the last 20 years (Ghana, Nigeria, South Africa, and Tanzania). For the other 34 countries, five or fewer products accounted for more than 90 percent of their agricultural exports in both 1982 and 2002.[9] The same pattern holds for African exports to the European Union. In 1982, for 37 of the 44 African ACP countries, five or fewer products accounted for more than 90 percent of exports to the European Union. By 2002 only two of these countries had diversified their exports to the European Union to reduce the importance of the main five export products. None of the LDCs had diversified exports to Japan. In 2002 the five top products accounted for 90 percent or more of every country's exports.

Much of this failure to stimulate export diversification likely results from several features of the programs. The uncertain duration of the preferences granted, the exclusion of many products with the largest preference margins, and the inadequacy of preference margins for making investments in new activities attractive, given the high transaction costs of operating in the least-developed countries. Also possibly contributing are the administrative rules governing the granting of preferences, described below. However, the main factor constraining diversification is likely to be the poor domestic investment climate in most of the beneficiary countries.

Constraints on Preferences and Diversification: Rules of Origin

Rules of origin are essential to ensure that preferences are granted only to exporters from eligible countries. The nature of the rules of origin, however, are a key element determining the extent to which countries are able to take advantage of the preferences available to them. For a product produced in a single stage or wholly obtained in one country, origin is relatively easy to establish. Primary agricultural products typically fall into this category. Proof that the product was produced or obtained in the preferential trade partner is normally sufficient. The process of proving conformity, however, may incur costs that reduce the value of the preferences.

For processed manufactured products, rules of origin stipulate how much or what kind of domestic processing must take place. The U.S. GSP scheme has a value-added requirement of 35 percent for all products. The U.S. scheme also allows for cumulation between selected countries, so that value added in those countries can be counted toward the overall value-added requirement for the product exported to the United States. AGOA permits such cumulation among all Sub-Saharan preference trade partners. In practice, many processed food products are excluded from the GSP and AGOA.

EU rules of origin are product specific and sometimes complex. Some products require a change of tariff heading, some have a value-added requirement, and some are subject to a specific manufacturing process requirement. In some cases these methods are combined. For certain industrial products, a choice among alternative methods is permitted—for example, either a change of tariff heading or satisfaction of a value-added requirement. This more flexible approach is not available for agricultural products.

For many products, the EU rules require a change of chapter, which is even more restrictive than a change of heading. Some of the EU rules exclude some changes in tariff classification by proscribing the use of certain imported inputs. For example, the rule of origin for bakery products such as bread, pastry, cakes, and biscuits requires a change of tariff heading except for any heading in chapter 11 (products of the milling industry), meaning that bakery products cannot use imported flour, a restrictive requirement for countries without a competitive milling industry. Products that include sugar have to demonstrate that the value of any imported sugar does not exceed a certain proportion of the price of the product.

While the European Union has sought to harmonize the processing requirements for each product across preference programs, a number of general rules vary substantially across different schemes, particularly those on the nature and extent of cumulation and the tolerance rule. There are important differences in the rules of origin among the Everything but Arms program, the GSP, and the Cotonou Agreement. For example, the Cotonou Agreement permits full cumulation. The GSP has more limited partial cumulation that can take place only within four regional groupings (Association of South-East Asian Nations, Central American Common Market, the Andean Community, and South Asian Association for Regional Cooperation), but it excludes the ACP countries. Hence LDC members of the ACP that are eligible to export to the EU under Everything but Arms may often prefer to continue exporting under the Cotonou Agreement because of the more liberal rules of origin (Brenton 2003).

The rules of origin for the Japanese GSP require a change of tariff heading to demonstrate that a substantial transformation has taken place, although there is a list of products for which specific criteria are defined. Thus, for example, flour or similar products cannot be produced from imported grains. Cumulation is allowed among a limited group of Southeast Asian countries (Indonesia, Malaysia, Philippines, Thailand, and Vietnam).

An important feature of these preferential trade schemes is the requirement of direct consignment or direct transport. This stipulates that goods for which preferences are requested be shipped directly to the destination market. If they are in transit through another country, documentary evidence may be required to show that the goods remained under the supervision of the customs authorities of the country of transit, did not enter the domestic market there, and did not undergo operations other than unloading and reloading. In practice, it can be very difficult to obtain the necessary documentation from foreign customs.

In general, preferences are more effective when the rules of origin are simple and easy to apply. Further, the value of OECD (Organisation for Economic Cooperation and Development) preferences would be enhanced by greater uniformity in the way given products are treated in the different schemes. Thus a product that qualifies for preferences in one market should be granted preferential access to all other OECD countries. The WTO would be an appropriate forum for discussing and agreeing on a common set of rules of origin.

Preference Erosion by Multilateral Tariff Reductions

As multilateral tariff reductions are negotiated at the WTO, the margins of preference available to developing countries decline. Whether developing countries lose overall from multilateral liberalization depends on the extent of negotiated tariff reductions on products that currently receive preferential access and on the importance of products excluded from preferences or not using current preferences. The analysis here makes clear that the impact of reducing tariffs will vary substantially across countries but that most countries will not lose because they currently gain very little from preferences.[10] For the countries that receive substantial transfers from preferences, the commodity impact of tariff liberalization is crucial. For example, significant reductions in EU tariffs and internal prices for sugar would have a significant impact on a number of countries, especially if existing quotas were maintained.

The impact of reducing tariffs on products excluded from preferences will tend to be positive for the least-developed countries. These products have very high tariffs, and a reduction in protection would stimulate exports from countries with a comparative advantage in these products. Whether the least-developed countries would gain more from the inclusion of these very-high-duty products under preferences and the continuation of high levels of protection is difficult to assess, but the uncertain duration of many nonreciprocal schemes and the difficulties of satisfying rules of origin are likely to limit the value of preferences on these products.

Wainio and Gibson (2003) estimate that, as a group, countries receiving nonreciprocal trade preferences on agricultural products in the United States would gain from multilateral trade liberalization because losses from preference erosion would be exceeded by gains on products on which these countries pay the MFN tariff. Within this group, a country will tend to lose on balance from multilateral liberalization only if more than 80 percent of its exports to the United States receive preferences, while it would tend to gain if less than 50 percent of its exports benefit from preferences. For countries in between, whether there was a net gain or a loss from reducing MFN tariffs would depend on the particular tariff-cutting formula and the structure of exports.

Conclusion

In principle, trade preferences can assist development if they provide temporary margins of preference to enable industries to adjust and compete more effectively in global markets. Multilateral trade liberalization contributes to this outcome by ensuring that preferences have a short "half-life"[11] and that inefficient, high-cost industries with entrenched lobbies do not constrain flexibility and adjustment. Multilateral liberalization is also important for limiting the long-term trade diverting impact of preferences on other countries (typically these will be other developing countries).

In practice, only a small number of countries receive large transfers as a result of preferences in OECD markets. The values of preferences are largest in the EU market, driven by a narrow range of products and the very high EU price for sugar. In a few countries, such as Mauritius, preferences appear to have contributed to a relatively strong economic performance and economic diversification (Subramanian 2001). In other countries, even though preferences have led to large transfers, domestic industries have experienced rising costs and declining output and have accumulated large debts.[12] Nevertheless, the majority of beneficiaries of U.S., EU, and Japanese preferences have experienced little or no impact. Preferences have done nothing to stimulate the export of a broader range of products.

The key issues for improving trade preference schemes are as follows:

- How to enhance the value of preferences under current export structures, which would be facilitated by
  - Extending coverage to all agricultural products.
  - Liberalizing the rules of origin and simplifying the process of certifying compliance.
  - Removing sources of uncertainty concerning product and country coverage and the duration of preference schemes.
- How to strengthen the impact of existing preferences on developing countries, which would be facilitated by
  - Improving the domestic investment environment.
  - Addressing the internal barriers that raise the costs of trade for developing countries—inadequate and high-price transport services, reflecting lack of infrastructure and lack of effective competition in many countries, inefficient and corrupt customs practices, and lack of trade-supporting financial and telecommunications services.[13]

- How to ensure that preferences do not interfere with multilateral liberalization, which would be facilitated by
  - Developing mechanisms for helping countries that incur significant losses from preference erosion adjust.
  - Not using fear of preference erosion to maintain high levels of protection in industrial countries.

The challenge is to find preference schemes that complement the domestic reforms that developing countries must undertake to improve the returns to exports without stifling diversification and multilateral trade liberalization. Trade preferences are not a panacea for success but rather should be seen as just one part of a strategy to boost export-led growth and development. Realizing the full potential of trade also requires improving customs clearance procedures, reducing the costs of transportation and other trade-related services, ending corruption, and removing other disincentives to investment. Addressing these issues will permit broad-based export growth and will ensure that as preferences decline with multilateral liberalization, the economic structure needed for continued export expansion is in place. The Integrated Framework for Trade-Related Technical Assistance, when incorporated into poverty reduction strategies, provides a vehicle for addressing these issues, defining appropriate policy responses, and mobilizing relevant resources.

Notes

1. By providing a stimulus to increased trade, preferences can lead to lower transportation costs, which in turn lead to a further trade impact. Hummels and Skiba (2002) discuss how economies of scale in transportation can lead to a virtuous circle involving increased trade and lower transportation costs.

2. For example, the share of Sub-Saharan African countries in U.S. imports of agricultural products fell from 4.3 percent in 1982 to 2.5 percent in 2002. Similarly, the share of the African, Caribbean, and Pacific countries in total EU agricultural imports fell from 11.7 percent in 1982 to 7.8 percent in 2002. And the share of low-income countries in Japanese imports fell from 1.2 percent to 0.5 percent over the same period. More systematic empirical studies of the impact of trade preferences are rare and seldom separate out the impact on agricultural products.

3. The rate of utilization of preferences is the proportion of exports from developing countries to the European Union, the United States, and Japan that are recorded at the border as requesting preferences. Therefore, the underutilization of preferences (the fact that some exports do not request and therefore are not granted the preferential access for which they are in principle eligible) cannot reflect the inability to meet other requirements to access the relevant market, such as health and safety or sanitary requirements or deficiencies in their infrastructure, as is sometimes suggested. Lack of infrastructure might explain a muted response from trade to preferences but cannot explain why, at the border, some products that are eligible for preferences do not request those preferences.

4. For a comprehensive description of U.S. preferences for agricultural products, see Wainio and Gibson (2003)

5. Many of the tariff quota products are also subject to safeguard measures. Once quantities exceed the quota, exports to the United States are subject to both the high MFN duty and an additional, often high, safeguard duty.

6. A number of lines shown as AGOA products are likely to be economically meaningless. These are lines that refer to General Note 15 of the U.S. tariff schedule, which excludes from the in-quota quantity for a product subject to a tariff rate quota and to safeguard amounts that are imported by the U.S. government, by individuals in quantities of less than five kilograms, and samples for exhibition or for display at trade fairs. If such products are imported from AGOA countries, they are eligible for zero duty access. In the 2002 tariff schedule, 85 agricultural lines designated as AGOA products referred to General Note 15, or 14 percent of AGOA-designated agricultural tariff lines. In 2002 imports from AGOA countries were recorded in only one of these categories, and the amount was negligible. For a more accurate representation of the impact of AGOA, these lines are excluded from the analysis.

7. This clause was initially discussed in the context of combating fraud. However, this is not made clear in the legislation, and it appears that the clause could be invoked in more general circumstances.

8. The value of preferences will also be overstated for products for which there are no nonpreferential imports and for which the duty exceeds the prohibitive level—the gap between the internal price in the importing country and the world price.

9. The analysis was undertaken at the 5-digit level of the Standard International Trade Classification (SITC). There are around 250 agricultural products in this classification. The 34 countries include 3 that did not export any agricultural products to the United States in 2002.

10. Stevens (2003) notes that the flip side of the preference coin is agricultural protectionism in OECD countries, which has led to cheaper imports for African countries of a number of agricultural products, such as cereals. There are two impacts: preferences increase export receipts to pay for imports, and OECD protectionism reduces the prices of those imports. Even countries that gain little from preferences may lose from multilateral trade reform.

11. Taken from Schott (2004), who presented the notion in terms of free trade agreements.

12. Mitchell (2004) shows that the sugar industry in the Caribbean is dominated by high-cost producers, few of which can profitably export to the European Union, even at four times world prices. Sugar production has been declining, and efforts to diversify away from sugar have generally been unsuccessful. A serious problem in a number of countries is the high level of accumulated debt of the state-owned sugar industries, which can amount to a substantial proportion of gross domestic product.

13. These issues are highlighted in diagnostic trade studies undertaken in the context of the Integrated Framework for Trade-Related Technical Assistance for the least-developed countries (see www.integratedframework.org).

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