2

Review of Trade Preference Schemes

The aim of this chapter is to 'set the scene', and explain which preferential trade arrangements are considered, identify the amount and type of developing country trade covered by the relevant preference schemes and establish current preference margins and, by implication, the scope for preference erosion. Section 2.1 briefly reviews the preferential schemes offered by the EU and USA. The trade coverage of these schemes by country and product and associated margins of tariff preference are outlined in Sections 2.2 and 2.3. Section 2.4 summarises the conclusions that can be drawn from the chapter.

Table 2.1 Coverage of preferential schemes of the QUAD+ countries

Market	Preferential scheme
Australia	General System of Preferences (GSP) Least Developed Countries (LDC) Forum Island Countries (FIC) Special Rates for Specific Economies (SRSE)
Canada	General System of Preferences (GSP) Least Developed Countries (LDC) Commonwealth Caribbean Schemes with individual countries
Japan	General System of Preferences (GSP) Least Developed Countries (LDC)
USA	General System of Preferences (GSP) Least Developed Countries (LDC) African Growth and Opportunity Act (AGOA) Caribbean Basin schemes (CBERA, CBTPA) Andean Trade Preference Act (ATPA)
EU	General System of Preferences (GSP) Least Developed Countries (LDC) Everything But Arms (EBA – for LDCs) Preferential tariffs for ACP countries Countries Fighting Drugs Mediterranean countries (EUROMED)

Source: Country chapters in Hoekman *et al.* (2009).

2.1 Nature and evolution of preferential schemes

The main countries that give trade preferences to developing and least developed countries are individual developed countries and groups that include, in descending order of trade significance, the EU, USA, Japan, Canada and Australia. The first four are known as the QUAD countries and all five are referred to as the QUAD+. Table 2.1 lists the main preferences schemes offered by these countries; all offer GSP and LDC preferences (with some variation in application), while the EU and USA have additional major schemes. A large number of other region-specific schemes are offered by both developed and developing country trade partners of these preference-giving countries. The discussion here concentrates on the EU and USA. (See Appendix A2 for information on other QUAD+ countries.)

European Union

EU preferential arrangements for developing countries have traditionally been of two kinds: a non-reciprocal Generalised System of Preferences, available to all developing countries, and special non-reciprocal preferential schemes for particular country groups (for example the preferences offered to ACP countries under the Cotonou Agreement). The EU's GSP scheme covers all manufactured exports and some agricultural and food exports from developing countries (some receive more favourable treatment under GSP+). Although the coverage of agrifood exports has been gradually extended, all products covered by the EU's Common Agricultural Policy (CAP) regimes are excluded.

LDCs have more favourable GSP preferences than other developing countries. Following the introduction of the Everything But Arms (EBA) initiative in February 2001, all products from countries on the UN list of LDCs now have full duty free access, without quotas, to the EU market. Apart from arms and ammunition, which are permanently excluded, transition periods are in place for three sensitive agricultural products: bananas (now completed), rice and sugar. Rice and sugar will be eligible for unlimited duty free access from July 2009 and September 2009 respectively. Limited tariff free quotas were available for rice and sugar exports from LDCs during the transition periods. The EBA scheme extends duty free access to agricultural products which are otherwise excluded from the GSP.

Under successive Lomé Conventions, the EU offered duty and quota free access to exports from the ACP group in addition to other preferential arrangements (Candau and Jean, 2009). Again, exports covered by the CAP were a major exception, although ACP countries received more preferential treatment in general than other countries for their exports of these products. Four commodity Protocols, in the annex to the Lomé Convention, provided preferential access for set quotas of exports from specific ACP suppliers of bananas, rum, sugar and beef. The Cotonou Agreement extended this special non-reciprocal set of trade preferences until the end of 2007, with the intention that thereafter trade relations with ACP countries would be based on reciprocal agreements called Economic Partnership Agreements.

Although EPAs were planned to come into force on 1 January 2008, in general only framework agreements had been signed by June 2009. More progress has been made in specific cases (e.g. with the Caribbean and Eastern and Southern Africa (ESA) regions), and agreements with most country groups are expected to be signed by the end of 2009. EPAs will sustain the existing preferences given by the EU to the ACP countries; it is anticipated by the ACP countries that there will be further concessions on access for agricultural goods so as to give all ACP countries (including non-LDCs) access terms equivalent to those given to EBA countries. The preferences provided by the EU under EPAs will be reciprocal: ultimately (after fairly long transition periods), ACP countries will have to liberalise substantially all their imports from the EU, subject to allowances for differential paces of liberalisation and some excluded goods.

USA

In terms of country coverage, the GSP is the largest US preferential scheme, although membership fluctuates due to graduation (where a country's per capita GNP exceeds the threshold set by the World Bank for high-income countries). Although GSP represents unilateral and non-reciprocal granting of preferential treatment, participating countries agree, among other things, to offer reasonable access to US goods and services. GSP offers more extensive duty free treatment for manufactured goods than for agricultural products. Product coverage has varied over time, but it is more restricted than other US preferential programmes. Indeed, a substantial set of sensitive products are excluded from GSP treatment – for example, most textiles, footwear, watches, handbags and luggage, glass, steel and electronic components. Agricultural products subject to tariff quotas (dairy products, sugar, beef, peanuts and tobacco) are ineligible beyond the set quotas. Further, there is a significant safeguard mechanism ('competitive need limits') that restricts eligibility when countries are considered to be competitive in a given product: a ceiling is set for each product and any country that exceeds the ceiling loses its eligibility for GSP for that product from the following year.

Improved market access for LDCs was initiated in 1997 under GSP. In addition to duty free access for existing GSP eligible products, LDCs were granted duty free treatment on more than 1,700 additional tariff lines. However, many horticultural products (particularly fruits, vegetables, citrus fruits and cut flowers) and fibres, remain excluded from the programme.

The African Growth and Opportunity Act was signed into law in May 2000, with the aim of offering 'tangible incentives for African countries to continue their efforts to open their economies and build free markets' (AGOA website). Most sub-Saharan African countries are beneficiaries of the scheme, although there are a few countries that have not requested beneficiary status (e.g. Sudan) and some that have not been granted it (e.g. Zimbabwe). Many sub-Saharan African countries already enjoyed preferential treatment in the US market due to their status as LDCs; however, in the case of some countries (non-LDCs such as South Africa and Ghana) and some important products (e.g. textiles and apparel), tariffs and quotas are much more restrictive under GSP and AGOA offers significant export access advantages. Evidence of the benefits of AGOA is discussed in Chapter 3.

2.2 Extent and trade coverage of preferential schemes

The incidence of preferences can be measured in terms of the number of products (tariff lines) or the share of trade covered. The latter is a more meaningful measure of the true coverage; tariff lines (particularly for agricultural products) of significant export interest to beneficiary countries are either wholly excluded from preferential treatment or are subject to restrictions (see Chapter 4).[1] The QUAD+ imported a total of US$971,145 million from developing and least developed countries under the terms of MFN tariffs and various preferential trading schemes in 2003 (Table 2.2). When considered at the aggregate ('all schemes') level, the EU stands out as the major export destination. The EU accounted for more than half (51 per cent) of total QUAD+ imports from developing and least developed countries in 2003. The USA absorbed almost a quarter (24 per cent) and Japan was the third largest destination with 18 per cent. Canada and Australia accounted for the relatively small proportions of 5 and 2 per cent, respectively.

Table 2.2 Exports under preference schemes by type of export product and preference-giving countries, 2003

Scheme	Exports (US$ m)	Agricultural (% of total)	Non-agricultural (% of total)	Total (%)	(% share) EU	USA	Japan	Canada	Australia
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total values	**971,145.0**	**9**	**91**	**100**	**51**	**24**	**18**	**5**	**2**
GSP	844,767.1	8	92	100	52	21	20	5	*2*
LDC	26,159.1	8	92	100	52	38	6	3	0
ACP	30,621.2	28	72	100	100	–	–	–	–
AGOA	19,062.4	5	95	100	–	100	–	–	–
CBERA	23,523.0	12	88	100	–	100	–	–	–
Andean Act	11,021.2	18	82	100	–	100	–	–	–
Commonwealth Caribbean	557.7	7	93	100	–	–	–	100	–

Source: Calculated by authors using data from Low *et al.* (2005; 2006).
Note: For Australia data are available for non-agricultural imports only. Andean Act refers to Andean Trade Preference and Drug Eradication Act. To the extent that it is included, EBA is under LDCs for the EU.

Table 2.2 also summarises total QUAD+ agricultural and non-agricultural imports from (or exports of) developing and least developed countries under the main eight preferential schemes available in 2003 and terms of market access. At individual scheme level, the GSP is by far the most important, accounting for 87 per cent (US$844,767 million) of total exports of developing and least developed countries. The EU absorbed the bulk of GSP exports, followed by the USA. The ACP scheme provided by the EU to 77 ACP developing and least developed countries is the second most important scheme, with EU imports from eligible ACP countries of US$30,621 million. The LDC scheme provided by all QUAD+ countries rates third, generating a total of US$26,159 million in exports from LDCs. Again, the EU absorbed more than the USA and the rest of the QUAD+.

The US Caribbean Basin Economic Recovery Act (CBERA) recorded imports to the value of US$23,523 million, compared with imports worth US$19,062 million from African countries under AGOA. It is important to bear in mind that these two schemes have different country and product coverage and the non-tariff terms and conditions of access (e.g. rules of origin requirements) are different. For example, under AGOA dutiable exports were negligible (in relative terms) at 1 per cent of total AGOA exports; under CBERA, on the other hand, more than half (51 per cent) of exports were dutiable (mostly MFN tariffs). Furthermore, all preferential access exports under AGOA were duty free, while only 0.2 per cent of exports under the CBERA were subject to non-zero preferential tariffs.

Preferential tariff levels

It is now commonly acknowledged that successive rounds of multilateral trade agreements have reduced the relative importance of import duties and quota restrictions, while the importance of non-traditional and new generation non-tariff measures has increased. Beneficiary countries fail to take full advantage of the preference schemes due to both their supply-side constraints and conditionality (rules of origin) or documentation barriers to accessing preference schemes (see Chapter 3). Nevertheless, the extent of tariff preferences indicates the value of a scheme. Table 2.3 provides estimates of the average (overall and peak) tariffs prevailing under various schemes in 2003; obviously, actual values will have changed since then, but qualitative inferences remain valid.

In general, the EU has the highest MFN and GSP rates (reflecting high tariffs on some agricultural imports), but it has the lowest tariffs for LDCs and ACP developing countries (AGOA is similar). It is clear that the average tariffs under the various schemes (GSP, LDC, AGOA and others) are well below MFN tariffs and except in the case of Canada the GSP tariffs faced by developing countries are higher than the tariffs faced by least developed countries under the LDC scheme. The gaps are wider between tariffs for tariff peak products applicable to LDCs and those applicable to MFN suppliers under all schemes, implying greater preferential margins (subject to review in the Doha Round).

Table 2.4 shows for each preference-giving country the relative importance of the different conditions of market access facing agricultural and non-agricultural exports of developing and least developed countries to the QUAD+ in 2003. Column (1) shows total exports against the various terms of market access (MFN duty free access, preferential access as a whole, preferential duty free access, and so forth). Columns (2) and (3) show the shares of agricultural and non-agricultural exports under each term of access, and columns (5) to (9) show for each preference-giving country the shares of beneficiary exports subject to the various terms of market access. For example, for the EU, of the total exports by beneficiary countries, 51 per cent entered under MFN duty free terms, 21 per cent received preferential duty free access and 28 per cent were subjected to import duties (specifically, 8 per cent of total exports paid MFN duties and 20 per cent paid preferential duties).

At the ‘all schemes’ level, an average of about 50 per cent (US$484,921 million) of the exports of developing and least developed countries (column 1) entered the QUAD+ at zero MFN duty rates, while about 30 per cent enjoyed preferential terms (tariffs) of market access (either duty free or non-zero preferential tariffs set below the MFN tariffs). The EU was the major preferential market in terms of both the absolute values (US$200,701 million) and relative terms (about 68 per cent) of total preferential exports.

Table 2.3 Tariff rates under QUAD preferential schemes, 2003

Preferential scheme		Average tariff rate (all HS-6 products)	Average tariff rate (tariff peak products)
EU	GSP	3.6	19.8
	LDC (ACP)[a]	0.8 (0)	~0
	Non-LDC ACP[b]	0.9 (0)	~0
	MFN	7.4	40.3
USA	GSP	2.4	16
	AGOA LDCs	0.0	~0
	Non-AGOA LDCs	1.8	14.4
	MFN	5.0	20.8
Japan	GSP	2.3	22.7
	LDCs	1.7	19.0
	MFN	4.3	27.8
Canada	GSP	4.3	28.2
	LDCs[c]	4.4	22.8
	MFN	8.3	30.5

Note: ~0 indicates approximately zero.
[a]All LDCs should benefit from the zero ACP tariff in the post-EBA regime, assuming unrestricted access at the end of the transitional period.
[b]Estimate in parentheses assumes implementation of EPAs.
[c]Does not reflect the recent Canadian initiative with regard to imports from LDCs.
Source: Annex tables AT4–AT6.

At the ‘all schemes’ level, duty free status exports (US$178,396 million) accounted for an average of 18 per cent of the total exports to the QUAD+. The EU allowed the largest value of total exports (US$104,432 million) to enter on duty free terms of preferential market access, but when the preferential duty free exports are expressed as a percentage of total exports, the USA recorded a higher share (24 per cent) than the EU (21 per cent). The shares of duty free exports in the other QUAD countries and Australia were low, ranging between 1 per cent (Australia) and 9 per cent (Japan).

The gap between total preferential exports and exports granted preferential duty free status indicates the size of exports subject to non-zero preferential tariffs. At the ‘all schemes’ level, this gap is noteworthy for all QUAD countries except the USA, where it is zero, implying that all preferential exports access the US market duty free. At individual preference scheme level, the gap is primarily associated with the GSP scheme; for all other schemes (ACP, AGOA and the rest), almost all preferential exports entered duty free. This underscores the widely held view that the GSP is a less attractive preferential access option, because of the relatively restrictive rules of origin, which require substantial product transformation within the beneficiary country. The GSP also excludes products that are 'sensitive' for the GSP provider, which tend to be of significant export interest to exporting small and least developed countries, e.g. certain agricultural products that are restricted, notably under the US GSP and in some cases under the EU GSP (Grimwade, 2000: 256).

Table 2.4 Exports by terms of market access, type of export products and preference-giving countries, 2003

Terms of access	Exports (US$ m)	Agricultural (% of total)	Non-agricultural (% of total)	Total (%)	EU	USA	Japan	Canada	Australia
					(% share)				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total values	**971,145.0**	**9**	**91**	**100**	**496,087**	**237,454**	**172,042**	**45,802**	**19,760**
MFN duty free access	484,921.1	8	92	100	51	33	66	58	49
MFN dutiable	192,384.2	12	88	100	8	43	20	15	41
Preferential access	293,839.7	9	91	100	40	24	13	26	9
(Duty free preference)	178,395.7	8	92	100	21	24	9	6	1
(Preferential duties)	115,444.0	11	89	100	20	0	5	20	9

Source: Calculated by authors using data from Table A1 in Low *et al.* (2005; 2006).

Not surprisingly, the GSP is of limited relevance for some regions, including Africa. For example, just 3.2 per cent of Africa's exports to the EU enter under the EU GSP (OECD, 2004: 53). The benefits of the GSP appear to be heavily skewed in favour of only a few countries. Langhammer and Sapir (1987) estimated that three countries (Taiwan, South Korea and Hong Kong) accounted for about two-thirds of the trade effect of the GSP (taking into account imports to all OECD countries) and that 78 per cent of EU GSP imports in 2002 was shared by only ten developing countries.[2]

A successful Doha Round will put downward pressure on MFN duties and subsequently on preference margins. Dutiable exports into the QUAD+ (that is, all tariff line exports minus MFN duty free exports minus duty free preference) accounted for an average of 32 per cent of total exports to the QUAD+. The shares of dutiable exports at 'all schemes' level ranged between 25 per cent (EU) and 50 per cent (Australia); the GSP scheme by all the QUAD+ accounts for the bulk of exports (in absolute terms) subject to duties. Almost all exports under the LDC scheme are not dutiable in all QUAD countries, except the USA. For the USA, relatively large proportions of its imports under the LDC scheme (43 per cent) and CBERA are still subject to duties (Tables AT1 and AT3).

Evolution of preferential trade

Over the years there has been a steady increase, in absolute terms, in the volume of exports receiving preferential terms of market access to the QUAD and other developed countries.[3] This growth may be explained in part at least by the reforms and extensions to existing preferential schemes, for example the extension of the GSP to GSP+ and the introduction of the EU's EBA initiative. Available preference trade data for the period 1994–2001 provide indicative trends in the effectiveness and importance of preferential trading schemes. Table A2.2 shows that between 1994 and 2001 QUAD imports from 49 LDCs (33 of which were African) that received GSP preferences increased from US$999 million to US$4,920 million. The utilisation rate of the GSP by these countries increased on average from 48 per cent in 1994 to 68 per cent in 2001 (due in large part to oil exports to the USA). The sub-optimal GSP utilisation rates are attributable to:

> *… insignificant magnitudes of the potential commercial benefits; the lack of technical knowledge, human resources and institutional capacity to take advantage of preferential agreements, which require in-depth knowledge of national tariff systems in various preference-giving countries, and conditions attached to the realisation of the potential benefits of the preferences. The effective benefits of market access preferences provided by Quad countries are being significantly limited also by their unpredictability and by non-tariff barriers, notably rules of origin and product standards.* (UNCTAD, 2004: 250)

Composition of preferential trade

By scheme design, LDCs have comparatively more duty free tariff lines (e.g. the EU's EBA scheme) than developing countries under the GSP scheme. (Table AT7 confirms the way in which the importance of the various schemes differs between developing and least developed countries.) Developing countries place more importance on MFN duty free access, while LDCs enjoy greater duty free access under the preferential schemes. Consequently, developing countries exported the largest shares (52.1 per cent on average) of their (non-agricultural) products to the QUAD+ under MFN duty free access terms, while LDCs exported the largest shares (61.2 per cent on average) of their (non-agricultural) products on duty free access terms under the preferential schemes. Of course the total value of developing countries' exports to the QUAD+ is more than ten times that of LDCs under preferential terms of market access.

Ten developing countries (see above) dominate exports of agricultural and non-agricultural products to the QUAD+ under the preference schemes. Among LDCs, countries such as Bangladesh, Angola, Cambodia and Democratic Republic of Congo were the leading exporters of non-agricultural products, while Madagascar, Malawi and Uganda were the leading exporters of agricultural products. Some countries are highly dependent on preference schemes for exports to the QUAD+. For seven LDCs,[4] over 90 per cent of their exports entered under preferential access for non-agricultural products (Table AT7) and seven had between 50 and 80 per cent of their agricultural exports entering under preferential access.[5] In the case of agricultural products, 46 per cent of exports from developing countries and 59 per cent from LDCs entered the QUAD+ subject to zero MFN duties. For 12 LDCs, preference schemes are not important for exports of agricultural products to the QUAD+ (Appendix A2).

Key preferential exports of developing and least developed countries

Developing and least developed countries as a group export a wide variety of agricultural and non-agricultural products that utilise preferences, including meat, fish (fresh, chilled or frozen and crustaceans), preserved fish, vegetables, fruit, cereals, vegetable oil, sugar, prepared fruit and vegetables, wine, tobacco, wood, clothing and textiles, and other products.[6] Exports from the extractive industries, such as precious metals, oil and gas, tend not to be covered by preferences. Appendix A2 lists key African exports to the EU and the QUAD (Tables A2.3, A2.4 and A2.5) in six broad product groups: textiles and clothing; sugar; fresh fruit and vegetables; prepared fruit and vegetables, wine, tobacco and wood; meat; and fish. The EU and USA (under AGOA) offer the greatest preferential access for sub-Saharan African countries on similar (zero) tariff terms (although other requirements such as rules of origin vary). They also offer the greatest preferential rates for clothing from North Africa. Appendix A2 also discusses some features of preference regimes for the most important exports of low-income countries under QUAD schemes – clothing, sugar, fruit and vegetables, meat and fish.

2.3 Preference margins: extent and evolution

Preference margins arise from the differences between MFN tariffs and the preferential tariffs offered by preference-giving countries. The gap between the two sets of tariffs can be adjusted for various factors, such as the level of competition from non-beneficiary exporters faced by a product in the preference-giving countries, the level of preference utilisation or both these factors together. Consequently, the significance of preferences varies for beneficiary countries, and depends not only on the value of the preferences, but also on the extent to which they are utilised, the level of competition posed by price competitive non-beneficiary exporters and other considerations such as the level of market diversification. Table 2.5 illustrates the value of preferences for a typical beneficiary country, using average MFN and preferential tariffs of products imported by QUAD+ countries. The first three columns report the shares of exports entering the QUAD+ under different market access terms for both agricultural and non-agricultural products. Preferential schemes are more important than MFN duty free terms for LDCs (they export 61.2 per cent of their non-agricultural exports under the schemes), but are less important for developing countries, which are subject to relatively higher tariffs.

The shares of exports entering the QUAD+ are the most relevant for the analysis of the value of preferences; the greater the shares of products traded on preferential terms, the more vulnerable the preference beneficiary when MFN tariffs move closer to preferential tariffs, for example under multilateral liberalisation. Here, both developing countries and LDCs are susceptible to preference erosion; in the case of LDCs this is because the largest share of their exports depends on preferential tariffs, while for developing countries, despite the shares looking relatively small (15.9–23 per cent), they represent significant values (US$151,313 million) of export earnings in absolute terms and in relation to domestic economic activity; this also applies to LDCs.

Table 2.5 Value of preferences from exporting to the QUAD+, 2003

	Share (%) of exports subject to:			Preference margins	
Exporters	**MFN-duty free**	**MFN duties**	**Preferential tariffs**	**Unadjusted**	**Adjusted**[a]
	(1)	**(2)**	**(3)**	**(4)**	**(5)**
Agricultural exports[b]					
Developing countries	46.0	29.0	23.0	1.3	−0.4
LDCs	59.0	4.0	37.0	2.5	0.1
Non-agricultural exports					
Developing countries	52.1	31.8	15.9	0.7	−0.5
LDCs	20.2	18.3	61.2	6.4	1.6

[a]Adjusted for competition.
[b]Australia not covered for agricultural exports.
Source: Low *et al.* (2005) for non-agricultural exports; Low *et al.* (2006) for agricultural exports.

Unsurprisingly, in terms of preference margins LDCs (which are accorded duty free access for a much larger number of tariff lines than developing countries) enjoy greater adjusted and unadjusted preference margins than developing countries for both agricultural and non-agricultural products. In both cases, however, tariff margins fall significantly (and become negative for developing countries) when adjusted for competition. (Negative preference margins imply that some developing countries would do better exporting to the QUAD+ under non-preferential terms like their competitors.) Tables AT8 and AT9 report the size of preference margins for agricultural and non-agricultural products at country level: unadjusted margins range from 0 to 19 per cent for non-agricultural products and from 0 to 64 per cent for agricultural products for developing countries and from 0 to 14 per cent for LDCs. Competition-adjusted preference margins are also reported (Table AT9) and can be negative, i.e. other competitors (typically LDCs) have greater preferences.

Eight LDCs – Burundi, Central African Republic, Democratic Republic of Congo, Guinea, Guinea-Bissau, Maldives, Rwanda and Sierra Leone – have zero margins in agricultural products. Malawi (with a QUAD-level margin of 14%), Mozambique (11%), Bangladesh (10%) and Tanzania (8%) enjoy the highest preference margins for agricultural products among LDCs. The LDCs enjoying the highest preference margins on non-agricultural products are (with QUAD-level margins): Lesotho (19%), Malawi (19%), Haiti (18%), Madagascar (14%), Cambodia (13%), Myanmar (12%), Senegal (11%), The Gambia (10%), Bangladesh (9%) and Guinea-Bissau (8%).

Among developing countries a number of countries with zero margins can be cited for agricultural products (Argentina; Hong Kong, China; Macao, China; Nigeria; and Taipei, China) and for non-agricultural products (Antigua and Barbuda; Botswana; Congo; Hong Kong, China; Macao, China; and Nigeria). The highest preference margins on agricultural products apply to St Kitts and Nevis (64%), Guyana (58%), Mauritius (58%), Fiji Islands (48%), Swaziland (47%), Belize (35%), Trinidad and Tobago (35%), Barbados (34%), St Lucia (29%) and St Vincent and the Grenadines (29%).

Size and distribution of preference rents

What is the value of preference rents generated by beneficiary exports at the given preference margins? Brenton and Ikezuki (2005) have investigated this question by considering the situation for sub-Saharan African countries that benefit from both standard and enhanced (or in the case of LDCs special) GSP schemes provided by the EU and USA and by Japan's standard GSP in 2002. Implicit preference rents are derived by taking the product of preference premiums and the value of exports which actually received preferences; it is assumed that beneficiary countries appropriate the full preference rents. Table 2.6 shows the results for LDCs and non-LDCs. The first row shows that preference rents represent rather small shares of sub-Saharan Africa's exports to their main export destination and preference-giving countries. The highest share is 4 per cent, associated with the EU at the aggregate level. Preference rents received by non-LDCs represented a higher share of their total exports to the EU (5.1 per cent) than was the case for LDCs.

Table 2.6 also shows that the distribution of preference rents is heavily skewed in favour of a very small number of countries, with just five LDCs and five non-LDCs appropriating between three-quarters and 98.8 per cent of the rents. In fact, just ten LDCs collect all the preference rents (100%) from the USA and Japan, and ten non-LDCs account for all preference rents from Japan. A similar skewed distribution pattern is discernible in terms of the number of products, albeit when considered at rather high level of aggregation (2-digit HS). Thus, 57–80 per cent of preference rents accrued to the top three sectors.

Table 2.6 Distribution of preference rents for sub-Saharan Africa, 2002

	Overall			LDCs			Non-LDCs		
	EU	USA	Japan	EU	USA	Japan	EU	USA	Japan
Preference rents as percentage of total exports	4.0	1.3	0.1	2.3	2.1	0.4	5.1	1.1	0.1
Percentage by:									
Top 5 beneficiary countries	59.9	73.9	88.9	73.8	98.8	95.8	76.9	92.9	98.7
Top 10 beneficiary countries	80.1	95.4	97.7	91.2	100.0	100.0	97.5	99.3	100.0
Top 1 sector (2 digit, HS)	31.3	31.9	41.0	37.1	51.5	70.9	34.5	33.4	31.9
Top 3 sectors (2 digit, HS)	56.5	79.6	63.6	68.5	91.3	92.2	65.2	71.3	56.8

Source: Brenton and Ikezuki (2005).

Table 2.7 Classification of sub-Saharan African countries by shares of preference rents received in total (non-oil) exports, 2002

Countries for whom share of preference rents (non-oil) in total exports is:			
Less than 1%	**1.01–5.0 %**	**5.01–9.99%**	**Greater than 10%**
1. Angola	1. Benin	1. Gambia, The	1. Lesotho
2. Burundi	2. Botswana	2. Guinea-Bissau	2. Malawi
3. Central African Republic	3. Burkina Faso	3. Kenya	3. Mauritius
4. Chad	4. Cameroon	4. Madagascar	4. Seychelles
5. Congo (Republic of)	5. Cape Verde	5. Mozambique	5. Swaziland
6. Congo (DRC)	6. Comoros	6. Namibia	
7. Djibouti	7. Eritrea	7. Senegal	
8. Equatorial Guinea	8. Ethiopia	8. Zimbabwe	
9. Gabon	9. Ghana		
10. Guinea	10. Côte d'Ivoire		
11. Liberia	11. Mauritania		
12. Mali	12. Sierra Leone		
13. Niger	13. Sudan		
14. Nigeria	14. Tanzania		
15. Rwanda	15. Togo		
16. Sào Tomé and Principe	16. Uganda		
17. Somalia	17. Zambia		
18. South Africa			

Source: Brenton and Ikezuki (2005).

Table 2.7 extends the analysis by showing the preference rents received as a share of total exports for sub-Saharan African countries in 2002. For the majority, preferences are negligible – for 18 countries preference rents are less than 1 per cent, while for 17 countries preference rents represent not more than 5 per cent of total exports. This confirms that most exports enter the EU, USA and Japan under non-preferential MFN terms (although it should be acknowledged that these are mostly zero MFN tariffs). The five countries with preference rents greater than 10 per cent of exports (final column) are some of the main beneficiaries of the EU's sugar protocol (Mauritius, Swaziland and, to a lesser extent, Malawi) and the US AGOA (Lesotho, mainly in respect of textiles and clothing, and Seychelles). Given this somewhat low significance of preference rents in total exports of beneficiary countries, the next step is to seek to understand whether preference-receiving countries could do better in terms of preference utilisation.

2.4 Summary conclusions

The main trade preference providers are the QUAD countries (EU, USA, Japan and Canada), but preferences are offered by a range of other industrial and developing countries. This chapter has shown that the EU and USA offer preferences under a range of schemes that differ in terms of their product coverage, the margin of preference, quantity restrictions, rules of origin and treatment of developing and least developed countries.

The review of the empirical literature has shown that the non-reciprocal preferences offered by the major industrial countries to developing country exports cover a substantial amount of developing country trade. However, the provisions are complex because of the multiplicity of schemes, different product and country coverage, differential rules of origin and safeguard provisions. This complexity inhibits access to the schemes and reduces the benefits of preferences to developing and least developed countries. Many of the restrictions on eligibility for preferential treatment apply in product areas of particular interest to developing countries, that is, agricultural products, textiles and other labour-intensive manufactures. However, restrictions can also be found for particular sensitive products.

The GSP schemes of the QUAD countries account for the bulk of preferential trade, with the EU as the largest preferential export market and the bulk of preferential trade being in non-agricultural products. Given, however, the restrictions on eligibility, other constraints and wide variability in peak tariffs across products and variations in export composition across countries, there are marked variations in the extent and value of preferential trade across recipient countries and products.

The evidence reviewed here shows that unadjusted preference margins are relatively small on average, ranging from 0.7 per cent for developing countries to 6.4 per cent for LDCs on non-agricultural products and from 1.3 per cent to 2.5 per cent on agricultural products. They can, however, be much larger for specific products. The significance of preference margins for beneficiary countries is affected by the level of preference utilisation and the degree of competition from non-beneficiary countries. Indeed, some of the recipient countries recording the highest preference margins are among the countries with the lowest preference utilisation rates. As a consequence, the implicit rents generated by preferences (preference margins x the value of preference-receiving exports) also vary enormously across developing and least developed countries. Just five LDCs and five non-LDCs are shown to account for 75 per cent of the total preference rents going to LDCs and non-LDCs from EU preferences.