Preferential Tariff Advantages Remain Important

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

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

Tariff Data and Methodology

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

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

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

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

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

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

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

Tariff Preferences in the U.S. Tariff Schedule

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

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

Table 4
US tariff profile (simple average), 2002

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

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

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

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

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

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

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

Table 5

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

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

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

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

Table 6

U.S. tariff distribution for agricultural commodities, 2002

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

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

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

Tariff Preferences in the EU Tariff Schedule

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

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

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

Table 7
EU tariff profile (simple average), 2002

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

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

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

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

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

Table 8

EU tariffs by chapters, 2002

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

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

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

Table 9

U.S. tariff distribution for agricultural commodities, 2002

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

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