

## Trade preferences in agriculture and adjustment issues

### SUMMARY

- ▶ *Trade preferences have benefited many countries in developing their agricultural exports as a major source of foreign exchange.*
- ▶ *Trade reforms are eroding the relative benefits of trade preferences.*
- ▶ *Maintaining trade preferences will help developing countries cope with adjustment, strengthen their supply capacity and make them more competitive.*

Industrial countries grant preferential market access to developing countries for a wide range of products. Better access is provided through tariffs (lower than the MFN (most favoured nation) rates) and tariff rate quotas (TRQs). These trade preferences were originally conceived as a means to increase production and exports of developing countries, so they would eventually become internationally competitive.

### Recent developments in trade preferences

Trade preferences, a departure from the MFN principle of GATT, are provided for under the Generalised System of Preferences (GSP). At present, there are 15 GSP schemes offered by 29 preference-giving countries. These schemes differ widely in product eligibility, product coverage and preferential tariff margins. In light of the Uruguay Round results, industrial countries have adjusted their GSP schemes and expanded their product coverage in agriculture.

Recently, there has been a vast increase in bilateral and regional trade agreements between developing countries and industrial countries. According to WTO rules, such agreements, unlike GSP schemes, have to be reciprocal and cover substantially all trade. Past special preferential schemes such as the EU's Lomé Convention (now the Cotonou Agreement) and the USA Caribbean Basin Initiative (CBI), which provided preferences for limited groups of developing countries, did not meet these criteria and hence needed a waiver from the rules.

In response to the need for restructuring the special preferential schemes, a number of industrial countries have recently granted comprehensive tariff and quota-free access to LDCs. Most prominent of these is the EU's Everything But Arms (EBA) initiative. Similar schemes of duty and quota-free market access for LDCs have also been adopted by other developed countries, including New Zealand, Norway and Switzerland. The US Africa Growth and Opportunity Act (AGOA) offers similar access for African countries.

### The scope for trade preferences in agriculture

Given that MFN tariffs are still high for many agricultural products (see Table 1), and depending on the rate of reduction in the current round of negotiations on agriculture, there likely remains substantial scope for maintaining and expanding trade preferences in agriculture. In many low-income, vulnerable countries, products receiving preferential treatment, such as sugar, bananas, fruit and vegetables, represent a major source of foreign exchange, employ a large proportion of the rural poor and contribute significantly to food security and rural development.

Thus, while the aggregate value of preferences from individual schemes is not considered to be high

**Table 1: Tariff peaks in selected developed countries \***

Commodity Group	Average of tariff peaks (bound rate)
Meat	145
Dairy	153
Coarse grains	124
Cereals	131
Oilseeds and oil	115
Sugar	83
Fruits & Vegetables	120
Cocoa	117
Coffee	70

*Note:* A tariff peak is defined as a tariff which exceeds 20 percent on an ad valorem basis.

\* Australia, Canada, Czech Republic, EU-15, Hungary, Iceland, Israel, Japan, New Zealand, Norway, Poland, Romania, Slovenia, South Africa, Switzerland, and United States of America.

*Source:* FAO document CCP 01/12 (2001) and AMAD.

(in the range of US\$1-3 billion) relative to the value of trade is highly significant for several, agriculture-dependent countries - as high as 10 percent of the GDP in some cases.

### **The erosion of trade preferences and adjustment costs**

Multilateral liberalisation on an MFN basis would erode the preference margins and result in loss of market share and income. FAO estimates that the aggregate preference margin enjoyed by all ACP countries for all agricultural products under the Lomé Convention has fallen by 16 percent between 1995 and 2000, due to the tariff reductions during the Uruguay Round implementation period. With the further reduction in bound tariffs anticipated in the Doha Round, the current preferential margins will shrink further. This would entail adjustment costs in these countries, which will be especially large for countries with a narrow export base.

Many of the preference-receiving developing countries have benefited substantially from preferential access for their exports of sugar, bananas, fruit and vegetables. Maintaining and/or deepening trade preferences for these countries can help them to cope with the new changes and to focus on strengthening supply capacities and increasing competitiveness in both domestic and export markets.

In light of these issues, the draft of the negotiating modalities by the Chairman of the WTO negotiations on agriculture makes the following proposals:

- ▶ In implementing tariff reduction commitments, preference-giving Members shall maintain, to the maximum extent technically feasible, the nominal margins of tariff preferences and other terms and conditions of preferential arrangements.
- ▶ Tariff reductions affecting long-standing preferences for products of vital export importance to beneficiaries may be implemented over a period longer than normal by preference-granting Members. The products concerned should be significant in terms of total exports.
- ▶ In addition, any in-quota duties for these products shall be eliminated.
- ▶ The preference-providing Members shall undertake targeted technical assistance programmes and other measures, as appropriate, to support preference-receiving countries to diversify their economies and exports.

---

## **KEY CHALLENGES**

- ▶ *To preserve and expand trade preferences for low-income economies and possibly compensate them for any loss of these preferences;*
- ▶ *To deepen preferences targeted to needy countries, rather than provide "shallow", widely dispersed preferences;*
- ▶ *To assist developing countries with focused technical assistance to help them diversify their economy.*

