UNILATERAL PREFERENTIAL TRADE PROGRAMS OFFERED BY THE UNITED STATES, THE EUROPEAN UNION, AND CANADA: A COMPARISON

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EXECUTIVE SUMMARY

In the 1970s, many of the world's richer countries agreed to provide developing countries preferential access to their markets beyond normal most-favored nation treatment. They expected that these unilateral trade preferences would promote development by encouraging investment, manufacturing, and export competitiveness in the world's poorer countries.

The multilateral trading system did not provide any guidelines on how to implement these programs. As a result, the providing countries all took very different approaches. Today, the programs offered by the United States, the European Union, Canada, and others vary widely in terms of rules of origin, product coverage, and eligibility criteria. While some developed countries freely grant preferences on a wide range of products, including textiles and apparel, others limit the scope of benefits to non-sensitive products. Likewise, some programs grant preferences to China, while others do not.

For developing countries, these differences create additional costs and burdens to program usage and present extra compliance challenges, particularly for countries that wish to export to multiple markets. Divergent rules and criteria – and their associated costs – have actually hampered utilization of the programs and kept all but the most internationally engaged developing countries from fully realizing the potential benefits of trade preferences.

I. Introduction

For over three decades the United States, the European Union (EU), Canada, and other developed countries have granted unilateral trade preferences to more than 150 countries of the developing world. Through these preferences, the developed countries grant enhanced access to their markets that extends beyond the customary most-favored nation (MFN) tariff treatment. This preferential treatment provides developing countries with a competitive advantage over exporters in countries subject to MFN tariffs, an advantage that is meant to encourage investment, export growth, and, consequently, overall economic development.

However, the track record on the effectiveness of preference programs has been mixed over the past 30 years. On one hand, the programs have encouraged export and economic growth in many developing countries. On the other hand, restrictive rules of origin, lack of coverage for many products developing countries are most capable of making, and significant differences between the many programs have hampered the ability of developing countries to fully realize the potential of these programs.

This paper compares the preference programs offered by three major export markets for developing countries: the United States, the EU, and Canada. It details their country and product coverage, restrictions on usage, and the variety of details – such as rules of origin – that developing countries must meet to qualify for program benefits. It concludes with a brief assessment of how effective the programs have been in achieving their objectives and potential changes that U.S. policymakers could enact to improve the effectiveness of U.S. preferential programs.

II. Overview of Selected Unilateral Trade Preference Programs

Nearly a dozen countries offer a preference program universally dubbed the "Generalized System of Preferences" (GSP) to developing countries.[1] These include most of the developed world: Australia, Canada, the EU, Japan, New Zealand, Norway, Switzerland, and the United States. In addition, several other countries provide GSP benefits to developing countries even as they also qualify to receive GSP benefits from developed countries (see Appendix I for a review of these programs). This paper focuses on the GSP schemes of the United States, the EU, and Canada, which are the largest grantors of GSP and other unilateral trade preferences.

Developing countries have several preference options available from which to select when seeking to supply customers in the United States, Europe or Canada (see Table 1). The United States offers four main preference programs that grant duty-free access to the U.S. market: the GSP program, the Caribbean Basin Initiative (CBI) and the Caribbean Basin Trade Partnership Act (CBTPA) for countries in the Caribbean Basin; the African Growth and Opportunity Act (AGOA) for countries in Sub-Saharan Africa; and the Andean Trade Preferences and Drug Eradication Act (ATPDEA) for Ecuador, Bolivia, Peru and Colombia. Free trade agreements typically replace preference benefits for developing countries that negotiate such agreements with the United States. (Thus, the Central American countries that have implemented the Dominican Republic-Central American Free Trade Agreement no longer receive CBI/CBTPA or GSP benefits.)

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[1] GSP programs were developed and launched under the tutelage of the United National Conference on Trade and Development (UNCTAD).

In addition to a GSP scheme that lowers duties for imports from developing countries, the EU extends duty-free GSP benefits for certain qualifying “vulnerable” developing countries through “GSP Plus.”[2] Under the “Everything but Arms” (EBA) initiative, the European Union grants duty-free preferences to the world’s east-developed countries for all products except arms and ammunition.[3] Traditionally, more than 70 countries in Africa, the Caribbean and the Pacific (ACP) received duty-free preferences from the European Union under the Lomé Convention. However, the EU is in the process of replacing these unilateral preferences with Economic Partnership Agreements (EPAs), based on reciprocal concessions and the need to differentiate benefits between ACP countries and regions based on their level of development.[4]

In contrast to the United States and the EU, Canada operates “just” two preference programs: the General Preferential Tariff (GPT), which lowers duties, sometimes to zero, and the Least-Developed Country Tariff (LDCT), which eliminates duties for least-developed countries.

Not only are there multiple preference program options, these benefits tend to expire frequently – and rarely at the same time. Since preferences may or may not be renewed, or may be significantly changed in the renewal process, uncertainty tends to cloud sourcing through them as their expiration deadlines approach.

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[2] Countries are considered to be “vulnerable” and eligible for enhanced preferences if the country:
(a) is not classified by the World Bank as a high income country during three consecutive years, and its five largest sections of its GSP-covered imports to the [European Union] represent more than 75% in value of its total GSP-covered imports, and
(b) its GSP-covered imports to the [European Union] represent less than 1 % in value of total GSP-covered imports to the [European Union]. *Ibid.* Article 9(3), p. L 169/4.

[3] European Union, Summaries of Legislation (2006). “The Cotonou Agreement.” Available at http://europa.eu/scadplus/leg/en/lvb/r12101.htm.

[4] *Ibid*.

Table 1: Key Trade Preference Programs Available

	United States		The European Union		Canada	
Unilateral Preference Programs Offered	The Generalized System of Preferences (GSP)		The Generalized System of Preferences (GSP)		General Preferential Tariff (GPT)	
	The African Growth and Opportunity Act (AGOA)		GSP Plus (GSP+)			
	The Andean Trade Partnership and Drug Eradication Act (ATPDEA)		Everything but Arms (EBA)		Least Developed Countries' Tariff (LDCT)	
	The Caribbean Basin Initiative (CBI) and The Caribbean Basin Trade Partnership Act (CBTPA)					
Date Implemented	GSP	Jan. 1, 1976	GSP	1971	GPT	July 1, 1974
	AGOA	Oct. 1, 2000	GSP+	Jan. 1, 2006		
	ATPDEA	1991	EBA	Mar. 5, 2001	LDCT	1983
	CBI & CBTPA	Jan. 1, 1984 Oct. 1, 2000				
Expiration Date	GSP	Dec. 31, 2009	GSP	Dec. 31, 2011	GPT	June 30, 2014
	AGOA	Sept. 30, 2015	GSP+	2015, but new regulations in effect from Jan. 1, 2009 to Dec. 31, 2011		
	ATPDEA	Dec. 31, 2009 for Colombia, Peru; June 30, 2009 for Bolivia, Ecuador	EBA	Permanent	LDCT	June 30, 2014
	CBI & CBTPA	CBI is permanent, CBTPA expires Sept. 30, 2010				

Sources: Office of the U.S. Trade Representative, European Commission Directorate General for Trade, the Canadian Department of Finance, and UNCTAD

Country and Product Coverage, Basic Benefits

In terms of country coverage, the U.S. GSP program is more limited than those of the EU or Canada. The U.S. program benefits approximately 130 countries and territories, *excluding* such notable developing-country exporters as China, Malaysia, Laos and Vietnam.[5] However, these countries – and indeed, another 40 countries to which the United States does not extend preferences – are eligible for benefits under the EU and Canadian schemes.

Table 2: Countries/Territories Covered

United States		The European Union		Canada	
GSP	Approx. 130 countries and territories, including those eligible for other preference programs, EXCEPT Cuba, China, Vietnam, Malaysia; 43 designated LDCs	GSP	176 countries and territories, excluding no one of note.	GPT	Approx. 173 countries and territories, excluding no one of note.
AGOA	Up to 48 countries of sub-Saharan Africa. Currently, 41 qualify.	GSP+	Currently 14 countries, but all must reapply for benefits to continue beyond Dec. 31, 2008.		
ATPDEA	Bolivia, Colombia, Ecuador, and Peru; benefits for Bolivia have been temporary suspended	EBA	49 least-developed countries; plus Cape Verde	LDCT	48 least-developed countries
CBI & CBTPA	24 countries in Central America and the Caribbean, except Cuba				

Sources: Office of the U.S. Trade Representative, European Commission Directorate General for Trade, the Canadian Department of Finance, and UNCTAD

Product coverage differences between the three countries are significant. The U.S. program covers approximately 3,400 individual tariff lines, but excludes many sensitive products, including textiles, apparel, footwear, and some agricultural products. The 43 designated least-developed countries receive GSP benefits on an additional 1,450 products, but again, it excludes most sensitive products. The CBI/CBTPA, AGOA, and ATPDEA each contain preferences above and beyond GSP. Developing countries wishing to export textile or apparel products must be eligible for one of these preference programs. The EU GSP program covers nearly twice as many products as the U.S. scheme – more than 6,350 tariff lines, including some textiles and apparel. GSP Plus countries receive benefits for approximately 6,420 products, and the EBA

5 The U.S. government is now considering whether to grant GSP benefits to Vietnam.

countries receive preferences for all products except munitions and armaments.[6] Canada extends preferences to about the same number of products as the United States – approximately 3,000 products. The GPT excludes certain agricultural products, refined sugar, and most textiles, apparel, and footwear, but in 2003, Canada greatly expanded its LDCT program to cover all products.[7]

Table 3: Product Coverage

United States		The European Union		Canada	
GSP	Approx. 3,400 tariff lines. Designated LDCs receive preferences for an additional 1,450 tariff lines.	GSP	6,355 tariff lines (of which 3,900 are classified as sensitive).	GPT	More than 3,000 individual tariff lines qualify for preferential treatment under the GPT.
AGOA	Approx. 1,700 tariff lines including certain textiles and apparel.	GSP+	6,421 tariff lines.		
ATPDEA	Approx. 5,600 tariff lines including certain textiles and apparel.	EBA	7,218 tariff lines, or all products except arms (HS Ch. 93).	LDCT	Duty-free, quota-free for all products except over-quota access for dairy, poultry, and eggs.
CBI & CBTPA	Approx 5,500 tariff lines combined. CBTPA includes benefits for certain textiles and apparel				
Exclu-sions	All preference programs exclude certain "sensitive products" including: - many agricultural products - luggage products - certain paper products - iron and steel products GSP also excludes: - textiles and apparel - footwear - watches	Exclu-sions	GSP and GSP+ exclude certain products including: - certain iron and steel products - certain metal products - certain electronics - arms and ammunition	Exclu-sions	GPT excludes products such as certain textiles, footwear, products of the chemical, plastic and allied industries, specialty steels and electron tubes, are excluded from the scheme

Sources: Office of the U.S. Trade Representative, European Commission Directorate General for Trade, the Canadian Department of Finance, and UNCTAD

Finally, the duty reductions for the programs also differ. All U.S. preference programs reduce tariffs to zero, but the EU and Canada frequently provide partial tariff reductions,

[6] European Commission, External Trade (July 2008), "Introduction to GSP" PowerPoint presentation." Available at http://trade.ec.europa.eu/doclib/html/139962.htm. Accessed October 20, 2008.

[7] Foreign Affairs and International Trade Canada. Available at http://www.international.gc.ca/trade-agreements-accords-commerciaux/ds/other-trade.aspx?lang=en.

depending on the product. The EU GSP program divides all products into two categories: “non-import-sensitive” and “import-sensitive” goods. “Non-import-sensitive” products are granted duty-free treatment, while “import-sensitive” products receive a 3.5 percentage point reduction in MFN tariff.[8] The EU provides full duty-free treatment to all covered products for GSP+ and EBA beneficiary countries. In Canada, approximately three-quarters of GPT goods receive duty-free treatment, while the remaining goods receive duty reductions that vary by tariff line. Following the 2003 expansion, Canada’s LDCT program now provides complete duty-free and quota-free access for all products, with the exception of over-quota access for supply-managed products in the dairy, poultry and eggs sectors.[9]

Table 4: Duty Treatment

United States	The European Union		Canada	
Zero for all preference programs	GSP	Zero for non-sensitive products. Sensitive products receive 3.5-percentage point reduction in the MFN duty (for *ad valorem duties*). Products subject to specific duties receive a 30 percent reduction. MFN duties reduced by 20 percent for textiles and apparel and 15 percent for ethyl alcohol.	GPT	Ranges from zero up to the MFN rate, depending on the product.
	GSP+	Zero on all covered products.		
	EBA	Zero duties for all products (though delayed liberalization for bananas, sugar and rice).	LDCT	Zero for all eligible products.

Sources: Office of the U.S. Trade Representative, European Commission Directorate General for Trade, the Canadian Department of Finance, and UNCTAD

Rules of Origin

The rules that determine whether or not a product qualifies for benefits under a preference scheme – the rules of origin – also differ significantly from scheme to scheme (see Table 5). The U.S. GSP has a relatively generous rule of origin. For

8 European Commission, External Trade (July 2008), “Introduction to GSP" PowerPoint presentation.” Available at http://trade.ec.europa.eu/doclib/html/139962.htm.

9 Foreign Affairs and International Trade Canada. Available at http://www.international.gc.ca/trade-agreements-accords-commerciaux/ds/other-trade.aspx?lang=en.

products other than textiles and apparel, a developing-country producer must ensure that at least 35 percent of the value added to the final good occurs within an eligible developing country.[10] The textile and apparel preferences granted under the three U.S. preference programs face different rules of origin. Generally, qualifying textiles and apparel must be assembled in one or more beneficiary country using yarn and fabric produced in the United States or within a beneficiary country. However, under the AGOA, LDCs are eligible to produce a limited quantity of textiles and apparel using fabric from a country outside the preference region (a "third country") due to the lack of an indigenous textile industry within the preference region and the high cost of using U.S.-made fabric. ATPDEA and CBTPA require the use of regional (including U.S.) yarns or fabric in apparel qualifying for benefits.

The rules of origin for EU preference programs require more local content than those under the U.S. programs. The EU requires that at least 60 percent of the value added to the final product be completed in the beneficiary country or region. In other words, no more than 40 percent of the final product's value can be from outside the beneficiary country.

Canadian program rules of origin are similar to those of the EU GSP program. To qualify for Canada's GPT, up to 40 percent of a product's value can originate outside the beneficiary country. The LDCT provides a more liberal rule of origin whereby up to 60 percent of a final product's value may originate outside the beneficiary country.[11]

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[10] In some cases products produced within an authorized group or association of countries, such as the Caribbean Common Market (CARICOM), will be eligible for GSP benefits.

[11] UNCTAD (2001). "Generalized System of Preferences: Handbook on the Scheme of Canada" (UNCTAD/ITCD/TSB/Misc.66). Available at http://www.unctad.org/en/docs/itcdtsbmisc66_en.pdf.

Table 5: Rules of Origin

United States	The European Union	Canada	
Generally: The value added in a beneficiary country must equal at least 35 per cent of the appraised value of the article at the time of entry into the United States. Imported materials can be counted towards the value-added requirement only if they are "substantially transformed" into new and different constituent materials of which the eligible article is composed. Textile and apparel benefits under AGOA, CBTPA, and ATPDEA generally require that the article be wholly formed in the beneficiary country using yarn and fabric from the United States or the beneficiary country. AGOA permits the usage of third country fabrics in limited quantities from the poorest countries through 2012.	Generally: The final product must provide a change of tariff heading from the materials used to produce it and the value of imported inputs must not exceed 40 percent of the value of the finished product. Partial cumulation is permitted on a regional basis (subject to certain conditions).	GPT	GPT allows full cumulation among beneficiaries, who must account for 60 percent of the final value.
		LDCT	Rules of origin are more liberal than under the GPT. Goods wholly produced in one or more LDCs qualify for treatment. Additionally, goods originating in one or more LDC with no more than 60 percent of the value originating outside of the LDC qualify for preferential treatment. Apparel produced in a LCD can use textile inputs from any developing country or Canada.

Sources: Office of the U.S. Trade Representative, European Commission Directorate General for Trade, the Canadian Department of Finance, and UNCTAD

Eligibility Criteria

The criteria used to determine the eligibility of a beneficiary developing country are one of the biggest differences among the unilateral preference programs offered by developed countries. These criteria vary widely among the developed countries and highlight the many hurdles developing countries must jump over in order to receive benefits while servicing multiple markets.

The United States relies most heavily on eligibility criteria for its preference programs. In authorizing each of the U.S. preference programs, the Congress listed several mandatory and discretionary criteria that the President must consider when determining a country's eligibility. For GSP, these criteria have evolved over the years to cover a wide range of topics, from labor rights to helping to fight terrorism. The other U.S. preference programs contain similar conditions, or add still more (see Table 6).

In contrast, both the European Union and Canada have minimal criteria that countries must meet in order to be deemed eligible for the general preference programs. The EU does not specify any criteria countries must meet in order to become eligible for the GSP program. Instead, it specifies certain conditions that could result in the temporary withdrawal of benefits (in whole or in part). These include engaging in certain activities such as employing slave labor or prison labor, systematic violations of workers' freedom of association and the right to collective bargaining, and rules of origin fraud.[12] Until the end of 2008, the EU "GSP Plus" program extends benefits to least developed countries that have ratified 16 core conventions on human and labor rights and seven (out of 11) conventions related to good governance and protection of the environment.[13] However, countries applying for GSP Plus benefits beginning in 2009 will need to ratify the 16 core conventions on human and labor rights and <u>all</u> 11 conventions related to good governance and the environmental protection.[14]

Although Canada has no specific eligibility criteria for beneficiary countries under its GPT and LDCT programs, in the past, it has removed countries for various reasons. In July 2007, Canada removed Belarus from the GPT over concerns about an "undemocratic regime and abuses of human rights in the Republic of Belarus."[15] (The United States terminated Belarus' GSP benefits in 2000 for the same reasons.)

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12 European Union (2005). "Council Regulation (EC) No 980/2005…." *Op. cit.* Article 16. p. L 169/6.

13 *Ibid.* Article 9, p. L 169/4 and Appendix III. p. L 169/43.

14 European Commission, External Trade (July 2008), "Introduction to GSP" PowerPoint presentation." Available at http://trade.ec.europa.eu/doclib/html/139962.htm.

15 Canadian Department of Finance (2007). "General Preferential Tariff Withdrawal Order (Republic of Belarus)" Canada Gazette 141(17). Available at http://canadagazette.gc.ca/partII/2007/20070822/html/sor174-e.html.

Table 6: Eligibility Criteria

United States		The European Union		Canada
GSP	The country: - is not a communist country (with some exceptions) - is not part of a cartel that withholds vital resources - does not grant “reverse preferences” to other developed countries - has not nationalized or expropriated U.S. property - does not aid or abet individuals or groups that have committed international terrorism - provides adequate and effective intellectual property right protections - is taking steps to provide internationally recognized worker rights - has implemented commitments to eliminate the worst forms of child labor - has asked for preferences - does not exceed the per capita income threshold for designation	GSP	GSP benefits could be temporarily withdrawn in whole or in part if countries engage in certain activities such as employing slave or forced labor, prison labor, systematic violation of the freedom of association and collective bargaining, and rules of origin fraud, among others.	None, but the Government of Canada has removed countries from GPT and LDCT if they become members of the European Union or if they violate certain human rights.
CBI/ CBTPA	For CBI, all of the GSP criteria plus countries: - may not broadcast U.S. copyright-protected material without the owner’s consent - must have signed an extradition agreement with the United States - must enforce arbitral awards in favor of U.S. citizens or corporations For CBTPA, all GSP and CBI criteria, plus the extent to which a country: - has undertaken its WTO obligations and participated in negotiations towards an FTAA or another FTA - has met the narcotics cooperation certification criteria of the Foreign Assistance Act of 1961 - has taken steps to become a party to, and implement, the Inter-American Convention Against Corruption - applies transparent, nondiscriminary, and competitive government procurement procedures	GSP+	Countries must demonstrate that their economies are poorly diversified and therefore are dependent and vulnerable. Countries must ratify and implement 27 Key conventions on workers’ rights, environmental standards and good governance standards by Dec. 31, 2008.	
AGOA	All of the GSP conditions, plus the country must: - have established or is making continual progress towards establishing a market-based economy; the rule of law; systems to combat bribery and corruption; and economic policies designed to reduce poverty and increase health - not engage in activities that undermine U.S. national security or foreign policy interests	EBA	Must be a least-developed country.	
ATPDEA	All of the GSP and CBI/CBTPA conditions, plus countries must be undertaking “self-help” measures to protect their own economic development			

Sources: Office of the U.S. Trade Representative, European Commission Directorate General for Trade, the Canadian Department of Finance, and UNCTAD

Losing Preferences

Once a country qualifies for benefits, it is not always guaranteed to continue to receive preferences. The U.S. and EU preference programs – but not Canada's – contain thresholds that may trigger the loss of preferences for countries as a whole (in other words, all products imported from the country) or selected, individual products from the country. Not surprisingly, countries may lose benefits once they are considered "developed." For example, the United States automatically graduates GSP beneficiaries upon their designation as a "high-income" country by the World Bank. The EU has a similar cut-off, although it takes effect only after designation as a "high-income" country for three consecutive years. The United States will also revoke GSP preferences for any country that enters into a bilateral free trade agreement or becomes a member of the EU.[16] Canada has withdrawn GPT preferences for countries upon their accession to the EU. Finally, all three preference-granting countries have withdrawn GSP benefits from countries that have violated certain principles of the program. For example, as noted in the previous section, Belarus does not currently receive benefits from the United States, EU, or Canada, despite its status as a developing country. Similarly, countries may lose benefits under other U.S. preference programs for a failure to meet eligibility criteria. In 2008, Bolivia lost benefits under ATPA for a perceived failure to cooperate with the United States on counter-narcotics efforts.[17]

In addition, both the United States and the EU maintain thresholds beyond which individual products from countries are deemed competitive and therefore lose GSP

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[16] Typically, all of the products for which GSP benefits were extended to the FTA partner become duty-free on the date of implementation of the FTA, so GSP benefits are no longer necessary.

[17] U.S. Executive Office of the President (2008). "Statement by Press Secretary." Available at http://www.whitehouse.gov/news/releases/2008/11/20081126-10.html.

eligibility. In the U.S. GSP program, products typically lose GSP benefits when they surpass the competitive need limit (CNL) of either a set dollar value (e.g., $135 million in 2008 and increasing by $5 million per year), or 50 percent of total U.S. imports of that product. In the EU program, whole categories of imports (e.g., transportation equipment or mineral products) may be excluded if imports from a certain country exceed 15 percent of GSP-covered imports from all BDCs during a three-year period. In the EU, the threshold for textiles is set at a lower level of 12.5 percent. Surpassing one of these thresholds does not automatically revoke GSP benefits, as products may receive a waiver in the United States for continued benefits. In an effort to maintain GSP eligibility for countries with highly concentrated exports, the EU does not revoke benefits for sectors that account for more than 50 percent of that country's GSP exports to the EU. Finally, these CNLs do not apply to LDCs in either the U.S. or EU program.

Table 7: Losing Benefits

United States	The European Union	Canada
Products: Specific products may lose GSP benefits if imports from a country exceed a dollar threshold ($135 million in 2008; increases by $5 million annually) or account for more than 50 percent of total U.S. imports. Imports exceeding the 50 percent threshold may receive a *de minimIs* waiver if total U.S. imports are low ($19 million in 2008; increases by $500,000 annually).	Products: Sectors may lose benefits if imports of the sector exceed 15 percent of all imports from all beneficiaries or a country's trade in a specific sector exceeds thresholds calculated by the EU.	No product cut-off formula.
Countries (GSP only): In addition to changed circumstances regarding the eligibility criteria, (e.g., joining the European Union), countries lose benefits upon classification as a high-income country by the World Bank.	Countries (GSP only): Countries lose GSP benefits upon classification as a high-income country by the World bank for three consecutive years.	Graduation: No formal graduation mechanism exists, but Canada does remove GPT benefits for countries that join the European Union.

Sources: Office of the U.S. Trade Representative, European Commission Directorate General for Trade, the Canadian Department of Finance, and UNCTAD

III. Do Preference Programs Work?

Over the past 30 years, the track record on unilateral preference programs remains mixed. Although many developing countries have benefited overall from the programs through increased exports and economic growth, they have also been hamstrung by high costs and inefficiencies that program rules often cause.

Clearly, the rules and criteria that donor countries prescribe for granting trade preferences are a daunting obstacle for most developing countries to overcome. For example, manufacturers and exporters must determine the preference program(s) for which their country qualifies, if the programs cover their products, and finally wade through complex guidebooks, laws, and regulations to determine whether they can meet (and substantiate) the individual compliance standards for the various programs. For some producers, the costs of compliance may be higher than the tariff preference. According to one UNCTAD report, fulfilling the administrative requirements related to rules of origin may cost as much as 3 percent of the value of the goods concerned.[18] Meanwhile, average applied tariffs for non-agricultural goods ranged from only 3.2 percent to 3.8 percent in the United States, EU, and Canada in 2007.[19] Meeting these standards – and doing so in a cost-effective manner – is particularly challenging for producers in countries with poor infrastructure and limited experience exporting.

The myriad of rules and potentially high compliance costs affect not only developing-country producers' ability to take advantage of the preferences, but also

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18 UNCTAD (2004). "Trade Preferences for LDCs: An Early Assessment of Benefits and Possible Improvements" UNCTAD/ITCD/TSB/2003/8, January 30, 2004. Available at http://www.unctad.org/Templates/Download.asp?docid=4293&lang=1&intItemID=4317

19 World Trade Organization (2008). "World Tariff Profiles 2008." Available at http://www.wto.org/english/res_e/reser_e/tariff_profiles_e.htm.

developed-country importers' willingness to source from the GSP beneficiary countries. GSP tariff preferences improve competitiveness vis-à-vis imports from developed or other non-beneficiary countries, but program uncertainty (i.e., frequent expirations), limited country or product coverage, and strict rules of origin that increase costs all cut into the real preference margins gained by producers and importers alike. In the sense that complex program rules limit both overall export growth by and direct investment in the beneficiary countries, they severely inhibit the ability of the various GSP schemes to deliver on the promise of promoting economic development in needy countries.

IV. Conclusion

Although preference programs have helped some developing countries increase exports and grow their economies, clearly the full benefits are being hindered by the extensive rules, criteria, and regulations. As policymakers contemplate changes to current U.S. preference programs, they should first examine the policies and procedures of other preference-granting countries. By looking at the best components of the various schemes, policymakers can avoid trying to "reinvent the wheel." At the same time, even a slight move towards harmonizing GSP programs would make it easier for developing countries to utilize preferences from, and grow their exports to, developed countries.

If U.S. policymakers truly want to create a better, user-friendlier program to promote development in poor countries, they should consider the following changes:

- ***Extend the GSP program for longer periods***—Recently, the U.S. GSP program expired three times in four years (2006, 2008, 2009). Conversely, both Canada and the EU last extended their programs for 10 years, with periodic reviews to make small changes. As a result, developing-country producers and domestic importers know preferences will remain in effect into the foreseeable future, allowing for long-term investment and sourcing decisions.
- ***Expand product coverage to match that of the EU***—The EU offers tariff preferences to nearly twice as many tariff lines as the United States, including products of importance to developing countries like textiles and apparel. Although full duty-free treatment for all products is beneficial to both BDC exporters and domestic importers, partial tariff reductions to "sensitive" products

would greatly increase the number of producers in developing countries that could take advantage of GSP benefits.

- ***Adopt Canada's "cumulation" rules***—Although it has the lowest value-added rule of origin (35 percent), the U.S. requirement that one country (or small groups of BDCs) meet that threshold ignores the globally integrated supply chains used to manufacture finished goods today. Canada's GPT scheme, on the other hand, allows <u>all</u> work completed in <u>any</u> beneficiary country to count towards its value threshold (i.e., cumulation). This subtle difference provides exporters in small countries, which might be competitive at producing components but not whole goods, a greater chance to integrate into the global production chain.
- ***Reduce its eligibility criteria***—Canada and the EU extend preferences to more than 170 most developing countries, compared to just 130 in the United States. Minimal upfront eligibility criteria in Canada and the EU ensure that more developing countries benefit from the program, including China and Vietnam. However, in no way has the limited criteria in Canada and the EU prevented the removal of benefits from "bad actors" (e.g., Belarus), when necessary.
- ***Offer duty-free, quota-free access for least-developed countries***—Canada's LDCT and the EU's EBA programs provide nearly complete duty-free, quota-free access for LDCs. In the case of the EU EBA scheme, those benefits are permanent. Yet LDC benefits in the United States remain limited and, with the exception of oil products, very underutilized.

Appendix: Trade Preferences Granted by Developing Countries

In recent years, developing countries have taken a more active role in granting unilateral trade preferences to other developing countries. Turkey, Brazil, and India are just a few of the developing countries that are, or will soon be, granting preferences to other developing countries.

Turkey has granted tariff preferences to other developing countries since January 1, 2002 as a result of its customs union with the European Union. Under that arrangement, Turkey was required "to align itself progressively with the preferential customs regime of the [European Union]."[20] Nearly all aspects of the program—rules of origin, eligibility criteria, and graduation procedures—are identical to the EU's GSP program. Currently, Turkey grants GSP preferences to 38 countries and territories that have completed the necessary procedures to benefit from Turkey's GSP program. These countries include China, Brazil, and the Philippines.

In late 2006, Brazil became one of the first developing countries to announce that it would implement the "duty-free quota-free" (DFQF) initiative that came out of the World Trade Organization's (WTO) 2005 Hong Kong Ministerial.[21] Although Brazil has yet to introduce its DFQF program formally, it intends to expand its scheme to cover all U.N. LDCs as well as a special program for Haiti.

In April 2008, Indian Prime Minister Manmohan Singh announced that India would implement a Duty Free Tariff Preference (DFTP) Scheme for all 49 LDCs. The

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[20] UNCTAD (2003). "GSP Scheme of Turkey" (TD/B/GSP/TURKEY/1), p. 3. Available at http://www.unctad.org/Templates/Page.asp?intItemID=2202&lang=1

[21] At the 2005 WTO Hong Kong Ministerial, WTO Members agreed to implement the so-called Duty-Free Quota-Free initiative whereby WTO Members would grant duty-free, quota-free access to at last 97 percent of their tariff lines to least-developed countries.

program covers 94 percent of India's total tariff lines, which account for more than 92 percent of total LDC exports, and will be implemented over five years. In order to receive benefits, LDCs must submit a Letter of Intent to the Government of India. To date, India has received letters from 10 LDCs. India has approved benefits for seven countries, including Cambodia, Tanzania, Ethiopia, Mozambique, Samoa, Malawi and Lao PDR, and is processing the requests from Madagascar, Rwanda and Uganda.[22]

Additionally, approximately 43 developing nations currently grant each other preferences through the Global System of Trade Preferences (GSTP).[23] Under that program, developing countries meet every three years under the auspices of the UNCTAD to discuss extending and withdrawing concessions under the GSTP. The program encourages the step-by-step negotiation of concessions with improved access over successive stages. Created in 1977, the GSTP requires that trade preferences extend to all products; however, each country is free to set the level of the preference margin and the coverage of products. The GSTP rules of origin require that at least 50 percent of a qualifying product's final value to be added within a beneficiary country.[24]

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22 Government of India, Department of Commerce (2008). "Duty Free Tariff Preference Scheme." Available at http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=2331.

23 UNCTAD (2005). "The Global System of Trade Preferences Among Developing Countries," August 19, 2005. Available at http://www.unctadxi.org/templates/Page____1692.aspx.

24 UNCTAD (1988). "Agreement on the Global System of Trade Preferences Among Developing Countries" GSTP/MM/BELGRADE/10, April 12, 1988. Available at http://www.unctadxi.org/Secured/GSTP/LegalInstruments/gstp_en.pdf