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INTERNATIONAL TRADE

Comparison of U.S. and European Union Preference Programs

GAO
Accountability * Integrity * Reliability

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Abbreviations

ACP	African, Caribbean, and Pacific
AGOA	African Growth and Opportunity Act
ATPA	Andean Trade Preference Act
AVE	ad valorem equivalent
CBERA	Caribbean Basin Economic Recovery Act
CBTPA	Caribbean Basin Trade Partnership Act
EC	European Community
EU	European Union
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
LDC	least developed country
MFN	most favored nation
OECD	Organization for Economic Cooperation and Development
UNCTAD	United Nations Conference on Trade and Development
USTR	U.S. Trade Representative

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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

June 8, 2001

The Honorable Phillip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Both the United States and the European Union (EU) began providing trade preferences to eligible developing countries in the early 1970s and have expanded these preference programs over time. The purpose of these programs is to foster economic development through increased trade. These trade preferences, which reduce tariffs, or duties, and quotas for many products from eligible countries, are "nonreciprocal." Nonreciprocal preferences are granted unilaterally—that is, beneficiaries are not required to reciprocate with lower tariffs for donor country exports. Alternatively, all countries participating in free trade agreements must lower their trade barriers. An example of a nonreciprocal preference program is the U.S. Generalized System of Preferences program, which provides duty-free access to the U.S. market for eligible products of qualified developing countries.

As you requested, we compared (1) the volume of U.S. and EU nonreciprocal preferential trade, (2) the U.S. and EU approaches to nonreciprocal trade preferences, (3) the tariff preferences offered by the U.S. and EU nonreciprocal trade programs, and (4) the extent to which U.S. and EU program beneficiaries take advantage of the tariff preferences offered under the programs. We recently briefed your staff on the results of this analysis.

To accomplish our work, we examined relevant documents and spoke with U.S. and EU officials about the programs. We also spoke with experts at the Organization for Economic Cooperation and Development,[1]

[1] The Organization for Economic Cooperation and Development is a group of 30 member countries that provides governments with a venue in which to discuss, develop, and improve economic and social policy. Its members are the richer countries in that they produce two-thirds of the world's goods and services.

the United Nations Conference on Trade and Development,[2] and the World Trade Organization.[3] We also collected and analyzed original trade data from U.S. and EU sources. A full description of our scope and methodology can be found in appendix I.

Results in Brief

The volume of imports receiving preferential tariff rates under U.S. and EU nonreciprocal trade preference programs in 1999 represented a relatively small share of total U.S. and EU imports, at 2 percent ($18 billion) and 6 percent ($45 billion), respectively.[4] The U.S. and EU Generalized System of Preferences (GSP) programs accounted for the majority of the preference trade, with the U.S. program offering duty-free entry and the EU program providing duty-free entry or reduced tariffs. Although U.S. imports under some programs have increased, the total dollar value of imports under all U.S. nonreciprocal programs remained generally flat from 1993 through 2000. The dollar value of EU imports under its GSP program declined overall from 1995 to 1999.[5] However, the dollar value of yearly imports under the EU GSP program was more than double that of the value of imports under all U.S. programs over the same period, partly because the EU program covers more countries. For example, the EU GSP program gave preferences to certain imports from Malaysia and China. Imports from these two countries comprised about 30 percent of EU imports under the GSP program in 1999. Although a small share of U.S. and EU trade, exports under preference programs accounted for a large share of some beneficiary countries' total exports. For example, exports under the programs for Kazakhstan, Mauritius, Senegal, and St. Kitts and Nevis made up over three-fourths of their total exports to either the United States or the European Union.

[2] The United Nations Conference on Trade and Development is a permanent organization under the General Assembly of the United Nations. Its mandate is to promote international trade, particularly that of developing countries, with a view toward accelerating countries' economic development.

[3] The World Trade Organization provides the institutional framework for the multilateral trading system. It administers rules for international trade and provides a forum for conducting trade negotiations.

[4] These figures do not include recently enacted U.S. programs covering the sub-Saharan African countries and the Caribbean Basin, and a new amendment to the EU GSP program expanding benefits for the poorest countries.

[5] Multiple-year data were only available for the EU GSP program.

The U.S. and EU approaches to nonreciprocal preferential trade have evolved in similar ways since their inception in the early 1970s. U.S. and EU programs have included increasingly more products, particularly to the poorest countries, and have over time relaxed customs requirements, known as rules of origin, that specify where and how products can be made. For example, the United States added more than 1,700 new products to its GSP program in 1997 for the least developed countries,[6] and expanded preferences for sub-Saharan African and Caribbean Basin countries in 2000. The European Union recently implemented a far-reaching program offering these same countries duty-free and quota-free treatment for all products, except arms, by 2009.[7] In addition, U.S. and EU programs have given beneficiary countries increasingly more leeway to use inputs from multiple countries to produce their products. At the same time, the United States and the European Union may both be moving away from purely nonreciprocal arrangements, though in different ways. The European Union is explicitly phasing out one-way preferences in favor of free trade arrangements in its "Cotonou Agreement,"[8] while the United States is involved in negotiations to establish a Western Hemisphere free trade area with several countries that currently are U.S. program beneficiaries.

Despite some program differences, we found that U.S. and EU nonreciprocal preference arrangements offer relatively similar tariff preferences on average. For example, the U.S GSP program offers duty-free access on all eligible products, while the EU GSP program offers duty-free access on some products and reduced tariffs on other, more sensitive imports. Despite the different approaches, in 2000, U.S. and EU GSP program beneficiaries faced the same simple average tariff rate[9] of 3 percent. The other U.S. and EU nonreciprocal preference programs we

[6] The United Nations currently categorizes 49 countries as "least developed countries," calling them "particularly ill-equipped to develop their domestic economies and to ensure an adequate standard of living for their populations." Presently, 42 of the 49 countries are eligible for the expanded benefits under the U.S. GSP program.

[7] The "Everything But Arms" amendment to the EU GSP, effective March 5, 2001, provides duty-free and quota-free access to the EU market for all but arms and ammunition. Full coverage of bananas will be phased in by 2006, and for rice and sugar, by 2009.

[8] The African, Caribbean, and Pacific-European Union Partnership Agreement signed in Cotonou, Benin, on June 23, 2000, referred to as the "Cotonou Agreement," is an agreement between 77 African, Caribbean, and Pacific (ACP) states and the European Union. The Cotonou Agreement provides trade preferences to the ACP countries.

[9] Simple average tariff rates are the average of all tariff lines in the tariff schedule.

examined all offered simple average tariff rates below 3 percent, with U.S. programs close to 2 percent, and EU programs nearly at zero. Both the United States and the European Union exclude some sensitive products from their programs, including textiles and apparel for the United States and agriculture products for the European Union.

On the whole, we found that EU programs cover more products than do U.S. programs, but U.S. beneficiary countries use more of their available tariff preferences than do EU beneficiaries. For example, in 1999, the European Union's African, Caribbean, and Pacific program offered reduced tariff rates on more than 95 percent of the dutiable imports from beneficiary countries.[10] However, only about 68 percent of these imports actually received the program's lower tariff rates. In the same year, U.S. programs for Caribbean and Andean countries offered reduced rates on less than 35 percent of beneficiary imports facing duties. However, 72 percent and 92 percent of those Caribbean and Andean imports, respectively, received the programs' lower tariff rates. Ultimately, neither U.S. nor EU program beneficiaries took full advantage of the lower tariff rates offered under the preference programs. Experts have cited factors such as complex rules of origin as reasons for the lack of use. In addition, poorer beneficiary countries may lack the capacity in terms of economic development and expertise to comply with program requirements.

Background

Nature of Nonreciprocal Programs

Nonreciprocal preferential trade arrangements originated with the concept of special and differential treatment for developing countries. This treatment was meant to compensate for developing countries' unequal economic status compared with the developed world. In the late 1960s, the United Nations Conference on Trade and Development (UNCTAD) concluded that trade on a most-favored-nation (MFN)[11] basis did not take into account developing countries' inability to compete on an equal basis

[10] Dutiable imports are products that, outside a preference program, would normally face a tariff rate greater than zero.

[11] Most-favored-nation trade is a concept promulgated in Article I of the General Agreement on Tariffs and Trade (GATT). The article provides that contracting parties to GATT must grant each other treatment as favorable as they give to any country in the application and administration of import duties.

with richer nations. UNCTAD also concluded that the objectives of nonreciprocal preference programs should be to increase export earnings, promote industrialization, and raise the economic growth rates of developing countries. These objectives laid the foundation for the creation of the U.S. and EU GSP programs.

U.S. and EU Nonreciprocal Preference Programs

Both the United States and the European Union established GSP programs in the early 1970s, each offering trade preferences to more than 100 developing countries around the world. The United States later established other nonreciprocal trade preference programs through the Caribbean Basin Economic Recovery Act (CBERA) in 1983; the Andean Trade Preference Act (ATPA) in 1991; and, most recently, through the Trade and Development Act of 2000, which extended nonreciprocal preferences with the majority of the sub-Saharan African countries as well as the Caribbean Basin region. Specifically, Title I of the act is cited as the African Growth and Opportunity Act (AGOA), while Title II is cited as the Caribbean Basin Trade Partnership Act (CBTPA). Presently, the United States offers nonreciprocal trade preferences to 151 countries and territories.[12] (See app. II for more details on the U.S. programs.)

Similarly, the European Union has extended nonreciprocal trade preferences to many countries in the African, Caribbean, and Pacific (ACP) regions since 1975 through its ACP-EC[13] Convention of Lomé. The European Union will continue to offer nonreciprocal preferences until 2008 through the Lomé Convention's replacement agreement, known as the Contonou Agreement of 2000. Like the United States, the European Union also expanded the number of products receiving tariff preferences under its GSP program for the 49 nations designated by the United Nations as "least developed countries" (LDC). Recently, the European Union further expanded these GSP preferences by adopting the "Everything But Arms" amendments, which offer duty-free access for all LDC products except arms by 2009. Presently, the European Union offers nonreciprocal trade preferences to 171 countries and territories under its GSP program

[12] For details on the U.S. programs, see *The Year in Trade: Operation of the Trade Agreements Program During 1999*, 51st Report, Investigation No. 332-412, (United States International Trade Commission, Publication 3336, Aug. 2000), pp. 92-102.

[13] EC refers to the European Community, which was the predecessor to the European Union.

and its Cotonou Agreement. [14] (See app. II for more details on the EU programs.)

Key U.S. and EU Program Features

EU and U.S. nonreciprocal trade preference programs share certain common features and requirements. They offer reduced or duty-free access to eligible products from beneficiary countries, with lesser preferences for products deemed more sensitive or competitive with U.S. or EU domestic producers. Sensitive products are either excluded completely from coverage or provided access at a higher preferential duty than other covered products. For example, while the U.S. GSP offers duty-free treatment for all eligible products, it excludes completely from coverage sensitive products like textiles and apparel.[15] The EU GSP scheme, on the other hand, offers incremental tariff reductions on the basis of a product's sensitivity.

EU and U.S. programs also contain requirements regarding product origin, which all beneficiary countries must meet to receive preferential tariff rates on their products. "Rules of origin" ensure that tariff advantages apply only to products actually produced in beneficiary countries. Producers in beneficiary countries may use imported materials to produce goods for export, provided the inputs comply with specific criteria outlined in the rules of origin for the preference program. For example, rules of origin may specify a maximum percentage of imported materials that can be included in a product or may require that specific amounts and types of processing be carried out on imported inputs in order for the final product to qualify for preferential treatment. Both the United States and the European Union allow, to a varying extent, countries to comply with rules of origin by cumulating inputs or sharing production processes with designated beneficiary countries or groups of countries. For example, under the U.S. GSP program, Botswana could use imported inputs from Tanzania in the production of a good for export to the United States because both beneficiaries are eligible for cumulation benefits as members of the Southern African Development Community. In general, allowing broader cumulation provides producers in beneficiary countries with greater flexibility in complying with rules of origin requirements.

[14] Additionally, the European Union has offered nonreciprocal trade preferences to certain Mediterranean, central and eastern European, and southeastern European countries.

[15] The U.S. AGOA and CBTPA do cover some textile and apparel products.

Finally, U.S. and EU trade preference programs contain eligibility requirements in the form of certain country practices. For example, receiving program tariff preferences may be dependent upon countries' having policies in place to ensure worker rights, protect intellectual property,[16] or adequately control illegal drugs.

Share of U.S. and EU Imports Receiving Preferential Tariff Rates Is Relatively Small

Thirteen percent ($133 billion) of total 1999 imports into the United States came from beneficiaries of U.S. nonreciprocal programs, while 34 percent ($248 billion) of total 1999 imports into the European Union came from beneficiaries of the EU GSP and ACP programs. However, a smaller percentage of imports from these beneficiary countries actually received preferential treatment—2 percent ($18 billion) of total U.S. imports and 6 percent ($45 billion) of total EU imports in 1999. (See fig. 1.) The U.S. and EU Generalized System of Preferences (GSP) programs accounted for the majority of the preference trade, with the U.S. program offering duty-free entry and the EU program providing duty-free entry or reduced tariffs.

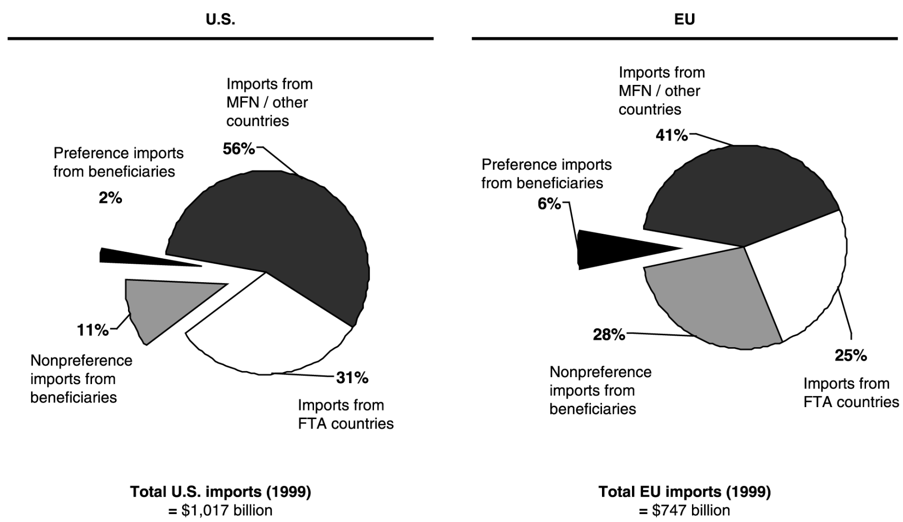
Although imports from beneficiary countries comprised small portions of total U.S. and EU imports in 1999, the United States and the European Union are the primary export markets for many beneficiaries. For example, in 1999, 52 percent of Costa Rica's total exports were destined for the United States, and 58 percent of Ghana's total exports went to the European Union in the same year. (See app. III for the percentages of exports destined for the U.S. and EU markets for each beneficiary country by program). In addition, a large share of some countries' total exports to the United States and the European Union enter at reduced tariff rates under one of the U.S. or EU trade preference programs. For example, over 90 percent of St. Lucia, St. Vincent and the Grenadines, Namibia, and Senegal's dutiable exports to the European Union received reduced tariff rate preferences in 1999. The same was true for the dutiable exports of Benin and Zaire.

Figure 1 also illustrates that, compared with the United States, imports from beneficiaries of EU nonreciprocal programs comprised a larger portion of total EU imports in 1999. One reason for this difference is that the European Union extended preferences to 20 countries that were not covered by the U.S. programs. For example, the EU GSP program gave preferences to certain imports from Malaysia and China. Imports from

[16] The protection of intellectual property refers to legal rights, and enforcement of such rights, associated with patents, copyrights, and trademarks.

these two countries comprised about 30 percent of EU imports under the GSP program in 1999. Appendix III also provides additional data on the share of imports from beneficiaries of U.S. and EU nonreciprocal programs.

Figure 1: Total U.S. and EU Imports by Type of Trade Partner, 1999



Legend

FTA = free trade agreement
MFN = most favored nation

Note 1: U.S. trade data are imports for consumption at customs value. EU trade data are normal imports. See appendix I for more information on the data sources and methodology.

Note 2: U.S. preference program data include GSP, ATPA, and CBERA. EU preference program data include GSP and ACP-EC Convention of Lomé.

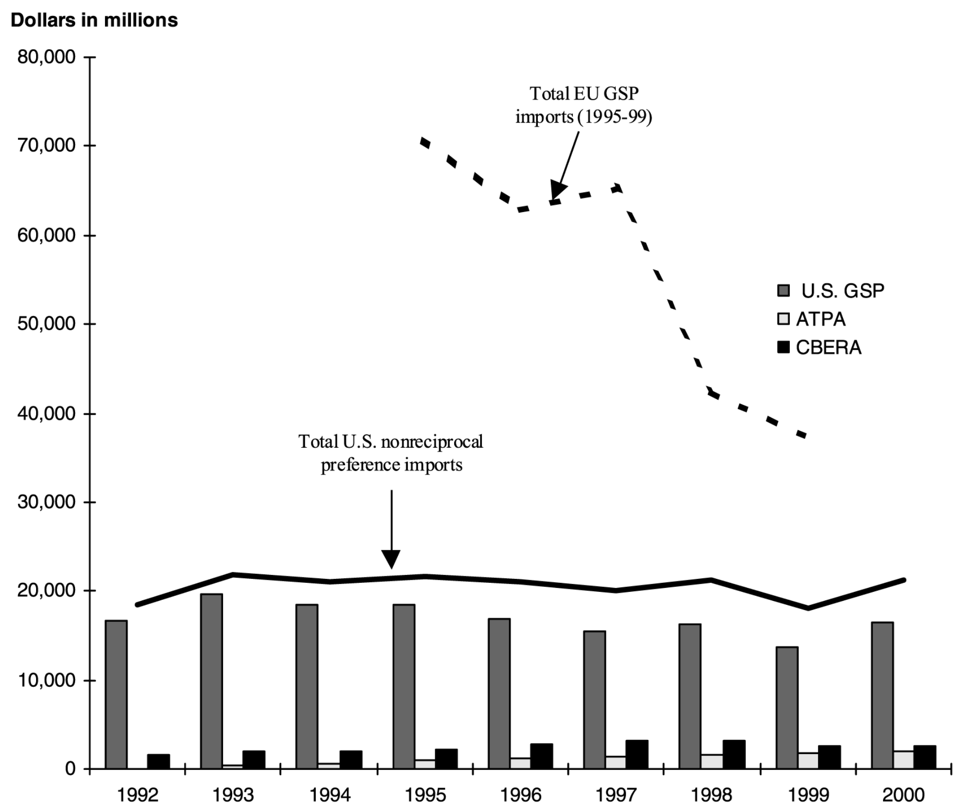
Note 3: Data do not include trade under the recently enacted U.S. AGOA and CBTPA or the EU "Everything But Arms" amendment.

Note 4: The term "preference imports from beneficiaries" refers to the share of imports from beneficiary countries that actually received tariff preferences. The term "nonpreference imports from beneficiaries" refers to the share of imports from beneficiary countries that entered the United States or the European Union but did not receive preferential tariff treatment.

Sources: U.S. Department of Commerce official trade statistics, EU Eurostat official trade statistics and preference imports, and GAO calculations.

Overall, the total value of imports under U.S. nonreciprocal programs and the EU GSP program has remained generally flat or declined over time. (See fig. 2.) Imports under the U.S. GSP, its largest program, peaked in 1993 and have generally declined since then. This is partly because some significant countries, including Mexico and Malaysia, were removed from the program in 1994 and 1998, respectively. Although the total value of imports into the United States under all U.S. preference programs remained generally flat since 1993, imports under the smaller U.S. preference programs, including CBERA and ATPA, increased between 1992 and 2000. As for the EU GSP program, the value of imports declined overall between 1995 and 1999. The European Union removed from GSP coverage a significant share of products from large beneficiary countries such as Malaysia and China, which contributed to this decline. However, the yearly imports under the EU GSP were more than double that of imports under all U.S. programs during the same period.[17] In addition, the value of imports receiving preferences under U.S. and EU GSP programs may have been flat or declining over time due to the elimination of tariffs on many products through multilateral trade negotiations.

Figure 2: Imports Receiving Preferences, U.S. Programs and EU GSP Program, 1992-2000



[17] Data on the EU GSP program were available only for 1995-99, and no data were available for the ACP-EC Convention of Lomé program prior to 1999.

Note 1: U.S. trade data are imports for consumption at customs value. EU trade data are normal imports.

Note 2: Data on the EU GSP program were available only for 1995-99, and no data were available for the ACP-EC Convention of Lomé prior to 1999. Imports under the ACP-EC Convention of Lomé were $7,521 million in 1999.

Note 3: Trade data for the U.S. AGOA and CBTPA and the EU "Everything But Arms" amendment were not yet available.

Sources: U.S. Department of Commerce official trade statistics, EU Eurostat preference imports, and GAO calculations.

U.S. and EU Approaches to Nonreciprocal Trade Have Evolved in Similar Ways

The United States and the European Union have offered greater tariff preferences over time, both in terms of product coverage and reduced restrictions. At the same time, they have increased and refined country eligibility requirements. In the future, the United States and the European Union may be moving away from purely nonreciprocal arrangements, though in different ways. (See app. II for further details on the U.S. and EU programs.)

The United States and the European Union Have Expanded Product Coverage

Since 1976, the U.S. GSP has offered duty-free treatment for eligible products and completely excluded some sensitive products from coverage. However, in 1983 and 1991, respectively, the CBERA and the ATPA extended tariff rates below MFN treatment for several items completely excluded from coverage under its GSP program, including luggage, handbags, and leather apparel. In addition, neither CBERA nor ATPA is subject to GSP's competitive need and country income restrictions.[18] In 1997, the United States added more than 1,700 new products to its duty-free treatment under GSP for eligible LDCs. Between 1996 and 1997, the value of nonpetroleum exports from LDCs to the United States increased by 71 percent. Further, in 2000, the United States, for the first time, offered duty-free and quota-free treatment for certain qualified textile and apparel products that meet rule of origin requirements, through (1) AGOA for certain sub-Saharan African countries and (2) CBTPA for CBERA beneficiaries. AGOA also extended GSP-type preferences to several new products. Finally, AGOA's preferences are more long term, compared with GSP. AGOA is effective through September 30, 2008, while GSP is effective through September 30, 2001.

[18] Under the U.S. GSP program, products may be dropped from coverage if they reach the "competitive need limit"—a specified level of imports to the United States. Countries may lose all of their GSP benefits if their national income is higher than a specified threshold.

The EU's series of ACP-EC Lomé Convention agreements offer expanded product coverage compared with its GSP program. For example, in 2000, 89 percent of the products from ACP countries faced zero duties versus only 48 percent under the EU GSP. Like the United States, the European Union increased its GSP product coverage and further reduced tariff rates for the poorest countries in 1998, by offering those countries preferences equivalent to its ACP-EC Lomé Convention. Also in 1995, the European Union eliminated all quotas under its GSP program and implemented a graduated tariff reduction system based upon the market sensitivity products. Finally, as of March 2001, the European Union adopted the "Everything But Arms" amendment to its GSP program, which offers duty-free and quota-free treatment for all products from the poorest countries, except armaments, by 2009.

The United States and the European Union Have Relaxed Rules of Origin Requirements

Both U.S. and EU programs have liberalized their rules of origin requirements in successive programs. For example, the CBERA qualifying rules for individual products are more liberal than those of the U.S. GSP program. GSP requires that at least 35 percent of the value of the product be added in a single beneficiary country or in a specified group of eligible GSP countries. CBERA allows beneficiaries to use inputs from all other CBERA beneficiaries, and it also allows the use of U.S. inputs in meeting the 35 percent value-added threshold. AGOA, for the first time, allows the poorest countries among its beneficiaries to use both non-U.S. and non-sub-Saharan African fabric, up to a specified amount.

For the European Union, the ACP-EC Convention of Lomé rules of origin allows wider cumulation among beneficiary countries than those of its GSP program. For example, the Lomé Convention allows cumulation among all ACP beneficiary countries, whereas GSP only allows cumulation within designated groups of countries. The Lomé Convention has also liberalized its rules of origin over time. The 1995 Revised ACP-EC Convention of Lomé expanded allowable cumulation to include certain non-ACP developing countries, with exceptions for certain products. It also made 15 percent the permissible amount, by value, of materials from third countries that can be used in ACP-manufactured products.

The United States and the European Union Have Expanded Country Practice Requirements

U.S. country eligibility requirements have evolved from requiring beneficiary countries to institute basic worker rights to targeting region-specific issues and broader development themes. For example, to be designated a GSP beneficiary, a country must be taking steps to provide internationally recognized workers' rights, and the President must take into account the extent to which a country provides adequate and effective intellectual property rights. Several countries have had their U.S. GSP preferences suspended, including Liberia, Nicaragua, Sudan, and Syria, for providing inadequate worker rights.

While retaining basic requirements such as core worker rights, trade preference programs enacted since the GSP program have focused their country eligibility criteria on new areas. Under ATPA, the President must also take into account whether the country has met certain U.S. narcotics cooperation criteria. Under CBTPA, the President must take into account, among other eligibility criteria, whether the country has demonstrated a commitment to participate in negotiations toward completing free trade agreements such as the Free Trade Area of the Americas. AGOA further expanded country eligibility criteria by requiring that the President, among other things, determine whether the country is making continual progress toward establishing a market-based economy that protects private property rights, the rule of law, and economic policies to reduce poverty.

The European Union bases countries' eligibility for preferences under its GSP program on criteria similar to those of the U.S. GSP program. Under the EU program, preferences may be withdrawn on the basis of the countries' practices, such as the use of forced labor or the shortcomings in Customs controls on the export or transit of drugs. However, in its 1995 revision of its GSP program, the European Union increased the emphasis on promoting social and environmental policies in the beneficiary countries. In 1998, it instituted special incentive arrangements that further reduced tariffs for GSP beneficiaries that demonstrate compliance with certain requirements related to labor and the environment. Thus far, the European Union has granted one country, Moldova, additional preferences under this system.

The United States and the European Union Are Moving Toward Reciprocal Arrangements

In its 2000 Cotonou Agreement, which replaced the ACP-EC Convention of Lomé, the European Union indicated that it is moving away from providing nonreciprocal preferential tariffs for all ACP countries to establishing new reciprocal trade arrangements. During a preparatory period (2000-08), the Cotonou Agreement will maintain Lomé IV Convention nonreciprocal trade preferences. It will also provide financial aid to improve ACP countries' competitiveness, support their fiscal reform, upgrade their infrastructures, and promote investment. By 2002, the EU and ACP countries have agreed to negotiate "economic partnership agreements" that establish timelines for progressively removing their trade barriers. The new trading arrangements will then enter into force by January 1, 2008, after which trade liberalization will be phased in during a period of at least 12 years. Negotiations will take into account the level of economic development and socioeconomic impact of the trade measures on the ACP countries.

The European Union has identified several factors that motivated its decision to change its approach. An EU Commission analysis states that the results of 25 years of benefits under the ACP-EC Convention of Lomé have been mixed and that the impact of nonreciprocal trade preferences has been "disappointing." The analysis cites the fact that the ACP countries' share of the EU market declined from 6.7 percent in 1976 to 3 percent in 1998. The rationale behind the EU's new approach is that open trade combined with social development policies will help the ACP economies grow and reduce their poverty. The European Union also intends that the economic partnership agreements will comply with World Trade Organization[19] rules, thereby encouraging domestic and foreign investment in ACP countries and boosting their competitiveness in the world economy. An EU official told us that the ACP countries' ability to export must be strengthened through export-oriented assistance and by increasing trade among the beneficiary countries. As the ACP countries build their capacity to export and become more competitive with each other, it is expected that they will be better prepared to compete with other trading partners, according to the EU official.

Not all ACP countries may be party to the economic partnership agreements. The 39 of the 77 ACP countries that are designated as LDCs will remain under the EU's new, Everything But Arms amendment to GSP. An EU official told us that he hoped that LDCs would choose to negotiate economic partnership agreements under the Cotonou Agreement in addition to receiving benefits under in the Everything But Arms amendment. He believed that the economic partnership agreements held several advantages. While Everything But Arms offered greater access to the EU market, the economic partnership agreements encouraged ACP countries to open their own markets and attract long-term foreign investment. He believed that, rather than relying on trade preferences alone, the Cotonou Agreement used all means to increase trade, including the previously described trade-related financial assistance. The remaining

[19] The World Trade Organization provides the institutional framework for the multilateral trading system. It administers rules for international trade and provides a forum for conducting trade negotiations.

38 non-LDC ACP countries will be free to decide whether they are ready to negotiate these arrangements. In 2004, the European Union will evaluate the non-LDCs that are not in a position to join an economic partnership agreement and determine how to provide them with benefits tailored to their existing situations.

While the United States is not phasing out its one-way preferences under its trade preference programs, it is moving toward reciprocity with many developing countries in its own hemisphere. Specifically, the United States is involved in negotiations to establish a Western Hemisphere free trade area known as the Free Trade Area of the Americas (FTAA).[20] The FTAA would eliminate tariffs and create common trade and investment rules among the 34 democratic nations of the Western Hemisphere. Many of the 34 FTAA countries are beneficiaries of U.S. trade preference programs, including Brazil under GSP; Bolivia and Colombia under GSP and ATPA; and Costa Rica and El Salvador under GSP, CBERA, and CBTPA. However, one U.S. official commented that the extensive tariff preferences countries enjoy under nonreciprocal trade preference programs could diminish their incentive to negotiate free trade agreements. In fact, the CBTPA specifically states that it is the policy of the United States to offer benefits under the act to Caribbean Basin beneficiary countries willing to prepare for the FTAA or another free trade agreement. Furthermore, CBTPA benefits are scheduled to end on the earlier of September 30, 2008, or the date on which the FTAA, or any similar free trade agreement between the United States and CBERA beneficiary countries, enters into force.[21]

[20] For details on the Free Trade Area of the Americas, see *Free Trade Area of the Americas: Negotiations at Key Juncture on Eve of April Meetings* (GAO-01-552, Mar. 30, 2001).

[21] CBERA and CBTPA member countries are identical. However, in practice, only 11 members of the 24 CBTPA countries have been designated as eligible for CBTPA preferences.

U.S. and EU Programs Offer Relatively Similar Tariff Rates on Average and Exclude Some Sensitive Products

Despite some differences in how they structure their tariff preferences, U.S. and EU nonreciprocal trade preference programs offer beneficiary countries similar overall simple average tariff reductions.[22] Normal imports entering either the U.S. or the EU market faced an overall simple average tariff of about 5 percent in 2000.[23] An examination of the largest of the U.S. and EU preference programs—the GSP—shows that the simple average tariff rates offered by the European Union and the United States are both about 3 percent. Other preference programs, including the U.S. AGOA, ATPA, CBERA, and the EU's ACP program and Everything But Arms amendment, reduce the average tariff further—to between 1 and 2 percent for U.S. programs and nearly zero for EU programs.

U.S. and EU Programs Offer Similar Tariff Rate Reductions, on Average

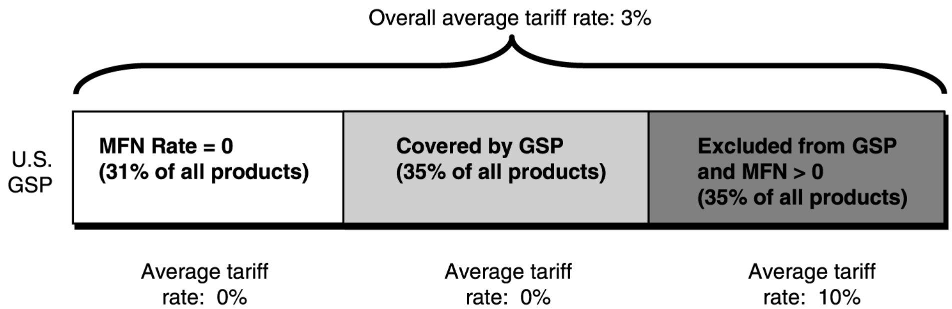
Figures 3 and 4 provide a visual representation of the simple average tariff rates faced by U.S. and EU GSP program beneficiaries, 2000. The shaded areas in the two figures, moving left to right, group the products on the schedule and their average tariff rates into three general categories: products for which the MFN rate is already zero, products covered by GSP, and products excluded from GSP coverage where the MFN rate is greater than zero.

For the United States, 31 percent of the products on the U.S. tariff schedule already have duty-free access to the U.S. market on an MFN basis, as indicated by the lefthand segment of figure 3. The U.S. GSP program provides duty-free access to an additional 35 percent of products on the schedule. Therefore, about 66 percent of the products on the tariff schedule have duty-free access if imported from a GSP beneficiary country. The remaining 35 percent of the products are not covered by the GSP program and face some duties.

[22] The tariff schedules of the United States and the European Union list the tariff rates applicable for imported products. The U.S. schedule includes about 10,200 products, and the EU schedule includes about 13,600 products.

[23] This calculation does not include products that face "specific" rates of duty, which are specific fees per unit of a product (such as $5 per bushel). Since these rates are not in ad valorem terms (percentages), they cannot be averaged unless first converted into percentage terms for each product.

Figure 3: The Tariff Schedule for Beneficiaries of the U.S. GSP Program, 2000



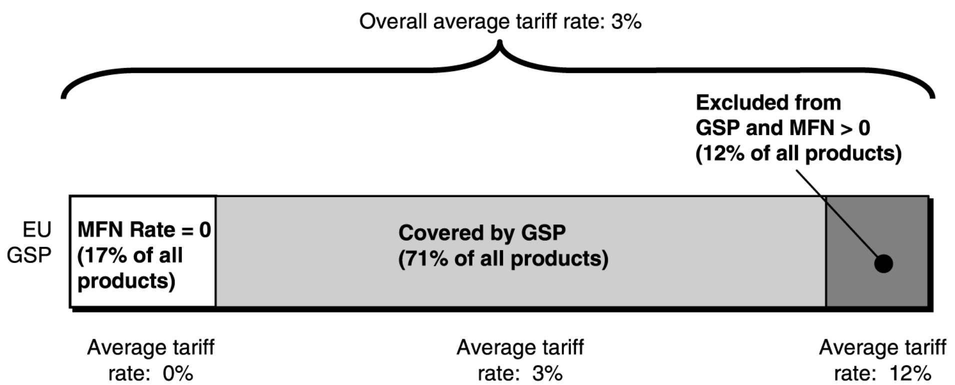
Note 1: Averages do not include products that face "specific" rates of duty. See footnote 23.

Note 2: Percentages do not add to 100 due to rounding.

Sources: UNCTAD Trade Analysis and Information System CD-ROM and GAO calculations.

As for the EU GSP program, figure 4 shows that the EU provides duty-free access on an MFN basis to 17 percent of the products on its schedule, a smaller share compared with the United States. However, the EU GSP program covers a larger share, 71 percent, of the remaining products, so that approximately 88 percent of the products on the EU tariff schedule are offered either MFN duty-free access or special rates under GSP. Finally, figure 4 shows that 12 percent of the products on the EU tariff schedule are completely excluded from GSP coverage, versus 35 percent for the United States. However, although the European Union excludes fewer products from its GSP program than does the United States from its GSP program, unlike the United States, the EU GSP program does not provide duty-free access to all products but rather provides a partial tariff reduction on more sensitive products.

Figure 4: The Tariff Schedule for Beneficiaries of the EU GSP Program, 2000



Note: Averages do not include products that face "specific" rates of duty. See footnote 23.

Sources: UNCTAD Trade Analysis and Information System CD-ROM and GAO calculations.

A close examination of these categories reveals that the United States and the European Union structure their GSP programs differently. While the U.S. and EU GSP programs structure their tariff preferences differently, their overall average tariff rates fall from 5 percent on normal MFN imports to about 3 percent for GSP beneficiaries. (See app. IV for U.S. and EU products receiving the largest tariff reductions under GSP.) Average tariff rates are further reduced for other U.S. and EU nonreciprocal programs. Table 1 shows that other U.S. programs reduce this average to between 1 and 2 percent. The EU goes further by bringing the average down to nearly zero. Although tariffs of 2 percent or below are generally considered to be very low, these overall average rates can include some high tariff rates on individual products, particularly on sensitive goods.[24]

[24] Regarding figure 4, an EU official noted that the EU found a slightly different proportion of products on the EU tariff schedule were offered MFN zero rates and GSP rates (23 percent versus our 17 percent, and 67 percent rather than 71 percent, respectively). There are several reasons why these values may vary, but we chose to report the UNCTAD values, the same source used for the U.S. tariff schedule analysis.

Table 1: U.S. and EU Average Tariff Rates, by Preference Program

Program	Average tariff on all products
United States	
GSP	3.0%
GSP (LDC)[a]	2.0
AGOA	1.8
ATPA	1.8
CBERA	1.7
European Union	
GSP	3.1%
GSP (LDC)[a]	0.1
ACP-EC Convention	0.1
Everything But Arms	Negligible

Note: Averages do not include products that face "specific" rates of duty. See footnote 18.

[a]Both the United States and the European Union provide tariff preferences on additional products for the least developed countries under their GSP programs.

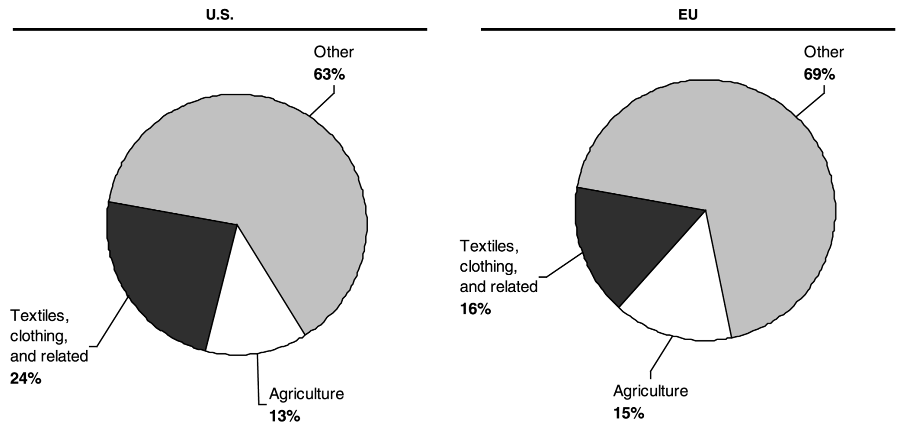
Sources: UNCTAD Trade Analysis and Information System CD-ROM and GAO calculations.

U.S. and EU Programs Exclude Products That Are Important to Developing Countries

Both the United States and the European Union exclude some sensitive products from coverage in their programs because of their potential negative effect on a competing domestic industry. Many of these products are in areas in which experts stress developing countries are particularly competitive, such as agriculture and textiles and apparel, and could benefit from reduced rates.[25] Figure 5 shows the share of U.S. and EU imports from beneficiaries accounted for by agricultural products and textile, apparel, leather, and footwear products. Combined, these products account for approximately one-third of imports from beneficiaries of both the U.S. and EU trade preference programs. Table 2 shows the percentage of tariff lines excluded across all programs in the agriculture and textile and apparel sectors (app. III compares the overall coverage of the various programs on basis of the value of trade).

[25] In addition to higher tariffs, imports of agricultural and textiles and apparel products also may face quotas and other import restrictions. However, we did not examine the prevalence or impact of these other measures on developing countries' exports.

Figure 5: Share of U.S. and EU Imports From Beneficiaries, by Sector, 1999



Note: U.S. trade data are imports for consumption at customs value. EU trade data are normal imports.

Sources: U.S. Department of Commerce official trade statistics, EU Eurostat official trade statistics, and GAO calculations.

Overall, the European Union excludes fewer sensitive products from its programs than does the United States. Table 2 shows that most EU exclusions are in the agricultural sector. About half of agricultural products are excluded from coverage under the EU GSP program, including sensitive products such as rice, bananas, and sugar. Although the ACP-EC and GSP programs reduce the number of exclusions, the new Everything But Arms amendment to the GSP program, for the LDCs, is significant because it will provide complete coverage by 2009 for all LDC products (except arms and ammunitions).[26]

Under U.S. trade preference programs, most textile and apparel products have traditionally been excluded from coverage, as well as certain agricultural products such as certain fruits and vegetables. For example, about 90 percent of textile, apparel, leather, and footwear products are excluded from the GSP program. More textile and apparel products were

[26] Products from the LDCs also will need to meet rules of origin and other requirements and will be subject to "safeguard" provisions (which allow a country to restrict imports if they increase significantly and may have a negative impact on a domestic industry). Therefore, all imports from LDCs may not be able to fully use the tariff benefits offered.

included in the CBERA and ATPA programs and in the GSP program for the LDCs, but many of the most commercially important products of these countries were still excluded. The United States did provide some CBERA beneficiary countries with virtually unlimited access for certain apparel products that met requirements on the use of U.S. textile inputs. This access was further expanded under the new CBTPA program, which also included greater access for footwear and other previous excluded products. Additionally, similar access was provided under AGOA for eligible sub-Saharan African countries. CBTPA also provides access for footwear, which was previously excluded from the other U.S. programs. Program exclusions also exist in the agriculture sector, with about 62 percent of products excluded under the GSP program and between 15 and 20 percent of products excluded under other U.S. preference programs. Some agricultural products are subject to tariff-rate quotas, which offer reduced rates up to a certain quantity of imports of the product and higher rates of duty on imports above that threshold.[27]

[27] Products subject to tariff-rate quotas are covered under preference programs when the tariff rate on either the "in-quota" portion (the initial imports) or the "out-of-quota" portion of imports is reduced or eliminated. Since the U.S. tariff schedule lists in-quota and out-of-quota imports as separate tariff lines, one or both tariff lines can be excluded from preference benefits.

Table 2: Percentage of Products Excluded From U.S. and EU Nonreciprocal Preference Programs

Program	Industry: Agriculture	Textile, apparel, etc.	Other	Total percentage
United States				
GSP	62%	90%	29%	50%
GSP (LDC)	18	89	3	26
CBERA	16	65	1	19
ATPA	17	75	1	22
AGOA	16	82	2	24
European Union				
GSP	50%	1%	2%	15%
GSP (LDC)	22	0	0	6
ACP	14	0	0	4
Everything But Arms	0	0	0	0

Note 1: As of March 2001, Everything But Arms replaces the preferences offered to LDCs under the EU GSP program.

Note 2: The CBTPA program, not shown, further reduces the number of exclusions faced by recipients of the CBERA program, particularly in the areas of apparel and footwear.

Sources: UNCTAD Trade Analysis and Information System CD-ROM and GAO calculations.

For both of the U.S. and EU programs, products that are excluded tend to have high MFN tariffs. For example, the average tariff rate on products excluded from the U.S. GSP program is about 10 percent; however, rates are as high as 350 percent on certain tobacco products[28] and between 37 and 48 percent on certain footwear. For the EU GSP program, the average tariff of excluded products is 12 percent, with rates as high as 32 percent (grape must) and several rates are above 20 percent, such as apricots, jams, sardines, and tunas. (See app. V for a list of products that face duties greater than 20 percent and that are not covered by the U.S. and EU GSP programs.)

[28] This is the “out-of-quota” duty on certain tobacco products that are subject to tariff-rate quotas.

EU Programs Cover More Products Than U.S. Programs, While U.S. Beneficiaries Use a Greater Share of Available Tariff Preferences

Although EU programs provide greater coverage compared with U.S. programs—that is, a greater share of EU beneficiary imports is eligible for tariff preferences, U.S. beneficiaries use more of their available preferences than do EU beneficiaries. The effectiveness of nonreciprocal trade preference programs is dependent upon a combination of the extent of product coverage and beneficiaries' actual use of the preferences offered. Neither U.S. nor EU beneficiaries were able to fully use the preferences offered in 1999. Experts have noted that program-related factors, such as rules of origin, as well as other external factors have limited beneficiaries' ability to use preferences.

Amount of U.S. and EU Trade Eligible for Preferences Versus Actual Use of Preferences

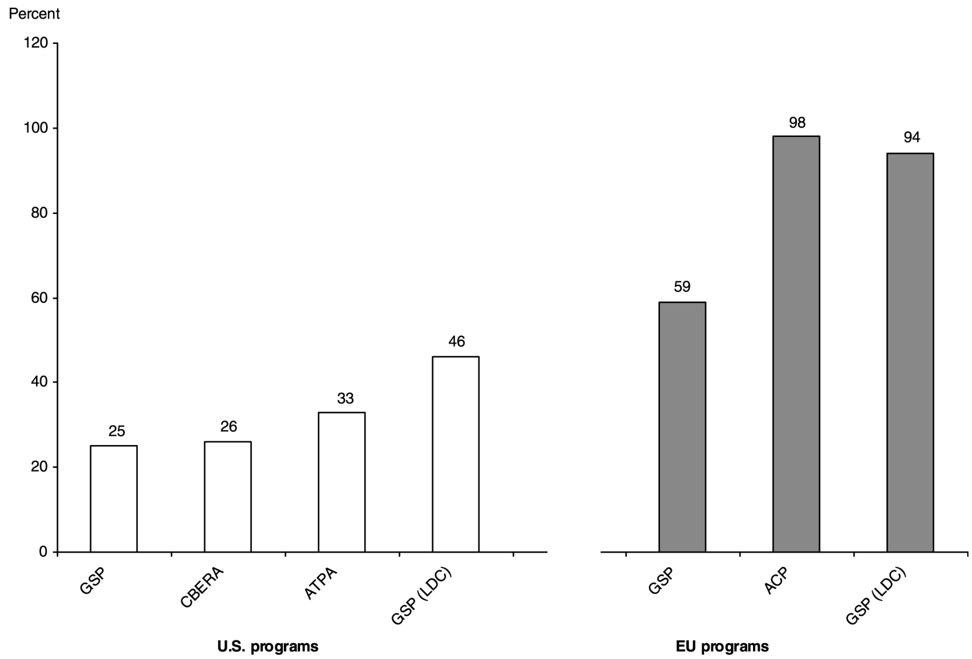
Figure 6 shows the share of dutiable imports[29] from beneficiary countries that were eligible for tariff reductions or elimination under each of the programs in 1999. For example, the first bar on the left shows that 25 percent of the imports (in terms of value) that would normally face duties were eligible to receive duty-free access under the U.S. GSP program. This does not mean that the imports actually received duty-free access but rather that they were eligible to receive such access, if requested, and the products met the requirements of the programs (discussed below). Figure 6 also shows that U.S. programs covered a smaller share of beneficiaries' trade than did EU programs in 1999. For example, in 1999, more than 90 percent of the value of dutiable imports from ACP and GSP LDC countries were eligible for tariff reductions under EU programs. For U.S. beneficiaries of the Caribbean, Andean, and GSP LDC programs, less than 50 percent of imports was eligible for tariff preferences in 1999.[30]

[29] Dutiable imports are those imports that face normal tariff rates greater than zero. Some imports enter both the U.S. and EU markets duty free, meaning the tariff rate is zero. We focus on those products that face duties because there is a potential to provide a preferential rate. If the tariff is already zero, then no preference can be provided. However, the share of duty-free imports is an indicator of how open the economy is to imports.

[30] We did not analyze U.S. AGOA and CBTPA, or the EU Everything But Arms amendment, because they were enacted after 1999.

However, it is important to note that the United States provides a larger number of products with MFN duty-free access compared with the European Union. About 65 percent of the U.S. tariff schedule for a GSP beneficiary is duty free (either through MFN or GSP), while about 48 percent of the EU tariff schedule for a GSP beneficiary is duty free (not all EU GSP tariffs are zero). This report focuses on preferential access and therefore examines the share of dutiable imports that benefit from reduced rates, rather than rates already duty free, because a preference can actually be provided. We did not analyze U.S. AGOA and CBTPA, or the EU Everything But Arms amendment because they were enacted after 1999.

Figure 6: Share of U.S. and EU Beneficiaries' Dutiable Imports Eligible for Tariff Preferences, 1999



Note 1: U.S. trade data are imports for consumption at customs value. EU trade data are normal imports.

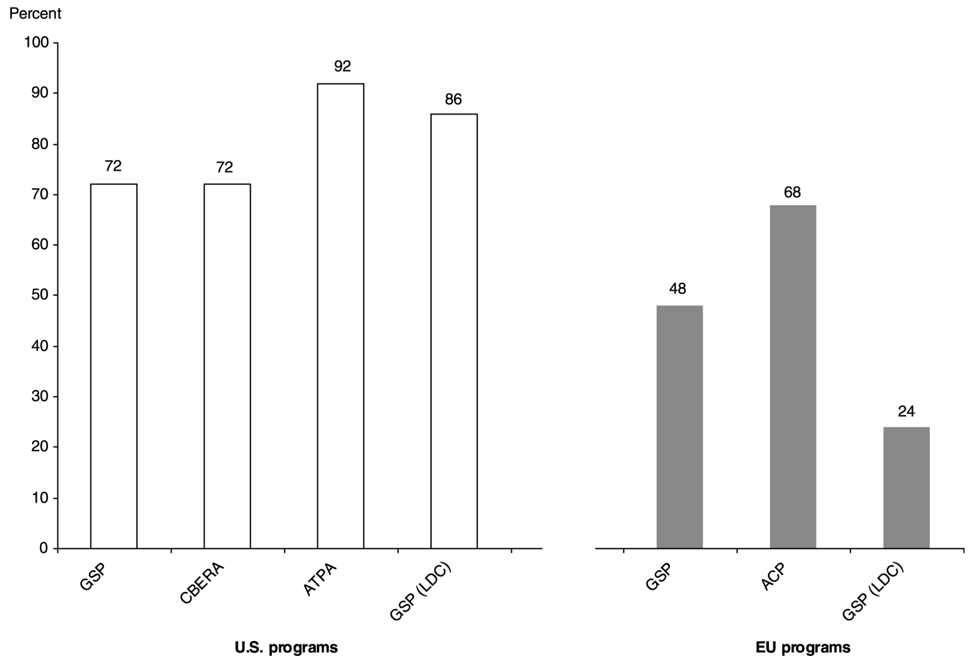
Note 2: Figure does not include data for the U.S. AGOA and CBTPA programs, nor for the EU's Everything But Arms initiative, because the programs were implemented after 1999.

Note 3: Some U.S. and EU beneficiary countries are eligible to receive preferences under more than one program. For example, all ACP beneficiaries are eligible for GSP trade preferences. Similarly, beneficiaries of the ATPA program are eligible for preferences under the U.S. GSP program.

Sources: UNCTAD Trade Analysis and Information System CD-ROM, U.S. Department of Commerce official trade statistics, EU Eurostat official trade statistics, and GAO calculations.

Although the United States covers a smaller share of its dutiable imports with its preference programs, U.S. beneficiaries use more of their available preferences than do EU beneficiaries. Figure 7 shows the share of eligible imports that actually received tariff preferences under each of the programs in 1999. For example, the lefthand bar shows that 72 percent of the dutiable imports eligible to receive U.S. GSP preferences actually received them. Overall, U.S. programs had from more than 70 percent to over 90-percent use of preferences offered. The EU programs' use rates were lower, with utilization of the EU GSP and ACP programs at less than 70 percent.

Figure 7: Share of U.S. and EU Beneficiaries' Eligible Imports Actually Receiving Tariff Preferences, 1999



Note 1: U.S. trade data are imports for consumption at customs value. EU trade data are normal imports.

Note 2: Figure does not include data for the U.S. AGOA and CBTPA programs, nor for the EU's Everything But Arms initiative, because the programs were implemented after 1999.

Note 3: Some U.S. and EU beneficiary countries are eligible to receive preferences under more than one program. For example, all ACP beneficiaries are eligible for GSP trade preferences. Similarly, beneficiaries of the ATPA program are eligible for preferences under the U.S. GSP program.

Sources: UNCTAD Trade Analysis and Information System CD-ROM, U.S. Department of Commerce official trade statistics, EU Eurostat official trade statistics, and GAO calculations.

Some Limitations May Affect Program Use

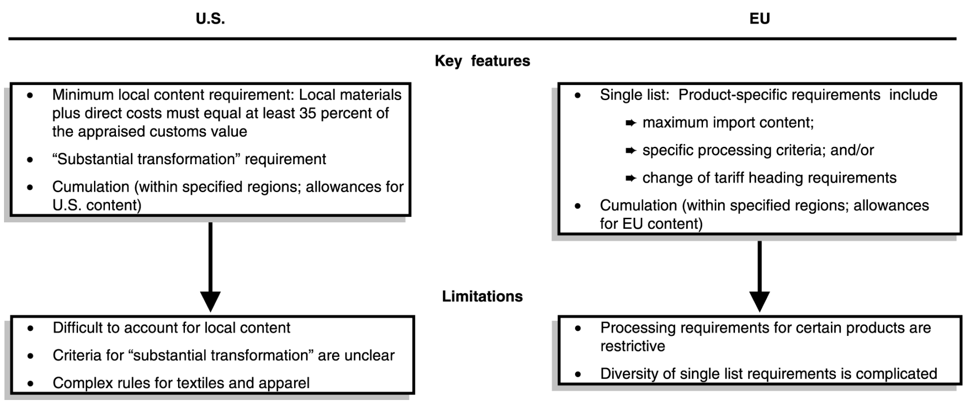
Neither U.S. nor EU beneficiaries fully used the tariff preferences offered. There are several reasons why this might be the case. First, some imports are eligible for the same tariff reductions from more than one program and importers are able to choose which program to use. For programs not chosen, it would appear that tariff preferences went unused, although the products received preferential tariff rates under another program. Second, preferences must actually be requested and producers must meet requirements on how and where the products are produced. In particular, experts and officials cited complex and restrictive U.S. and EU rules of origin requirements as a limitation on beneficiary countries' ability to fully use tariff preferences offered under the programs.[31]

Rules of Origin

U.S. and EU preference programs' rules of origin are mainly intended to ensure that the tariff preferences are confined to the designated beneficiary countries. To qualify for preferences, producers in beneficiary countries must not only produce goods in accordance with rules of origin, but they must also document that the final product complies with the requirements. Although the U.S. and EU apply rules of origin differently, experts have noted that complexities associated with both rules of origin schemes limit beneficiary countries' ability to fully use the preferences. Key features and limitations of U.S. and EU preferential rules of origin are shown in figure 8.

[31] None of the studies we examined provided an explanation for the differences in utilization rates between the U.S. and EU trade preference programs.

Figure 8: U.S. and EU Preferential Rules of Origin Key Features and Limitations



Source: GAO.

U.S. preferential rules of origin are based on minimum local content percentage criteria that require that the sum of the cost or value of the materials produced in the beneficiary country plus the direct costs of processing equal at least 35 percent of the appraised value at the time the product enters the United States. Imported materials may be used and counted toward the local content percentage requirement provided the materials have been "substantially transformed" into new and different materials. Additionally, cumulation provisions under U.S. rules of origin consider certain regional groupings as one area for the purpose of complying with the percentage criteria.[32] For example, a manufacturer in Colombia (an ATPA beneficiary country) could use imported materials from Bolivia (another ATPA beneficiary country), and the imported materials would be counted toward the minimum 35-percent local content requirement.

[32] Under the U.S. GSP program, eligible countries within the following five regional associations may benefit from these cumulation provisions: the Andean Community, the Association of Southeast Asian Nations; the Caribbean Common Market; the Southern Africa Development Community; and the West African Economic and Monetary Union. Beneficiaries of CBERA and CBTPA are granted cumulation with other CBERA/CBTPA beneficiaries. ATPA allows cumulation among all ATPA beneficiaries as well as cumulation with CBERA/CBTPA beneficiary countries. AGOA allows cumulation among AGOA beneficiaries for all eligible products, including eligible textile and apparel products. Additionally, ATPA, CBERA/CBTPA, and AGOA provide for limited use of U.S.-made inputs.

Experts have cited several ways in which U.S. rules of origin limit beneficiaries' ability to use nonreciprocal preferences. First, UNCTAD and Organization for Economic Cooperation and Development (OECD) officials said that the administrative costs and accounting sophistication required to calculate the percentage of local content create problems for producers in beneficiary developing countries. For example, although the 35-percent local content rule is simple in concept from a production standpoint, accounting for and documenting diverse direct costs, such as labor, research and design, fringe benefits, and blueprints, may require producers to account for costs not normally tracked in the course of commercial operations. Additionally, because the local content calculation is based on the appraised value of the product at the time that it enters the United States, exporters may not know the precise value and may miscalculate the local content percentage. Second, experts and our previous work[33] have noted that the lack of a clear definition of what constitutes "substantial transformation" makes it difficult for beneficiaries to accurately and consistently comply with the requirement.

Rules of origin under the EU preferential trade programs are described in what is commonly referred to as the "Single List" and are based on product-specific process criteria. EU rules of origin allow beneficiaries to use imported inputs in the production of goods for export, provided the inputs comply with the process criteria contained in the Single List. The process criteria may require, among other things, that imported inputs (1) undergo a change in tariff heading,[34] (2) undergo specific working and processing, (3) not exceed a specified maximum percentage of the value of the final product, or (4) comply with a combination of the above criteria. Additionally, EU rules of origin under both the GSP and the ACP-EC

[33] See *International Trade: Assessment of the Generalized System of Preferences Program* (GAO/GGD-95-9, Nov. 9, 1994).

[34] In general, the change in a tariff heading rule requires that imported inputs undergo working or processing such that the final exported product has a four-digit tariff heading that is different from all imported inputs, on the basis of the Harmonized System of product classification.

agreements allow cumulation within specific regions, although the cumulation provisions contained in the ACP-EC are less restrictive.[35]

Experts have also noted problems with the EU scheme. UNCTAD and OECD officials said that the extent or type of processing required for some products can exceed producers' capacity or require producers to add an exceptionally high value in order to comply with the rules of origin—particularly for certain fish, processed food, and textile and apparel products. In addition to process requirements, experts have noted that the complexity and diversity of the rules contained in the Single List complicate documenting compliance with the EU rules of origin.

Other Program-related Factors

Certain limitations on U.S. and EU GSP program tariff preferences are related to the programs' temporary nature. These limitations present a trade-off between reserving program preferences for beneficiary countries most in need and providing program stability to attract long-term foreign investment. For both the United States and the European Union, GSP program "graduation" is meant to remove preferences when a country goes beyond a certain level of development, while GSP products can be removed from coverage if, among other reasons, they become sufficiently competitive in the U.S. market. GSP preferences have also been interrupted during the program authorization process. For example, since its implementation in 1976, the U.S. GSP program has been renewed seven times, with gaps in program coverage of up to 15 months. Regarding GSP country graduation, one U.S. official told us that it was politically difficult to retract GSP preferences because developing countries strongly oppose losing their preferences and are concerned that affected export industries might flee to other countries where preferences are still in place. An EU official believed that it should be easier to graduate more efficient, developed countries from its GSP program to prevent them from dominating program preferences. The EU official noted, however, that

[35] Under the EU GSP, the following three regional associations may benefit from cumulation provisions: the Association of Southeast Asian Nations, the Central American Common Market, and the Andean Group. The EU GSP provisions are based on partial cumulation, which require imported inputs to have already acquired originating status in the exporting country. For example, country A can use imported fabric from country B to produce a jacket, provided the fabric has already complied with EU rules of origin in country B. Cumulation provisions under the ACP-EC Convention of Lome are less restrictive in that the territories of all ACP beneficiaries are considered as being one territory. Additionally, working and processing carried out in the EU is considered as having been carried out in the ACP beneficiary country provided the materials undergo subsequent working or processing in an ACP beneficiary country.

products should be harder to remove from GSP coverage. He commented that just as GSP beneficiary countries become competitive in exporting a product, the entire sector might be removed from the program.

External Factors

Experts and officials also identified external factors that may limit the program use. As MFN rates decline in multilateral trade negotiations, the value of preferential rates may be diluted. For example, the World Trade Organization calculated that following the conclusion of the Uruguay Round of multilateral negotiations in 1994, developed countries had committed to reducing their tariffs on industrial goods from an average of 6.3 percent to 3.8 percent—a 40-percent reduction.[36] Tariffs on agricultural products were scheduled to fall by 37 percent. On the other hand, tariff rates on products that developing countries tend to export in greater quantities were to remain higher and be reduced less. For example, the Uruguay Round reduced the average tariffs weighted by developing country exports for textile and apparel products from 14.6 percent to 11.3 percent—about a 23-percent reduction.

Also, some poorer beneficiary countries may lack the capacity in terms of economic development and expertise to comply with program requirements in the first place. As mentioned in appendix IV, the EU's Cotonou Agreement provides trade-related assistance to help beneficiary countries improve their infrastructures and develop trade policies to enhance their export markets. Unlike the European Union, the United States has not incorporated financial aid into its trade agreements. However, in a slight departure from previous U.S. nonreciprocal trade programs, AGOA contains provisions for providing technical assistance to help build sub-Saharan countries' capacity to take advantage of program preferences. In addition, in July of 2000, the United States published a survey of the relevant U.S. government programs and activities that promote trade-related capacity building. The survey concluded that in the period covered (1999-2000), the United States government committed more than $600 million toward strengthening the trade-related capacity of developing countries and transitional economies. Such programs and activities include legal and regulatory reform, customs processes, infrastructure, and foreign investment incentives.

[36] These figures are based on trade-weighted average tariffs in which the value of trade by product across all imports provides weights for the tariff rates that are averaged together.

Although both U.S. and EU program preferences have been shared fairly equally among upper-middle income to low-income countries, a small number of large developing countries (based on overall size of the economy) have tended to account for a greater portion of the trade preferences. For example, in 1999, Angola, Thailand, Brazil, Indonesia, and India accounted for 60 percent of the trade preferences under the U.S. GSP program. Similarly, in the same year, China, India, Indonesia, South Africa, and Thailand accounted for 57 percent of the trade preferences under the EU GSP program.

Finally, program officials and some beneficiary countries contend that preferences offered under new programs can undermine the preferences of existing programs. For example, supporters of Colombia's efforts to enhance preferences offered by the ATPA program claim that Colombia has lost part of its apparel industry to the beneficiaries of the new CBTPA program.

Agency Comments and Our Evaluation

We obtained oral comments on a draft of this report from officials from the Office of the U.S. Trade Representative, including the Assistant U.S. Trade Representative for Trade and Development. USTR generally agreed with the information presented and provided technical comments that we incorporated as appropriate. Overall, USTR emphasized that our analysis represented a snapshot in time, based upon 1999 trade and, thus, generally did not address the impact of AGOA and CBTPA, U.S. trade preference programs enacted in 2000. USTR also highlighted the fact that the U.S. GSP program provides duty-free treatment to eligible products, while the EU GSP program provides graduated duties that are based upon product sensitivity. USTR disagreed with the characterization of U.S. rules of origin requirements as complex, and maintained that importers can use brokers and U.S. Customs binding rulings to clarify and interpret the rules. We did not conduct an independent analysis of how rules of origin may affect program beneficiaries' use of preferences, but cited the analyses of experts at UNCTAD and the OECD. In addition to USTR, officials from the U.S. International Trade Commission and the U.S. Department of Agriculture's Foreign Agricultural Service reviewed selected sections of the draft.

We also obtained informal comments from the Head of Unit, Trade and Development, European Commission. The European Commission raised some general issues and provided several technical comments that we incorporated into the report as appropriate. Overall, the European Community believed that our analysis implied too much similarity among

U.S. and EU programs. The EU also maintained that the major reasons for its program beneficiaries' lower use of program preferences compared with U.S. beneficiaries', was the EU GSP beneficiaries' ability to choose among multiple programs. Regarding the similarity between U.S. and EU trade preference programs, this report does not compare every aspect of the U.S. and EU programs, but concludes that the programs have generally evolved in similar ways, and that they offer similar tariff-rate reductions on average. Regarding the effect of multiple program eligibility on program use, we found that although EU beneficiaries utilize tariff preferences under the EU's other major program, ACP-EC Convention of Lome , to a greater extent than its GSP program, even the utilization rate of this program is less than 70 percent. We added language to the report emphasizing that the effectiveness of trade preference programs is dependent upon a combination of both the extent of product coverage, which is broader for EU programs than for U.S. programs, and the beneficiaries' actual use of the preferences offered.

We are sending copies of this report to the U.S. Trade Representative, the Secretary of Commerce, the Secretary of State; the Chairman of the U.S. International Trade Commission; and interested congressional committees. We are also sending copies to the European Commissioner for Trade. Copies will also be made available to other interested parties on request.

If you or your staff have any questions about this report, please contact me on (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix VI.

Sincerely yours,

Loren Yager

Loren Yager
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

In conducting our analysis, we compared (1) the volume of U.S. and EU nonreciprocal preferential trade, (2) the evolution of U.S. and EU approaches to nonreciprocal trade preferences, (3) the tariff preferences offered by the U.S. and EU nonreciprocal trade programs, and (4) the extent to which U.S. and EU program beneficiaries take advantage of the tariff preferences offered under the programs. We recently briefed your staff on the results of this analysis.

We reviewed U.S. and EU analyses of the trade preference programs, analyzed the texts of the relevant trade agreements, and reviewed reports issued by multilateral agencies that assessed the trade preference programs. We also obtained the views of U.S. and EU trade officials on the goals, operation, and effectiveness of the trade preference programs. To obtain the views of U.S. officials regarding preference programs, we interviewed officials from the U.S. Trade Representative in Washington, D.C.; at the U.S. Mission to the European Union in Brussels, Belgium; and at the World Trade Organization in Geneva. We also met with officials from the U.S. International Trade Commission, the Department of Commerce, and the Department of State. To obtain the views of the EU officials, we interviewed European Commission officials from the Trade Directorate; the External Relations Directorate; the Agriculture Directorate; the Taxation and Customs Directorate; and the Development Directorate in Brussels. We also spoke with officials with the EU Delegation to the United States in Washington, D.C. We obtained third-party assessments of the U.S. and EU trade preference programs by interviewing experts from the Organization for Economic Cooperation and Development in Paris, France, and from the World Trade Organization; the United Nations; and the International Trade Centre in Geneva, Switzerland.

To assess preferential tariff rates, we analyzed the tariff schedules of both the United States and the European Union provided by the United Nations Conference on Trade and Development, which were derived from official U.S. and EU sources. Some tariff rates are given as specific rates of duty (i.e., $5 per bushel) rather than ad valorem (percentage of value) rates. Ad valorem equivalent (AVE) rates are conversions of specific rates to ad valorem rates in order to allow average tariff rates to be calculated. Although AVE rates are available for the United States, they are not available for the European Union. Therefore, we did not use them in our analysis, and products subject to specific rates of duty are excluded from the tariff averages. Also, we did not assess the impact of nontariff trade barriers, such as quotas, on trade flows.

To assess U.S. trade flows, we analyzed data (imports for consumption) from the official Commerce statistics at customs value. To assess EU trade flows, we analyzed data on EU preferential trade provided by EUROSTAT, the official EU statistical organization. Data were only available on the EU GSP program from 1995 through 1999, and no data were available on the ACP program prior to 1999. EU preferential trade data have some limitations. First, the data are based on declarations by importers requesting preferential status and not on whether actual preference was granted. Countries or products not eligible for preference were screened out, but if the products were rejected trade preference status for another reason, this would not be apparent from the data. Second, the data may not capture all preferential trade since some ports of entry did not provide EUROSTAT with complete information. Total EU import data (normal imports) came from the EU's official trade statistics, COMEXT. Export data by country for all beneficiaries came from United Nations International Trade Statistics. To calculate utilization rates for each of the preference programs, we looked at the share of eligible trade (actual imports of products included in the programs) that actually received tariff benefits under the programs. Some countries were able to receive benefits for the same products under multiple programs. These countries tended to utilize regional programs rather than GSP when given the option. However, even these regional programs were not fully utilized and we chose to use all countries eligible for a program when reporting utilization rates.

We performed our work from October 2000 through May 2001 in accordance with generally accepted government auditing standards.

Appendix II: U.S. and EU Nonreciprocal Trade Preference Programs

This appendix contains tables that describe the U.S. and EU nonreciprocal trade preference programs. Table 3 illustrates the U.S. programs, and table 4 depicts the European Union's programs.

Table 3: U.S. Nonreciprocal Trade Preference Programs

Program title	Key dates	Number of beneficiary countries and territories	Other
Generalized System of Preferences	Authorized and enacted in 1974; implemented in 1976; preferences expire Oct. 1, 2001, and are subject to reauthorization.	146	Authorizes President to grant duty-free access to the U.S. market for certain products that are imported from designated developing countries and territories.
Caribbean Basin Economic Recovery Act (CBERA)	Enacted Aug. 5, 1983; extended and expanded through the Caribbean Basin Economic Recovery Expansion Act of 1990; no statutory expiration date.	24[a]	Trade-related component of Caribbean Basin Initiative launched in 1982 to promote export-oriented growth in the Caribbean region. Offers duty-free or reduced duties on most products from the region.
Andean Trade Preference Act	Enacted Dec. 4, 1991; preferences expire Dec. 3, 2001, and is subject to reauthorization.	4	Trade-related component of the Andean Trade Initiative launched in 1990 to combat production of illegal narcotics in Bolivia, Colombia, Ecuador, and Peru. Offers duty-free entry or reduced duties on eligible products from the region.
United States - Caribbean Basin Trade Partnership Act	Enacted May 18, 2000; preferences expire Sept. 30, 2008, or when the Free Trade Area of the Americas goes into effect.	24[a]	Allows imports of qualifying apparel from CBERA countries to enter duty free and quota free, and provides reduced duties for other products previously excluded under CBERA.
African Growth and Opportunity Act	Enacted May 18, 2000; preferences expire Oct. 1, 2008.	35	Grants duty-free treatment under the Generalized System of Preferences program to imports of qualifying apparel from eligible sub-Saharan African countries. Also eliminates U.S. quotas on imports of textiles and apparel from such countries.

[a] The 24 beneficiaries shown for the Caribbean Basin Economic Recovery Act are the same as those noted for the United States - Caribbean Basin Trade Partnership Act.

Source: GAO.

Table 4: EU Nonreciprocal Trade Preference Programs

Program title	Key dates	Number of beneficiary countries and territories	Other
Generalized System of Preferences (GSP)	Authorized 1971; expires 2004, and is subject to reauthorization.	171	Offers lower customs duties to developing countries.
	In force:		Series of contractual agreements between the European Union and African, Caribbean, and Pacific (ACP) states containing aid, trade, and political components.
ACP-EC[a] Convention of Lomé I	1975-80	46	
ACP-EC Convention of Lomé II	1980-85	58	
ACP-EC Convention of Lomé III	1985-90	65	
ACP-EC Convention of Lomé IV	1990-95	68	
Revised Convention of Lomé IV	1995-2000	70	
ACP-EU Partnership Agreement, "Cotonou Agreement"	Signed June 23, 2000; duration 20 years.	77 ACP states	Maintains trade regime of Lomé Convention until 2008, then phases in nonreciprocal arrangements with some ACP countries. Officially in force after ratification by European Union and national parliaments.
"Everything But Arms" Council Regulation (European Union)	Effective Mar. 5, 2001.	49 least developed countries (LDC)	Amends EU GSP to provide duty-free/quota-free access to EU market for all but arms and ammunition. Full coverage of bananas will be phased in by 2006; for rice and sugar by 2009.

[a] EC refers to the European Community, which was the predecessor to the European Union.

Source: GAO.

Appendix III: Additional Information on Beneficiary Country Trade, 1999

In this appendix, tables 5 to 9 provide information on U.S. and EU beneficiary country trade in 1999, according to trade program.

Table 5: U.S. GSP Beneficiary Country Trade, 1999 (Sorted by Actual U.S. Imports Receiving GSP Rates)

(Values in millions - $US)

Country	U.S. imports	Share of country's total exports destined for the U.S.	Dutiable U.S. imports	U.S. imports covered by GSP	Share of dutiable U.S. imports covered by GSP	Actual U.S. imports receiving GSP rates	Share of covered U.S. imports actually receiving GSP rates
Angola	2,349		2,270	2,269	100%	2,009	89%
Thailand	14,296	22%	6,850	2,416	35	1,953	81
Brazil	11,273	24	5,924	2,330	39	1,894	81
Indonesia	9,389	14	5,563	1,544	28	1,276	83
India	9,072	19	5,021	1,089	22	990	91
Philippines	12,379	34	4,111	1,236	30	821	66
Venezuela	10,390	54	7,870	549	7	529	96
South Africa	3,193	13	1,132	506	45	448	89
Russia	5,706	6	1,694	475	28	416	88
Chile	2,823	18	1,235	498	40	337	68
Turkey	2,591	10	2,149	384	18	335	87
Hungary	1,893	5	560	359	64	303	85
Poland	806	3	549	365	67	293	80
Czech Republic	754	2	532	297	56	205	69
Kazakhstan	226	1	225	191	85	188	99
Argentina	2,570	11	1,886	209	11	182	87
Zaire	232	*	122	121	100	114	94
Slovenia	276	3	181	117	65	97	83
Sri Lanka	1,744	41	1,613	98	6	86	88
Zimbabwe	135	*	121	76	63	75	99
Pakistan	1,742		1,662	70	4	64	91
Romania	432	4	367	77	21	63	81
Bahrain	227		181	58	32	58	100
Uruguay	193	7	148	58	39	57	97
Oman	219	1	209	57	27	55	96
Peru	1,871	30	1,226	275	22	52	19
Malta	325	23	80	54	67	50	92
Colombia	5,883	51	3,413	472	14	46	10
Slovakia	169	1	147	68	46	44	64
Dominican Republic	4,278	57	3,557	567	16	31	6
Bangladesh	1,922	38	1,794	32	2	30	92
Morocco	414	3	167	34	20	29	86
Ukraine	520		240	34	14	27	81
Egypt	703	15	630	27	4	25	92

(Values in millions - $US)

Country	U.S. imports	Share of country's total exports destined for the U.S.	Dutiable U.S. imports	U.S. imports covered by GSP	Share of dutiable U.S. imports covered by GSP	Actual U.S. imports receiving GSP rates	Share of covered U.S. imports actually receiving GSP rates
Croatia	109	2	47	29	62	25	85
Costa Rica	3,954	52	1,670	457	27	25	5
Malawi	59		44	43	97	25	57
Bulgaria	201	3	128	34	26	24	70
Lebanon	58		36	23	65	22	95
Ecuador	1,853	39	926	134	14	19	14
Macedonia	134	13	108	20	18	17	83
Paraguay	47	8	23	18	79	16	91
Guatemala	2,258	35	1,674	167	10	14	8
Tunisia	74	1	65	15	23	13	86
Fiji	101		89	13	14	13	99
Benin	18		12	12	99	12	100
Estonia	226	3	212	15	7	11	77
Belarus	92	1	80	11	14	11	95
Ghana	209	6	35	10	29	10	95
Ivory Coast	343		44	10	23	9	90
Mauritius	258		245	10	4	9	94
Swaziland	38		32	8	25	8	97
Bolivia	224	35	116	68	59	8	12
Equatorial Guinea	41		29	29	98	8	27
Honduras	2,712	58	2,453	172	7	7	4
Nepal	178	39	176	8	4	7	85
Congo	411		338	7	2	6	93
El Salvador	1,603	22	1,497	54	4	6	11
Jordan	31	1	29	6	21	5	82
Latvia	227	6	219	6	3	5	85
Madagascar	80	6	53	6	12	5	79
Kenya	106		55	8	14	5	62
Bosnia-Herzegovina	15		9	5	52	4	89
French Polynesia	43		10	5	45	4	81
Uzbekistan	27		19	4	23	4	83
Papua New Guinea	108		55	4	7	4	99
Lithuania	92	4	72	4	6	3	74
Armenia	15	11	14	3	22	3	89
Jamaica	664	33	478	57	12	3	5
Seychelles	5	*	4	3	62	3	97
Panama	338	48	168	47	28	3	5
Guyana	101		34	17	51	2	13
Albania	9	2	6	2	32	2	92

(Values in millions - $US)

Country	U.S. imports	Share of country's total exports destined for the U.S.	Dutiable U.S. imports	U.S. imports covered by GSP	Share of dutiable U.S. imports covered by GSP	Actual U.S. imports receiving GSP rates	Share of covered U.S. imports actually receiving GSP rates
Togo	3	1	2	1	71	1	99
Barbados	59	20	55	12	21	1	11
Tanzania	34	2	8	4	54	1	26
Cambodia	592		590	1	*	1	70
Haiti	301	83	288	22	8	1	4
Senegal	17	*	10	1	10	1	72
Trinidad and Tobago	1,285	42	667	136	20	1	*
Cameroon	77	2	48	1	3	1	40
St. Lucia	28	15	27	2	8	1	25
Ethiopia	30		2	1	67	1	49
St. Kitts and Nevis	33	57	32	25	79	**	2
Namibia	30		2	1	34	**	57
Moldova	89	3	88	1	1	**	38
Zambia	38	*	1	1	62	**	35
Tokelau Islands	6		5	2	30	**	20
Mali	9		6	**	7	**	77
Niger	5		1	1	36	**	52
Tonga	5		2	**	10	**	91
Anguilla	2		1	**	16	**	100
Suriname	123	18	7	**	4	**	60
Rwanda	4		**	**	47	**	80
Belize	80	46	46	10	22	**	1
Mozambique	10	12	1	**	13	**	100
Dominica	23	5	18	1	5	**	10
Guinea	115		7	5	79	**	2
Central African Republic	3	*	**	**	33	**	92
Burkina Faso	3		3	**	3	**	99
Cook Islands	1		**	**	70	**	31
Vanuatu	2		**	**	81	**	18
Gaza Strip	**		**	**	37	**	100
Cape Verde	**		**	**	93	**	80
Uganda	20	2	**	**	35	**	46
Norfolk Island	**		**	**	90	**	29
Yemen	15	*	10	9	89	**	*
Sierra Leone	10		2	**	17	**	8
Kyrgyz Republic	1	3	**	**	43	**	14
Gambia	**		**	**	33	**	44
Bhutan	**		**	**	22	**	12

(Values in millions - $US)

Country	U.S. imports	Share of country's total exports destined for the U.S.	Dutiable U.S. imports	U.S. imports covered by GSP	Share of dutiable U.S. imports covered by GSP	Actual U.S. imports receiving GSP rates	Share of covered U.S. imports actually receiving GSP rates
Burundi	7		1	1	96	**	1
Djibouti	**		**	**	91	**	92
Antigua Barbuda	2		1	**	10	**	3
New Caledonia	9		**	**	43	**	3
Solomon Islands	1		**	**	11	**	7
Lesotho	111		111	**	*	**	100
St Vincent and the Grenadines	8	2	8	7	94	**	*
British Indian Ocean Territory	3		**	**	18	**	*
British Virgin Islands	23		10	4	41	**	*
Chad	7		**	**	*	**	
Christmas Island	**		**	**	30	**	*
Cocos Islands	**		**	**	*	**	
Comoros	2		**	**	78	**	*
Eritrea	**		**	**	57	**	*
Falkland Islands	1		**	**	*	**	
Gibraltar	8		7	**	4	**	*
Grenada	20	17	14	11	80	**	*
Guinea-Bissau	**		**	**	99	**	*
Kiribati	1		1	**	*	**	
Mauritania	1		**	**	89	**	*
Niue	**		**	**	*	**	
Pitcairn Island	**		**	**	*	**	
Sao Tome and Principe	3		2	2	97	**	*
Somalia	**		**	**	39	**	*
St. Helena	**		**	**	31	**	*
Turks and Caicos Islands	6		3	**	*	**	*
Wallis and Futuna	**	*	**	**	87	**	*
West Bank	3	**	3	**	3	**	*
Western Sahara	**	*	**	**	*	**	
Subtotal (GSP countries)	**$131,325**		**76,830**	**18,825**	**25%**	**13,569**	**72%**
Total (all U.S. imports)	**$1,017,435**						

Legend

* = value rounds to zero

** = values are less than $1 million

Note 1: U.S. trade data are imports for consumption at customs value.

Note 2: Countries in this table may be eligible for other preference programs for the same products. Therefore, the amount of actual imports receiving a preference under this program for some countries may be lower if some imports are entering under another preference program.

Sources: United Nations Conference on Trade and Development (UNCTAD) Trade Analysis and Information System CD-ROM, U.S. Department of Commerce official trade statistics, United Nations International Trade Statistics, and GAO calculations.

Table 6: U.S. CBERA Beneficiary Country Trade, 1999 (Sorted by Actual U.S. imports Receiving CBERA Rates)

(Values in millions - $US)

Country	U.S. imports	Share of country's total exports destined for the U.S.	Dutiable U.S. imports	U.S. imports covered by CBERA	Share of dutiable U.S. imports covered by CBERA	Actual U.S. imports receiving CBERA rates	Share of covered U.S. imports actually receiving CBERA rates
Dominican Republic	4,278	57%	3,557	1,284	36%	820	64%
Costa Rica	3,954	52	1,670	808	48	683	85
Guatemala	2,258	35	1,674	320	19	285	89
Trinidad and Tobago	1,285	42	667	222	33	218	98
Honduras	2,712	58	2,453	385	16	180	47
Jamaica	664	33	478	96	20	90	93
El Salvador	1,603	22	1,497	134	9	59	44
Bahamas	194	71	111	66	60	56	84
Nicaragua	492	38	334	69	21	51	74
Panama	338	48	168	53	32	46	86
St. Kitts and Nevis	33	57	32	28	88	26	92
Barbados	59	20	55	51	91	25	49
Belize	80	46	46	23	51	23	99
Haiti	301	83	288	44	15	22	50
Guyana	101		34	21	61	15	71
Grenada	20	17	14	12	81	11	100
Dominica	23	5	18	10	57	9	93
St. Lucia	28	15	27	14	52	9	66
St. Vincent and the Grenadines	8	2	8	7	95	7	99
Netherlands Antilles	384		327	11	3	2	15
British Virgin Islands	23		10	4	43	**	8
Antigua Barbuda	2		1	**	16	**	11
Aruba	525		455	**	*	**	23
Montserrat	**		**	**	62	**	6
Subtotal (CBERA countries)	**19,365**		**13,924**	**3,662**	**26%**	**2,637**	**72%**
Total (all U.S. imports)	**1,017,435**						

Legend

* = value rounds to zero

** = values are less than $1 million

Note 1: U.S. trade data are imports for consumption at customs value.

Note 2: Countries in this table may be eligible for other preference programs for the same products. Therefore, the amount of actual imports receiving a preference under this program for some countries may be lower if some imports are entering under another preference program.

Sources: UNCTAD Trade Analysis and Information System CD-ROM, U.S. Department of Commerce official trade statistics, United Nations International Trade Statistics, and GAO calculations.

Table 7: U.S. Andean Trade Preference Act (ATPA) Beneficiary Country Trade, 1999 (Sorted by Actual U.S. Imports Receiving ATPA Rates)

(Values in millions - $US)

Country	U.S. imports	Share of country's total exports destined for the U.S.	Dutiable U.S. imports	U.S. imports covered by ATPA	Share of dutiable U.S. imports covered by ATPA	Actual U.S. imports receiving ATPA rates	Share of covered U.S. imports actually receiving ATPA rates
Colombia	5,883	51%	3,413	853	25%	797	93%
Peru	1,871	30	1,226	693	57	631	91
Ecuador	1,853	39	926	284	31	260	92
Bolivia	224	35	116	69	60	61	88
Subtotal (ATPA countries)	**9,830**		**5,681**	**1,899**	**33%**	**1,750**	**92%**
Total (all U.S. imports)	**1,017,435**						

Legend

* = value rounds to zero

** = values are less than $1 million

Note 1: U.S. trade data are imports for consumption at customs value.

Note 2: Countries in this table may be eligible for other preference programs for the same products. Therefore, the amount of actual imports receiving a preference under this program for some countries may be lower if some imports are entering under another preference program.

Sources: UNCTAD Trade Analysis and Information System CD-ROM, U.S. Department of Commerce official trade statistics, United Nations International Trade Statistics, and GAO calculations.

Table 8: EU GSP Beneficiary Country Trade, 1999 (Sorted by Actual EU Imports Receiving GSP Rates)

(Values in millions - $US)

Country	EU imports	Share of country's total exports destined to EU	Dutiable EU imports	EU imports covered by GSP	Share of dutiable EU imports covered by GSP	Actual EU imports receiving GSP rates	Share of covered EU imports actually receiving GSP rates
China	50,499	15%	41,514	16,794	40%	10,416	62%
India	10,020	29	7,746	5,683	73	4,398	77
Indonesia	8,505	13	6,382	4,562	71	2,552	56
South Africa	9,973	36	3,976	3,008	76	2,233	74
Thailand	9,767	16	7,015	3,330	47	1,903	57
Brazil	12,789	26	5,651	2,735	48	1,748	64
Vietnam	3,197		2,929	2,908	99	1,635	56
Mexico	4,167	4	2,525	2,346	93	1,441	61
Pakistan	2,256		2,139	1,232	58	972	79
Malaysia	12,513	15	4,598	1,811	39	921	51
Bangladesh	2,241	45	2,198	2,198	100	848	39
Russia	22,034	32	3,812	1,559	41	828	53
Colombia	1,994	15	1,336	1,024	77	759	74
Argentina	4,766	19	2,360	1,117	47	739	66
Philippines	5,647	21	1,924	1,434	75	602	42
Iran	4,880	4	718	699	97	444	63
Venezuela	1,799	6	609	542	89	410	76
Ecuador	993	17	933	542	58	402	74
Saudi Arabia	7,647	11	684	522	76	359	69
Peru	1,503	24	538	499	93	348	70
Ukraine	1,674		881	489	56	348	71
Sri Lanka	1,182	27	899	894	99	295	33
Costa Rica	1,826	22	891	476	53	272	57
Chile	3,635	25	1,197	516	43	270	52
Guatemala	412	11	392	357	91	243	68
Honduras	289	13	262	219	83	147	67
Cuba	294		257	204	79	139	68
United Arab Emirates	1,510		911	775	85	137	18
Kuwait	1,389		170	170	100	122	72
Belarus	390	8	250	194	78	121	63
Libya	6,942		473	140	30	121	86
Nepal	158	51	155	155	100	108	70
Algeria	6,279	63	803	765	95	102	13
El Salvador	174	13	171	170	99	88	52
Bahrain	250		239	214	90	78	37
Nicaragua	119	20	114	103	90	71	69
Uruguay	491	19	337	91	27	66	73

(Values in millions - $US)

Country	EU imports	Share of country's total exports destined to EU	Dutiable EU imports	EU imports covered by GSP	Share of dutiable EU imports covered by GSP	Actual EU imports receiving GSP rates	Share of covered EU imports actually receiving GSP rates
Egypt	2,172	41	1,097	979	89	65	7
Moldova	87	21	59	51	87	49	95
Uzbekistan	396		53	49	92	40	82
Turkmenistan	263		49	49	100	39	80
Syria	2,245		220	195	88	37	19
Cambodia	279		274	274	100	36	13
Kazakhstan	1,667	22	301	66	22	33	50
Nigeria	2,912	22	473	381	80	33	9
Laos	115		114	114	100	31	28
Morocco	4,994	62	4,051	3,567	88	27	1
Virgin Islands	37		31	31	100	24	77
Tajikistan	45		23	22	96	22	97
Tunisia	4,378	80	3,946	3,817	97	20	1
Kenya	816		606	583	96	15	3
Panama	375	19	312	33	10	14	44
Zimbabwe	756		559	471	84	14	3
Aruba	134		65	36	56	13	36
Georgia	120		32	30	94	13	44
Haiti	21	15	17	16	98	12	74
Paraguay	195	38	24	15	62	11	74
Belize	153	44	134	59	44	10	18
Bolivia	262	16	21	18	85	10	55
Netherlands Antilles	162		118	84	71	10	11
Uganda	270	35	232	232	100	9	4
Former Yugoslav Republic of Macedonia	389		363	23	6	9	38
Lebanon	163		102	97	96	9	9
Azerbaijan	468	46	36	35	96	8	24
Albania	74	93	45	36	80	8	21
Ethiopia	171		152	151	100	7	5
Croatia	1,627	48	1,234	21	2	7	34
Cyprus	412	50	314	279	89	6	2
Mauritius	1,130	70	1,085	737	68	6	1
Dominican Republic	234	25	171	143	83	6	4
Qatar	95		13	13	98	6	42
Mongolia	41	14	11	9	85	5	57
Yemen	23		12	12	100	5	42
Maldives	22	26	21	21	100	5	23

(Values in millions - $US)

Country	EU imports	Share of country's total exports destined to EU	Dutiable EU imports	EU imports covered by GSP	Share of dutiable EU imports covered by GSP	Actual EU imports receiving GSP rates	Share of covered EU imports actually receiving GSP rates
Macao	672		665	109	16	5	4
Ivory Coast	2,209		1,825	1,540	84	5	*
Trinidad and Tobago	293	11	205	160	78	4	3
Ghana	1,124	58	701	473	67	4	1
Zambia	211		77	74	96	4	5
Oman	40	2	22	22	96	4	17
Madagascar	519	63	468	456	98	4	1
Papua New Guinea	405		318	311	98	3	1
Tanzania	235	36	155	147	95	3	2
Afghanistan	27		9	9	100	2	28
Namibia	459		312	117	38	2	1
Cameroon	1,403	79	610	294	48	2	1
Malawi	211		184	161	88	1	1
Armenia	100	15	5	4	91	1	25
Botswana	440		59	13	22	1	8
Rwanda	31		26	26	99	1	4
Swaziland	138		134	30	22	1	3
Djibouti	5		4	4	96	1	25
Jamaica	497	30	493	95	19	1	1
Togo	68	14	35	35	99	1	2
Fiji	154		143	3	2	1	18
Mali	79		12	12	100	1	5
Congo	304		72	46	63	1	1
Grenada	15	47	12	12	96	1	5
Kyrgyz Republic	139	5	1	1	84	1	49
Gabon	376		114	46	41	**	1
Sierra Leone	61		32	32	100	**	1
Antigua Barbuda	4		4	3	74	**	13
Burundi	42		31	31	100	**	1
Senegal	388	23	349	299	86	**	*
Guinea	420		36	35	97	**	1
Burkina Faso	63		18	18	100	**	2
Jordan	128		62	58	93	**	*
Mayotte	3		2	1	75	**	22
Gambia	66		11	10	99	**	2
Polar Region	1		**	**	64	**	82
Eritrea	8		2	2	97	**	12
Bosnia and Herzegovina	296		257	6	2	**	4

(Values in millions - $US)

Country	EU imports	Share of country's total exports destined to EU	Dutiable EU imports	EU imports covered by GSP	Share of dutiable EU imports covered by GSP	Actual EU imports receiving GSP rates	Share of covered EU imports actually receiving GSP rates
Benin	42		9	9	95	**	2
Congo (Democratic Republic)	911		57	50	88	**	*
Bahamas	353	24	282	39	14	**	*
New Caledonia	149		12	12	98	**	1
Turks and Caicos Islands	1		1	**	94	**	27
Mozambique	116	37	77	76	98	**	*
Liberia	409		33	8	25	**	1
Surinam	155	34	146	20	13	**	*
British Virgin Islands	53		5	5	98	**	2
St. Pierre and Miquelon	8		2	1	35	**	15
Falkland Islands	87		74	63	85	**	*
Barbados	52	22	45	11	25	**	1
Mauritania	331		83	82	99	**	*
Niger	6		2	2	100	**	3
Sudan	195	33	39	17	44	**	*
Western Samoa	3		**	**	98	**	77
American Oceania	4		3	3	96	**	2
Central African Republic	191	97	11	9	80	**	1
Marshall Islands	7		2	2	99	**	2
Chad	59		**	**	87	**	35
Guyana	198		183	14	8	**	*
Wallis and Futuna	1		**	**	100	**	5
Tonga	2		2	2	100	**	1
Greenland	197	85	194	3	2	**	1
Bhutan	**		**	**	100	**	21
New Zealand Oceania	1		**	**	68	**	4
Comoros	7		4	4	95	**	*
St. Vincent	73	49	34	3	8	**	*
Vanuatu	15		2	2	100	**	*
Equatorial Guinea	334		19	13	66	**	*
Gibraltar	35		17	17	99	**	*
St. Lucia	57	65	56	3	5	**	*
Pitcairn	5		1	1	94	**	*
Solomon Islands	29		29	29	100	**	*
Dominica	31	37	28	5	18	**	*
Seychelles	123	90	119	8	7	**	*

(Values in millions - $US)

Country	EU imports	Share of country's total exports destined to EU	Dutiable EU imports	EU imports covered by GSP	Share of dutiable EU imports covered by GSP	Actual EU imports receiving GSP rates	Share of covered EU imports actually receiving GSP rates
Brunei	78		73	44	60	**	*
Cayman Islands	101		1	1	99	**	*
Angola	808		34	33	96	**	*
Anguilla	**		**	**	8	**	*
Australian Oceania	1		**	**	100	**	*
British Indian Ocean Territories	**		**	**	89	**	*
Bermuda	83		39	37	96	**	*
Cape Verde	13		13	12	99	**	*
Federated States of Micronesia	1		**	**	100	**	*
French Polynesia	35		12	10	83	**	*
Guinea-Bissau	9		6	6	100	**	*
Iraq	3,922		1	**	*	**	*
Kiribati	**		**	**	100	**	*
Lesotho	16		1	1	83	**	*
Montserrat	1		1	1	92	**	*
Myanmar	228		197	**	*	**	*
Nauru	2		1	1	100	**	*
Palau	**		**	**	100	**	*
Sao Tome and Principe	10		9	9	100	**	*
Somalia	1		**	**	93	**	*
St. Helena	1		**	**	55	**	*
St. Kitts and Nevis	13	38	13	3	22	**	*
Tuvalu	1		1	1	100	**	*
Subtotal (GSP countries)	**253,103**		**133,798**	**78,593**	**59%**	**37,418**	**48%**
Total (all EU imports)	**746,817**						

Legend

* = value rounds to zero

** = values are less than $1 million

Note 1: EU trade data are normal imports. Country-level values exclude some imports classified as confidential information.

Note 2: Countries in this table may be eligible for other preference programs for the same products. Therefore, the amount of actual imports receiving a preference under this program for some countries may be lower if some imports are entering under another preference program.

Sources: EUROSTAT, UNCTAD Trade Analysis and Information System CD-ROM, United Nations International Trade Statistics, and GAO calculations.

Table 9: EU African Caribbean and Pacific (ACP) Beneficiary Country Trade, 1999 (Sorted by Actual EU Imports Receiving ACP Rates)

(Values in millions - $US)

Country	EU imports	Share of country's total exports destined to EU	Dutiable EU imports	EU imports covered by ACP	Share of dutiable EU imports covered by ACP	Actual EU imports receiving ACP rates	Share of covered EU imports actually receiving ACP rates
Mauritius	1,130	70%	1,085	1,084	100%	964	89%
Ivory Coast	2,209		1,825	1,789	98	926	52
Ghana	1,124	58	701	684	98	418	61
Madagascar	519	63	468	466	100	396	85
Zimbabwe	756		559	558	100	389	70
Kenya	816		606	605	100	361	60
Cameroon	1,403	79	610	591	97	333	56
Jamaica	497	30	493	492	100	325	66
Senegal	388	23	349	348	100	320	92
Namibia	459		312	311	100	285	91
Bahamas	353	24	282	282	100	270	96
Nigeria	2,912	22	473	461	97	245	53
Papua New Guinea	405		318	317	100	198	62
Uganda	270	35	232	232	100	178	77
Trinidad and Tobago	293	11	205	205	100	154	76
Malawi	211		184	184	100	130	71
Guyana	198		183	143	78	127	89
Fiji	154		143	143	100	124	87
Ethiopia	171		152	152	100	109	72
Swaziland	138		134	134	100	99	74
Seychelles	123	90	119	119	100	98	82
Tanzania	235	36	155	154	99	96	62
Dominican Republic	234	25	171	171	100	93	54
Mauritania	331		83	82	99	80	97
Mozambique	116	37	77	76	99	69	90
Belize	153	44	134	133	99	66	50
Surinam	155	34	146	137	94	56	41
St. Lucia	57	65	56	56	100	55	98
Botswana	440		59	59	100	45	75
Congo (Democratic Republic)	911		57	50	88	44	88
Congo	304		72	68	94	39	57
Gabon	376		114	112	99	39	34
Zambia	211		77	77	100	38	49
Barbados	52	22	45	45	100	35	79
St. Vincent	73	49	34	34	100	33	97

(Values in millions - $US)

Country	EU imports	Share of country's total exports destined to EU	Dutiable EU imports	EU imports covered by ACP	Share of dutiable EU imports covered by ACP	Actual EU imports receiving ACP rates	Share of covered EU imports actually receiving ACP rates
Angola	808		34	33	96	29	87
Togo	68	14	35	35	99	27	79
Dominica	31	37	28	28	100	26	94
Guinea	420		36	35	97	26	74
Solomon Islands	29		29	29	100	23	78
Burundi	42		31	31	100	20	64
Sudan	195	33	39	28	72	17	62
St. Kitts and Nevis	13	38	13	13	100	12	95
Rwanda	31		26	26	100	11	43
Cape Verde	13		13	12	100	11	86
Sierra Leone	61		32	25	79	9	38
Equatorial Guinea	334		19	13	66	9	70
Gambia	66		11	10	99	9	82
Central African Republic	191	97	11	9	80	8	94
Burkina Faso	63		18	18	100	8	43
SaoTome and Principe	10		9	9	100	6	68
Benin	42		9	9	96	5	62
Grenada	15	47	12	12	100	5	43
Guinea-Bissau	9		6	6	100	5	72
Mali	79		12	12	100	4	37
Comoros	7		4	4	100	3	69
Liberia	409		33	8	25	2	22
Haiti	21	15	17	16	99	2	10
Antigua and Barbuda	4		4	4	99	2	39
Nauru	2		1	1	100	1	100
Vanuatu	15		2	2	100	1	71
Niger	6		2	2	100	1	47
Eritrea	8		2	2	100	1	49
Tonga	2		2	2	100	1	31
Djibouti	5		4	4	99	**	13
Lesotho	16		1	1	83	**	43
Tuvalu	1		1	1	100	**	14
Somalia	1		**	**	100	**	25
New Zealand Oceania	1		**	**	98	**	1
Western Samoa	3		**	**	98	**	8
Chad	59		**	**	87	**	*
Federated States of Micronesia	1		**	**	100	**	*

(Values in millions - $US)

Country	EU imports	Share of country's total exports destined to EU	Dutiable EU imports	EU imports covered by ACP	Share of dutiable EU imports covered by ACP	Actual EU imports receiving ACP rates	Share of covered EU imports actually receiving ACP rates
Kiribati	**		**	**	100	**	*
Marshall Islands	7		2	2	99	**	*
Palau	**		**	**	100	**	*
Subtotal (ACP countries)	**21,268**		**11,212**	**10,996**	**98%**	**7,521**	**68%**
Total (all EU imports)	**746,817**						

Legend

* = value rounds to zero

** = values are less than $1 million

Note 1: EU trade data are normal imports. Country-level values exclude some imports classified as confidential information.

Note 2: Countries in this table may be eligible for other preference programs for the same products. Therefore, the amount of actual imports receiving a preference under this program for some countries may be lower if some imports are entering under another preference program.

Sources: EUROSTAT, UNCTAD Trade Analysis and Information System CD-ROM, United Nations International Trade Statistics, and GAO calculations.

Appendix IV: Products Receiving the Greatest Tariff Preferences

Some of the products covered under the U.S. and EU nonreciprocal trade preference programs receive significant tariff reductions. For example, the U.S. GSP program covers some products that normally face duties of up to 30 percent, including cantaloupes, certain ceramic products, and macadamia nuts. Table 10 shows the products for which the difference between the U.S. most-favored-nation (MFN) rate and GSP rate is at least 15 percentage points.

Table 10: U.S. Imports for Which the Difference Between the MFN and GSP Tariff Is at Least 15 Percent, 2000

Product description	MFN rate	GSP rate	Difference
Cantaloupes	29.8%	0%	29.8%
Porcelain kitchenware	26	0	26
Ceramic serviette rings	22.9	0	22.9
Okra	20	0	20
Articles for pocket or handbags	20	0	20
Salad and cooking oils	18	0	18
Macadamia nuts	17.9	0	17.9
Artificial flowers	17	0	17
Certain preserved plants	16	0	16
Parts and accessories of telescopic sights	16	0	16
Railway, tramway passenger coaches or cars	15.6	0	15.6
Ceramic mugs	15.4	0	15.4
Sturgeon	15	0	15
Caviar	15	0	15
Headbands	15	0	15
Titanium bars and rods	15	0	15

Note: Product descriptions are not legal definitions but are intended to provide an indicator of the type of product discussed. Different tariff rates may be applied to similar types of products that vary by one or more product characteristic, such as weight.

Sources: UNCTAD Trade Analysis and Information System CD-ROM and GAO calculations.

The European Union also offers some significant reductions for its GSP beneficiaries. The European Union reduces tariffs on certain products, such as smoking tobacco, fruit juices, and tuna, and eliminates duties on pineapples and road tractors. Table 11 shows the products for which the difference between the EU MFN rate and GSP rate is at least 15 percentage points.

Table 11: EU Imports for Which the Difference Between the MFN and GSP Tariff Is at Least 15 percent, 2000

Product description	MFN rate	GSP rate	Difference
Pineapples	25.6	0	25.6
Smoking tobacco	74.9	52.4	22.5
Juice of fruit or vegetables	33.6	11.7	21.9
Cigarettes, cigars, etc.	57.6	40.3	17.3
Perfumes and oils	17.3	0	17.3
Cigars, etc.	26	9.1	16.9
Mixtures of fruit, etc.	25.6	8.9	16.7
Road tractors for semitrailers	16	0	16
Homogenized preparations of fruit jams	24	8.4	15.6
Mixtures of fruit, etc.	24	8.4	15.6

Note: Product descriptions are not legal definitions but are intended to provide an indicator of the type of product discussed. Different tariff rates may be applied to similar types of products that vary by one or more product characteristic, such as weight.

Sources: UNCTAD Trade Analysis and Information System CD-ROM and GAO calculations.

Appendix V: U.S. and EU Tariffs That Are Greater Than 20 Percent, for Products Excluded From the Non-LDC GSP Programs

Table 12: U.S. Tariffs That Are Greater Than 20 Percent for Products Excluded From Non-LDC GSP Program, 2000

Product description	MFN rate	GSP (LDC) rate	CBERA rate	ATPA rate
Tobacco [a]	350	.	.	.
Peanuts [a]	132 to 164	.	.	.
Peanut butter [a]	132	.	.	.
Footwear	26.2 to 48	.	.	.
Glassware	26 to 38	0	0	0
Tunas and skipjack	35	0	.	.
Apparel (various types)[b]	20 to 33	.	.	.
Glassware, drinking glasses	32.3	0	0	0
Brooms of broomcorn	32	0	0	0
Ceramics table and kitchenware	30.8	0	0	0
Glassware	30	0	0	0
Onion, garlic powder, or flour	29.8	.	0	0
Dates	29.8	0	0	0
Apricots	29.8	0	0	0
Woven fabric of animal hair	29.4	.	.	.
Porcelain or China table or kitchenware	29	0	0	0
Ski suits	22.3 to 28.8	.	0	.
Woven fabrics of wool	28.2	.	.	.
Melons	28	0	0	0
Bovine meats [a]	26.4	.	.	.
Dairy products [a]	20 to 25	0	0	0
Trucks	25	0	0	0
Gloves	24.1	.	23	23
Woven fabric of cotton, etc.	21.3 to 24	.	.	.
Ceramic food and drink kitchenware	23.1	.	.	.
Mixtures of nuts and seeds	22.4	0	0	0
Dates, prepared or preserved	22.4	0	0	0
Pillowcases	22.1	.	.	.
Goya cheese	21.3	0	0	0
Asparagus	21.3	0	0	0
Sweet corn	21.3	.	0	0
Dried onions, except powder or flour	21.3	.	0	0

Note: Product descriptions are not legal definitions but are intended to provide an indicator of the type of product discussed. Different tariff rates may be applied to similar types of products that vary by one or more product characteristic, such as weight.

[a]These products are subject to tariff-rate quotas. Tariff-rate quotas allow a certain quantity of a product to be imported at a low “in-quota” rate, while any remaining quantity enters at a higher “out-of-quota” rate. The MFN tariff rates listed for these products are generally the “out-of-quota” rates.

[b]This category covers a wide variety of types of apparel products. Although the CBERA program does not cover the majority of these, a few types, including certain ski suits, do receive zero duties under CBERA.

Sources: UNCTAD Trade Analysis and Information System CD-ROM and GAO calculations.

Table 13: EU Tariffs That Are Greater Than 20 Percent for Products Excluded From the Non-LDC GSP Program, 2000

Product description	MFN rate	GSP (LDC) rate	ACP rate
Grape must	32	.	.
Apricots	25.6	0	0
Sardines	25	0	0
Anchovies	25	0	0
Tunas	24	0	0
Euthynnus (type of fish)	24	0	0
Apple purée	24	0	0
Jams, fruit jellies, marmalades	24	0	0
Apricots	24	0	0
Miscellaneous fruit preparations	24	0	0
Sardines	23	0	0
Plum purée and paste	22.40	0	0
Albacore	22	0	0
Tunas	22	0	0
Skipjack	22	0	0
Euthynnus (type of fish)	22	0	0
Strawberries	20.8	0	0
Apricots	20.8	0	0
Sour cherries	20.8	0	0

Note: Product descriptions are not legal definitions but are intended to provide an indicator of the type of product discussed. Different tariff rates may be applied to similar types of products that vary by one or more product characteristic, such as weight.

Sources: UNCTAD Trade Analysis and Information System CD-ROM and GAO calculations.

Appendix VI: GAO Contacts and Staff Acknowledgments

GAO Contacts

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