Making Trade Preferences More Effective

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Do trade preferences work?

Trade preferences are intended to help developing countries export. But do they? There is a lively debate over whether the 'gains' for favoured states are 'paid for' by other countries that may be equally poor. Even for the favoured states, though, questions have been raised over how far their producers benefit. Does the 'small print' of the trade preferences prevent exporters in general (or poor producers in particular) from taking full advantage of them? Who gains most: exporters or rich-country importers?

Trade preferences do work …

These questions have been addressed in a study by the Institute of Development Studies (IDS) comparing the trade preferences offered by Canada, EU, Japan and USA (the 'Quad') to Africa[1] with a view to extending 'best practice'. The objective is to improve the effectiveness of trade preferences. By identifying best practice in areas where the details of the regimes differ it can recommend changes to specific provisions in some agreements that would improve them to the level of best practice within the group and enable exporters to make better use of them.

IDS concludes that EU preferences have had a significant positive impact on the relatively small number of African states that are able to export preferred products, and that the USA's African Growth and Opportunity Act (AGOA) has boosted clothing exports. The principal areas for further action are on the supply side, to facilitate diversification into preferred goods by a larger number of countries and to assist countries to meet increasingly onerous sanitary and phytosanitary standards (SPS). But there is also a need to change rules of origin that restrict trade.

… but practice can be improved

The existence of a preference is better for its beneficiaries, *ceteris paribus*, than its non-existence, and a deep cut in the protectionist import restrictions of the granting state is better than a shallow one. But the matter does not end here. There are features of a preference agreement that can enhance or retard its development impact in addition to the simple matters of breadth (number of items covered) and depth (reduction in protection).

Improvements for preference recipients need not necessarily cause more pain for non-recipients. They could:

- either transfer gains from importers/consumers to exporters/producers (e.g. by increasing the negotiating power of the latter over distribution of the gains);
- or increase the gains of the preferred supply chain over non-preferred competitors (e.g. by deepening preference margins).

The study has focused on the first.

Which exports?

This briefing paper identifies the products exported by African states to Quad markets for which preferences may confer a significant commercial advantage. It reports evidence on whether the scale and distribution of these gains is influenced by the detailed provisions of the relevant trade agreements. It uses a specially constructed database (Box 1) and the results of fieldwork in five sub-Saharan African (SSA) countries: Botswana, Kenya, Lesotho, Mauritius and South Africa (see Boxes 3–7).

Box 1. The database

To identify the exports that receive preferences of different kinds in the Quad, a database was compiled of the 179 products that fulfil all of the following criteria:

1. they were exported to the EU by at least one African country to a value of $5 million or more in 2000;
2. they face an MFN tariff in the EU of 10% or more;
3. they do not obtain zero percent preferential tariffs in all four Quad markets.

The first criterion establishes that there is a supply capacity.[1] The second indicates that the preference could be commercially useful. The third is required because the study is comparing differences in treatment in the Quad: it excludes items that appear to have identical treatment.

The database was then analysed to identify cases in which there are differences in the pattern of export to the four Quad markets and for which there exists some *prima facie* evidence that this difference might be due to variations in preference details.

[1] Additional checks were made for the five case studies to determine if there were other products exported to non-Quad markets that might be excluded from the Quad by heavy protectionism. None was found.

Which markets?

The EU is overwhelmingly the most important market for African exports, taking almost 50% more items than the other three Quad put together (Table 1).[2] Moreover, there are very few items that are imported into one of the other three Quad members and not into the EU.[3]

The EU also has the widest range of trade agreements among the Quad: no fewer than eight apply to Africa. All the countries of the region are eligible for the Generalised System of Preferences (GSP), but all of those south of the Sahara (except South Africa) also benefit from the Cotonou Agreement and, in the case of the least developed countries (LDCs), the 'Everything but Arms' (EBA) regime. In addition, South Africa and most of the North African countries have their own bilateral agreements. The North African ones are of long standing but have been recently transformed into reciprocal free trade area agreements, with many similar provisions.

All African countries except Algeria, Libya, Liberia and Sudan are eligible for the USA's GSP, and 30 of them benefit from the additional provisions for LDCs. The only agreement relating specifically to Africa is

Table 1. Quad imports from Africa: the broad picture

		EU	USA	Japan	Canada
# tariff line imports from Africa >$1mn in 2000		1,710	498	172	116
# for which no tariff data in TRAINS		8	7	9	—
Total items for which tariff data available		**1,702**	**491**	**163**	**116**
# for which various preferences applicable to African countries available					
GSP [a]		1,452	118	35	11
LDC [b]		1,710	71	38	33
Cotonou		1,612			
AGOA			125		
South Africa		1,439			
Egypt		1,379			
Morocco		1,571			
Tunisia		1,550			
Algeria		1,497			
Summary					
MFN zero:	# of lines	453	207	88	75
	% of total lines	*27%*	*42%*	*54%*	*65%*
At least one preference available:	# of lines	1,692	256	38	33
	% of total lines	*100%*	*51%*	*23%*	*28%*
MFN > zero and no preference available:	# of lines	—	31	39	8
	% of total lines	—	*6%*	*24%*	*7%*

Notes:
(a) Figures do not take account of revised EU GSP in 2002 and revised Japanese GSP in 2003.
(b) EU figure assumes all items free under EBA (even those for which phase-out not yet started). Canadian figure does take account of revised GSP for LDCs effective 1 September 2000 (even though not included on TRAINS).
Sources:
Trade data: EU – Eurostat 2001; Canada – UNCTAD TRAINS/WITS; Japan – Japanese customs (http://www.customs.go.jp/toukei/ info/index_e.htm); US – USITC (http://dataweb.usitc.gov/scripts/user_set.asp).
Tariff data: UNCTAD TRAINS/WITS; http://otexa.ita.doc.gov/AGOA-CBTPA/AGOA_Interim_Regulations.pdf.

AGOA, under which 24 of the 48 SSA countries are eligible for the full range of preferences, and 13 for the non-apparel preferences only.

Almost all African countries are covered by the GSPs of Canada and Japan, and both countries provide superior regimes for LDCs (34 African states in the case of Canada and 31 for Japan). This means that there are no special regimes just for African exporters: they trade on the same terms as other preference recipients.

The products

Despite this potential, not all African exports to the Quad receive trade preferences; in fact, most do not. This is not because the items are excluded from the preference agreement. On the contrary – they are included, but the same terms are available to all (or most) potential suppliers because the Quad offer liberal market access across the board. Hence the preference for Africa confers no commercial advantage. Two-thirds of the major items Africa exports to Canada, for example, face zero MFN tariffs; and 69% of EU imports from Africa (by value) in 2000 were in items facing zero MFN duties.

In order to avoid the methodological problems that plague trade preference analysis, it is essential to focus on:

- the (small number of) products that Africa currently exports to a Quad market (or could reasonably do so if access conditions change) for which the preference agreement offers a significant commercial benefit;
- the effect of the preference agreement on the whole commercial relationship (value chain) over time.

The effective preferences of the Quad for Africa are concentrated on a single manufactured good (clothing), a range of (mainly temperate) agricultural products, and fish. Clothing is imported to greater values for a wider range of exporting countries and sub-products than are any of the other commodities analysed. It is imported into both the EU and the USA, but not into Japan or Canada, and very different trade policy arrangements apply in the four markets. The introduction of AGOA has provided a rare opportunity to make comparisons between 'before' and 'after', between full and partial AGOA beneficiaries, and between exports to the USA and to the EU.

The sector is also extremely relevant because the phase-out of the Multifibre Arrangement (MFA) by 2005 means that the commercial value of preferences will change substantially. African states have a very short window of opportunity to establish viable clothing industries before facing what is likely to be a much more competitive international environment.

Other products that receive effective preferences are sugar, fresh and prepared fruit and vegetables, fresh and preserved fish and meat. Preference differences for sugar have had a very clear impact both on the pattern of trade and on the benefits accruing to exporting countries. Clear differences also exist in the pattern of trade for fresh fruit and vegetables and chilled/frozen meat. Whilst these are partly influenced by time zones, the artificially high prices induced by the EU's Common Agricultural Policy (CAP) and limited African supply capacity, the case study evidence indicates that preferences have had an effect.

Which exporters?

The distribution of effective preferences between states is very uneven because it depends on their export basket. The greatest concentrations are found at the geographical extremes: most North and Southern African states have preferred exports, usually on a

Table 2. Factors affecting the impact of a preference

Feature	Characteristics tending to:	
	reduce country impact	*enhance country impact*
1. Geographical coverage	Most supplying states receive preference	Few supplying states receive preference
2. Depth of preference	Small improvement in market access compared with competitors	Substantial improvement in market access compared with competitors
3. Tariff quotas	Global quotas	Country-specific quotas
4. Duration	Short	Long
5. Legal basis	Autonomous, subject to arbitrary change	Contractual, with effective dispute settlement
6. Origin rules	High domestic processing requirement with limited cumulation	Lower domestic processing requirement with broad cumulation

range of items. Central and West Africa have the lowest utilisation: few countries in Central Africa have any significant preference-receiving exports, while in West Africa they are mainly limited to fish.

The details of preferences

Some provisions in preference agreements can affect the bargaining power of elements in a supply chain. Table 2 summarises the characteristics most likely to have an effect.

In broad terms, the closer the characteristics of a specific agreement are to those that 'enhance country impact' the better. The most common factor diluting the commercial impact of preferences is their availability. Often a preference is available effectively to all potential suppliers, in which case it is as if it did not exist. A similar effect occurs when the margin of preference is very small. In this case, the margin may be either over MFN levels or over the preferential rates enjoyed by a significant number of other suppliers.

Research on whether a preference of just a few percentage points has an impact is inconclusive. One plausible conclusion is that it depends upon how well established the trade flow has become. In the cut-throat competition to supply European supermarkets with out-of-season produce from Africa, for example, even a modest import tax cut is likely to have an impact on purchasing decisions – but it may not be sufficient to stimulate the emergence of a trade that did not previously exist.

At the other end of the scale the bargaining power of the supplying country is enhanced when only a small number of potential supplying countries receive the preference, especially if importers cannot switch imports between preferred states. For example, the tariff quotas under the Cotonou Sugar and Beef Protocols are country specific. If, say, Tate and Lyle do not buy raw cane sugar from Mauritius, they cannot 'make it up' from other suppliers. This enhances the bargaining power of the supplier.

At the same time, when preferences are quota restricted in this way it is vital that the exporting country *does* obtain an increase in its price as a result of the tax cut because it cannot raise the volume of exports.[4] The worst case, therefore, is one in which preferences are heavily constrained by volume but apply to many suppliers (Box 2). This problem could arise with the EBA sugar and rice preferences during the period until 2009 when they are limited by tariff quotas.[5]

Box 2. Restrictive preferences

A case in point is provided by frozen beef. Under Cotonou, four African countries have preferential tariff quotas for chilled and frozen beef. The EU also offers non-preferential tariff quotas under the Agreement on Agriculture. But, whereas the Agreement on Agriculture tariff quotas on chilled beef are country specific, those on frozen beef are not. This makes price competition on frozen beef more severe – with knock-on effects for the price received by the Cotonou exporters. See Perry *et al.* 2003 for further information on the beef trade.

The division of the spoils is also affected by the certainty and duration of an agreement. In cases where preferences may be withdrawn (for example because they are subject to ceilings or anti-surge provisions), importers may not know until after the event whether or not they will receive the tax reduction. They are unlikely to pass on to exporters in the form of higher prices a tax cut that they may not receive, and their incentive to increase imports from the preferred source may also be muted. For example, it is known that EU importers sometimes cite a fear of tax evasion penalties as a reason not to claim a tariff preference (Cerrex 2002).

EU data on whether preferences are claimed are poor in terms of detail and availability. But, with these caveats, there is no evidence that a failure to claim is a serious problem for SSA.[6]

The gain for a preference-receiving country from an agreement that is of limited or uncertain duration is particularly questionable where increased supply requires investment. Much of the AGOA-induced investment in clothing production has had short payback times given the post-MFA uncertainty.

Rules of origin

A finger is often pointed towards rules of origin as the main example of 'small print' that can prevent a preference that exists on paper having a positive impact. IDS concludes that the criticism is justified for clothing.

The rules specify the value added or processes that must be undertaken in a country before it can claim 'ownership' of the goods and, hence, the preference. They are necessary as long as importing states maintain country-specific differences in their treatment of goods. Their legitimate aims are:

- to ensure that the country benefiting from a trade agreement is the one that policy-makers intended;

- to foster industrial development within the preference-receiving country by requiring investment in additional stages of manufacturing.

The danger, though, is that the origin rules form a barrier to trade. They may set commercially unattainable targets, so that the preference is under- or un-utilised.

The experience of clothing during the period before and after AGOA demonstrates very clearly that the EU rules (and the 'standard' AGOA ones) have constrained African capacity and made their clothing industries weaker than they might otherwise have been. The special AGOA derogation of the standard origin rules for lesser developed countries has enabled exports to take off. Despite the limited degree of processing that results, the gains are useful. They reflect new forms of industrial organisation in which production is now typically distributed around the world. Critics of the EU's origin rules argue that it makes little industrial sense to require many processes to be undertaken within a single political entity.

The survival of the industry after the MFA expires is more problematic. The outlook must be, at best, uncertain. But this gloomy picture would cast doubt on the economic desirability of liberal origin rules only if other exporters without the AGOA derogation – Mauritius and South Africa – survived the expiry of the MFA much better. In fact, both countries are extremely concerned by the potential consequences of the expiry, and neither seems to believe that survival chances are being *enhanced* by the backward linkages into the domestic textile industry; rather the reverse.

The economic impact of 'over-' or 'under-' specification in the rules of origin is asymmetrical. Unduly onerous origin rules will reduce to zero the economic benefits of a preference agreement; there will be no trade. Over-liberal rules will produce less stimulus to industrial investment than those that are 'just right', but the preference recipients will still obtain some economic gain. Since it will always be very difficult to set the rules so that they are 'just right', preference-givers should always err on the side of cautious liberality.

Box 3. Lesotho

The preference story in Lesotho is clothing: 10,000 clothing jobs were created in 2001 alone, making the private sector for the first time in the country's history a larger domestic employer than government. Most of the clothing growth has occurred since AGOA; previously exports to the USA and EU had been slight.

Lesotho demonstrates that one factor determining the direction of exports is the intentions of the investors, and that a fundamental role of preferences is in influencing investor decisions. The Lesotho garment industry fits into a supply chain in which massive orders from US brands, importers and retailers are awarded to multinational companies, often with their head offices in Asia. These companies break down the bulk orders into sub-orders that they place with their affiliates around the world to take advantage of their relative areas of competitiveness, including market access terms.

In this system competition for a sub-contract is almost exclusively on the basis of price. Lesotho is concerned solely with what is called 'cut, make and trim' (CMT): all of the inputs are supplied by the parent company; none is bought locally.

Consequently the industry is vulnerable to changes in the external market. Its clothing does not meet the Cotonou origin rules and nor will it meet the AGOA rules of origin after the expiry of a derogation that allows 'lesser developed countries' to use Far Eastern cloth. Even if the origin rules derogation is extended, there remains the problem that MFA quotas on Asian suppliers will be removed after the end of 2004.

Box 4. Mauritius

Two of the three traditional pillars of the Mauritian economy (sugar and clothing) have benefited substantially and directly from preferences, while the third (tourism) has benefited indirectly from reinvested profits. Both preferences, though, face challenging times: sugar as a result of change to the EU's CAP and WTO rules, and clothing because of the MFA's expiry.

Mauritius has overwhelmingly the largest quotas under the EU preferential sugar regimes. But the cost of production is relatively high by world standards. To meet the challenge posed by declining EU prices the government and sector have embarked on a five-year strategic reform programme.

The EU takes two-thirds of Mauritius's substantial clothing exports, and the USA just under one-quarter. Mauritius had exports of clothing to the EU exceeding €1 million in 2002 in no fewer than 38 items, on all of which it receives a significant preference. Under AGOA the USA also now provides significant preferences for clothing, even though AGOA I was a bit of a flop; things only started to happen with AGOA II. With South Africa, Mauritius is the only clothing exporter not to receive the AGOA derogation to the rules of origin allowing global sourcing of inputs.

Canned tuna is Mauritius's third-most-important merchandise export and it, too, benefits from preferences. The industry complains that onerous EU rules of origin contribute to a higher cost of production than would otherwise apply, despite having obtained a derogation to purchase fish from outside its waters when the local catch is too low. The derogation is limited to a tariff quota which is said to be insufficient to allow the canneries to operate at full capacity throughout the year.

Rules may be made less onerous either directly (by altering them to require less added value/fewer processes to be undertaken domestically) or by enlarging the range of countries from which imports may be sourced without the end product losing originating status. The second of these is known as cumulation: some agreements allow for inputs to be derived from a very large number of countries, but others are more restrictive. Wider is always better.

Sanitary and phytosanitary standards

Clothing preferences have been useful in the past, but their day may be nearly over. It is difficult to avoid the conclusion that, for those countries able to produce them, non-traditional agricultural products represent 'the future' for trade preferences on goods. They avoid one of the main dangers levelled against trade preferences, which is that they may 'trap' countries in the continued production of a good in which they are no longer (or never have been) competitive. This criticism is unlikely to apply to high-value horticulture and other non-traditional fresh agricultural exports because the markets are intensely competitive and do not carry passengers.

Although origin rules and preference erosion are not major issues, agriculture (and livestock) have their own question mark: SPS. There can be no question of

Quad countries adopting lower SPS for African producers, and in principle such standards (if applied to all suppliers) should not necessarily be a particular problem for SSA. In practice, though, four sets of problems arise from the ever-changing SPS requirements of major markets, some of which could be alleviated either through modulations to the existing trade agreements or through aid in support of trade.

The four problem areas are regulation that:

- is inappropriate to SSA circumstances;
- skews the distribution of gains from trade;
- is disproportionately onerous for small exporters;
- changes too rapidly.

The IDS case studies provide some illustrative examples. The second problem – closely linked to the poverty impact of trade – has arisen in relation to EU traceability requirements and regulations on pesticide residues. Whilst Kenyan exporters appear able to meet EU requirements, they have contributed to a sharp fall in the number of smallholders who can participate in the trade. Since the traceability requirements are commerce led and the underlying trend appears to be in the same direction (towards a concentration of supply), it is not clear that there is a great deal that importing governments can do through their trade policy to influence the situation.

Another example, from Botswana in relation to beef exports, provides greater scope for EU action. The government of Botswana has felt obliged to introduce the tagging of cattle in order to ensure its continued ability to meet EU veterinary requirements. This is a matter of concern: it may limit small-farmer participation – especially if it becomes the norm in other countries with more limited scope to fund the costs from government resources.

Box 5. Botswana

Botswana's sole significant preferential export is chilled and frozen boneless beef: its exports to the EU are substantial and probably would not occur in the absence of preferences. The dominant sources of EU beef imports are in Latin America. The structure of Botswana's preferential regime constrains these major suppliers from taking over its market share.

One key challenge for Botswana is to maintain its foot and mouth disease (FMD) status. This has been difficult in the recent past with the civil disorder in Zimbabwe. Ever more stringent requirements from the EU (and, increasingly, other markets) to demonstrate the absence of FMD (or bovine spongiform encephalopathy – BSE) require government and farmers to adapt.

Even without the SPS issue, though, Botswana faces a market-driven challenge to increase its output in order to offset any decline in EU unit prices. Increased output would also be needed if a post-2007 trade regime with the EU provided a global quota for all of the Southern African states, leading to competition between them to achieve the economies of scale that would come from being the sole or dominant Southern African supplier. In the longer term a gradual enlargement of EU imports from Latin America and Australasia could provoke competition for market share with the Southern African states. As in the case of Mauritian sugar, therefore, there is a need for the sector to increase its competitiveness if it is to survive, although the timeframe for this does not appear to be so severe as it is for sugar.

Box 6. Kenya

Horticulture/floriculture is the most substantial Kenyan export that benefits from trade preferences. Kenya supplies over one-third of EU imports of peas, fresh beans, 'miscellaneous' vegetables and dried beans. It has increased both its value and market share of roses and mixed stems.

Preferences are important to the horticulture/ floriculture trade. Non-preferred countries hardly feature as regular suppliers of the EU market. The trade preference in the EU market, though relatively small at only 8–10%, provides an edge in a very highly competitive market. But it does not explain the substantial concentration of exports on the European rather than other Quad markets. The principal constraints on diversifying exports to Japan and North America are distance, time zones and the absence of direct flights.

Kenya has been unable to take advantage of the EU preferences on clothes because of origin rules that it cannot meet competitively. Its pre-AGOA exports to USA were also small. They are still absolutely small, but four to five times the level in the late 1990s. This growth appears to have been undertaken wholly, or largely, by newly arriving, non-Kenyan firms located in the export processing zones. This is because the indigenous clothing industry was very badly affected during the 1990s by '…the liberalization policies of the early 1990s, which reduced tariffs on imports and allowed used clothes to be imported' (World Bank 2003: 65).

The SPS issue about which most concern was raised in the case studies relates to the new EU regulations on pest control. A substantial shift towards more uniform practice within the EU was heralded by a Council Directive of 8 May 2000 (CEC 2000) and subsequently amended by a Commission Directive of 19 March 2002 and a Council Directive of 28 November 2002 (CEC 2002a, 2002b). One cause of concern for the exporters is the sheer speed with which events have taken place. A second concerns the cost of meeting inspections. It appears likely that the charge will often be a significant proportion of the value of consignments, especially in relation to small shipments. At the very least this will discourage diversification to new national markets (and the emergence of new SSA suppliers that do not sell the quantities that Kenya has achieved).

These problems are causing particular concern because they are being accompanied by a change in the frequency of inspection. Kenyan exports of chrysanthemums and carnations, for example, will from January 2005 be subject to 'meticulous inspections' of 'each consignment'. And a range of other Kenyan cut flower exports will at a minimum be subject to 'supervision'.

Recommendations

Apart from the negative findings on origin rules and SPS, one general conclusion is that, in the main, successful, established exporters are able 'to work the system'. Firms that are able to engage effectively in competitive value chains are also able to deal with the minutiae of preference implementation.

Another finding is that there is no direct evidence that limitations on the product coverage of preference agreements are hindering exports. At the same time, the singular success of the clothing industries of Lesotho in responding to AGOA preferences is instructive. The key to export impact is for preferences

Box 7. South Africa

South Africa's experience has a wider significance. On paper it could provide a regional source of textile fabric, allowing the clothing industries of the region to fulfil both the Cotonou and (standard) AGOA rules of origin. Yet even South Africa's own clothing industry does not make full use of its domestically produced fabric. Almost half of its clothing exports to the USA do not receive AGOA preferences – not because of a failure by South African exporters to claim but because of a deliberate choice. Producers choose not to fulfil the rules of origin because they find it more profitable to use imported rather than domestically produced cloth/yarn and to forgo the tariff cut.

If the South African garment industry cannot use originating cloth and remain competitive, what hope is there for other African states? There is a widely held view that the South African textile industry is relatively inefficient, but it requires a considerable act of faith to believe that more efficient industries could be created in other SSA states given that even South Africa cannot reap full economies of scale and that a diversified clothing industry needs access to a range of cloth types.

to offer a commercially significant advantage to value chains that can see merit in organising their production in such a way as to locate certain processes in a favoured state. Few would have predicted the emergence of the Lesotho industry. Since it is possible that a major preference extension would result in the emergence of new agricultural exports to Europe, it is recommended that the EU grant EBA access to all ACP states.

Whilst established exporters can work the system, many African states benefit hardly at all from preferences. Continued support for diversification remains a high priority. More publicity for preference schemes is required. Everyone knows about AGOA but hardly anyone who is not already exporting to Europe knows about Cotonou (and still less about the preference schemes of Japan and Canada). The way in which AGOA has been disseminated is seen as a model for the other Quad countries to follow.

Few cases were found during the case studies in which similar products are being exported to more than one Quad market. Whilst there is limited advantage, therefore, in 'joint promotion' of different preference schemes, the complexity of each Quad country's schemes is daunting. The independent promotion by each preference-giver of 'their regime' may add unnecessarily to the confusion. Some degree of co-ordination between the Quad is recommended in explaining their preference schemes, since this could increase uptake.

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Notes

1 The study was financed by DFID. The views expressed in this briefing paper are solely those of IDS. Its stated focus was the G8 states (Canada France, Germany, Italy, Japan, Russian Federation, UK and USA), but in practice the trade analysis concentrated on the Quad because of the availability of statistics.

2 It has therefore been used as the primary yardstick of African supply capacity. In the very limited number of cases where another Quad state imports an item that Africa does not export to the EU, this has been taken into account in the analysis.

3 This can be illustrated by reference to a refinement in the sampling which focused attention on items imported into a Quad state to a value of $5 million or more, facing an MFN tariff in that market of 10% or more, and not subject to a zero percent preferential tariff in all Quad states. Japan imported only four such items – all of them from South Africa – that were not also imported into the EU: one item each of grapefruit, maize, grape juice and groundnuts. The USA imported only six such items – three from Egypt, two from Morocco and one from South Africa: five of them clothing/textile items and the sixth manganese. Canada did not import anything that fitted these criteria.

4 The sugar case also illustrates in an extreme form the potential 'downside' of preferences. By guaranteeing high prices for fixed volumes, the regime may have contributed to the high cost of production in the Caribbean. Mauritius illustrates the balance between the positive and negative features. The economic rents earned on sugar contributed to economic diversification into clothing, but may also have delayed the quest for efficiency in the sugar sector. The country is now attempting to position itself to compete in a post-Sugar Protocol world.

5 In the case of sugar, though, this has been avoided so far. The LDCs have done a deal with the Sugar Protocol beneficiaries, accepting restrictions on the volume of their exports in return for a high price.

6 IDS is grateful to the World Bank for supplying a dataset compiled by the EU – but which could not be obtained directly. See Brenton 2003 for a complementary analysis of this dataset.