

Chapter 7.

Multilateral Solutions to the Erosion of Non-Reciprocal Preferences in NAMA

Patrick Low, Roberta Piermartini and Jurgen Richtering,

World Trade Organization

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Multilateral Solutions to the Erosion of Non-Reciprocal Preferences in NAMA

by

*Patrick Low, Roberta Piermartini and Jurgen Richtering**

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Introduction

For nearly forty years, non-reciprocal preference schemes have sought to promote industrialization, boost exports, and foster growth in developing countries.¹ Many studies have evaluated non-preferential schemes, showing mixed results.² The bulk of evidence seems to suggest that while certain countries have benefited from non-reciprocal preferences, others have not. One explanation for the mitigated benefits from preferences is the limited supply response capacity in the beneficiary countries. Other explanations are intrinsic to the preference schemes themselves. These include product exclusions where export potential exists, country exclusions on a variety of economic and non-economic grounds, restrictive rules of origin that require higher-than-existing levels of manufacturing activity in preference-receiving countries, and administrative costs incurred in gaining access to the schemes.

These limitations clearly do not undermine current preference schemes to such a degree that beneficiaries are content with the potential erosion of preference margins in the Doha negotiations. On the contrary, in both the negotiations on agriculture and non-agricultural market access (NAMA), we see a concerted effort to ensure that preference erosion is addressed. Several proposals have been made in NAMA,³ mostly by member states of the African, Caribbean, and Pacific (ACP) and least-developed countries (LDCs). These suggestions build on a number of texts associated with the negotiations, including the Doha Declaration and various iterations of negotiating mandates or understandings in NAMA. For example, Paragraph 16 of Annex B of the General Council Decision of August 1, 2004, refers to the "particular needs that may arise for the Members concerned due to the challenges that may be faced by non-reciprocal preference beneficiary Members." Broadly speaking, four different approaches have been proposed:

- to extend existing preference schemes,⁴
- to improve the scope for utilizing existing preferences
- to mitigate the product coverage or pace of MFN liberalization,⁵ and

¹ See Resolution 21(ii) of UNCTAD II (1968) for the rationale of preferences.

² For instance, Murray (1977), Borrmann, Borrmann, and Steger (1981), OECD (1983), Sapir and Lundberg (1984), Karsenty and Laird (1986), Brown (1987), Brown (1989), UNCTAD (1999), Ozden and Reinhardt (2003), OECD (2003), WTO (2004), Grossman and Sykes (2005).

³ See, for example, TN/MA/W/21, TN/MA/W/22, TN/MA/W/27, TN/MA/W/30, TN/MA/W/31, TN/MA/W/34, TN/MA/W/38, TN/MA/W/39, TN/MA/W/47 and TN/MA/W/53, all of which are available on the WTO website.

⁴ An example of this approach is the submission by Bangladesh on behalf of the LDCs, TN/MA/W/22 of January 8, 2003. This submission calls for improvements in existing preference schemes to ensure duty-free and quota-free access for all LDC exports; it also proposes that other developing countries develop non-preferential preference schemes.

⁵ Mauritius, for example, proposes maintaining MFN tariffs above certain levels on a limited range of products (TN/MA/W/21/Add. 1, July 15, 2003). Papua New Guinea suggests that MFN tariff reductions on goods of "vital importance" be implemented over twice the length of time decided for all other products and that

- compensatory action.⁶

In agriculture, much the same reasoning applies as in the case of NAMA. But Paragraph 44 of Annex A of the August 1, 2004, Decision makes a cross reference to Paragraph 16 of the Harbinson text (TN/AG/W/1/Rev.1 of March 18, 2003). The Harbinson text proposes an arrangement that would slow the pace of MFN liberalization for "tariff reductions affecting long-standing preferences in respect of products which are of vital export importance for developing country beneficiaries..."

Some members harbour strong reservations about tampering with the content or pace of MFN liberalization. But demands for such action to avoid preference erosion are not new, even if the intensity of the debate in the current negotiations is unprecedented. In the Tokyo Round, for example, Brazil tabled a proposal calling for MFN tariff-cutting exemptions to preserve certain preferential margins, as well as ways to improve and extend the Generalized System of Preferences (GSP).⁷ The option of moderating MFN liberalization on the altar of avoiding preference erosion is not popular with countries for whom non-reciprocal preferences are limited or non-existent. But considering the negotiating positions of the ACP states, LDCs, and others, this option is certainly not off the table.

In this paper, we focus on trade solutions other than arresting MFN liberalization to mitigate preference erosion, notably improving the content and workings of existing schemes, extending the product coverage of preference schemes, and widening the geographical spread of such arrangements. It bears noting, however, that any "compensatory" trade solutions to preference erosion are inevitably temporary unless existing levels of market access are frozen and trade liberalization is permanently halted.⁸ Since this is inconceivable in practical terms--whether because of continuing MFN liberalization or the extension of reciprocal preferences through regional trade agreements--the basic objective in guarding against preference erosion is to smooth the process of adjustment.

implementation of reductions on the former group of products only commence after three years (TN/MA/W/39, July 2, 2003). A submission by Benin on behalf of the ACP states develops a vulnerability index to determine which products should be treated differently in terms of MFN liberalization. The index captures a country's degree of reliance on preferences, the extent of dependency on a few products and a few markets, and the size of an exporter in relation to world trade. Vulnerability according to the index would then lead to the inclusion of a correction coefficient in the overall tariff reduction formula agreed in the negotiations (TN/MA/W/53, March 11, 2005).

⁶ A submission by Ghana, Kenya, Nigeria, Tanzania, Uganda, Zambia, and Zimbabwe, for example, calls for "a procedure for establishing measures and mechanisms to deal with erosion of preferences, with the aim of avoiding or offsetting this problem or compensating the affected Members" (TN/MA/W/27, February 18, 2003).

⁷ Document MTN/W/2, October 26, 1973. We are grateful to Roy Santana for pointing this out.

⁸ Other mitigating action to compensate for preference erosion, such as financial compensation, is not intrinsically limited in this manner.

Following some preliminary observations about the trade and welfare effects of preferences and preference erosion we describe our approach to measuring preference erosion and then provide the baseline data.

After providing these base-line estimates of adjusted risk from preference erosion, we simulate a non-linear MFN tariff cut to provide a sense of what such a scenario of MFN liberalization would mean by way of preference erosion among recipients of non-reciprocal preferences. On the basis of our simplified calculations, we provide an indication of which countries and which product categories in those countries are seemingly most vulnerable to preference erosion. We then consider trade policy actions that could ameliorate preference erosion.

We note two caveats about the limitations of our analysis. First, we do not attempt to simulate the possible effects of changes in relative prices (from MFN liberalization) on supply and demand. This could obviously be done with a general equilibrium model or with a partial equilibrium elasticity analysis, but we limit ourselves at this stage to a simple comparison of what happens to the estimated value of preferences at the country level when MFN tariff rates are cut, all else staying the same. Second, because our estimates for this paper are all built on existing trade flows, we have no way of knowing whether a reduction in preference margins may be compensated for by trade in product lines against which zero trade has been recorded in our data set.

Some Theoretical Considerations

What are the consequences for preference receivers and third parties of a change in a preference margin?⁹ And what determines the value of a preference from the point of view of preference receivers and their ability to benefit from preferences? In answering these questions, we distinguish between the concept of preference erosion and the welfare consequences of a change in a preference margin.

The Effects of a Preferential Tariff

When exporters in one country are granted preferential trade treatment, they may export more to the preference-giving country than they could have under MFN tariffs. Trade preferences may improve market access and stimulate diversification toward a broader range of exports. Over the longer term,

⁹ We do not examine the implications of preferences from the perspective of preference-giving countries.

enhanced market access may foster export-driven economic development.¹⁰ Ideally, the trade opportunities afforded by preferential access would engender trade performance that would be sustainable under fully competitive trade conditions among all suppliers.¹¹ However, preferences may prove somewhat disadvantageous or more costly than anticipated for beneficiary countries. They may encourage an inefficient allocation of resources by fostering specialization in sectors where the preference-receiving country does not have a comparative advantage. Preferences may entail administrative burdens associated with origin requirements. The rules of origin may also require that inputs be sourced from higher-cost suppliers (Krueger 1993 and Krishna and Krueger 1995). Moreover, preferences are sometimes linked to the adoption of labor and intellectual property standards that can be costly (Bhagwati 2002). Over the longer term, preferences may create a disincentive for trade liberalization (Ozden and Reinhart 2003).

We turn briefly to the basic analytics of tariff preferences. The simplest analytical framework is a partial equilibrium model of three countries and one traded good. One developed country (Country A) grants a preference on a given imported product, one developing country benefits from the preference (Country B) and another country or the rest of the world (W) faces the MFN tariff rate. In the first instance, we assume that regardless of any changes in the demand for imports in A, the rest of the world supplies the good at a fixed price,¹² while Country B supplies more of the good at higher prices.

Suppose W is the most efficient producer of the product in question, while Country A is less so. Suppose also that with no preference, Country A imports from both B and W at a fixed price. The introduction of the preference shifts relative prices in favor of the good produced in Country B. The demand for imports in Country A will shift from W to Country B. The preference constitutes a transfer from Country A (through tariff revenue losses) and W (through loss of exports) to Country B.

The diversion of imports in Country A from the globally most efficient producers (W) to imports from Country B (less efficient) induces a negative allocative efficiency effect. In Country B, the price received by exporters will rise by the preference margin (the difference between the MFN and the preferential rate) and the supply of exports will then increase. The extent to which exports rise will depend on the responsiveness of Country B's export supply to the price change (export supply elasticity). The higher this elasticity, the larger the trade effects and, therefore, the larger the gains.

We now consider the impact of a preference on non-beneficiary countries (W). Because of the preferential treatment of imports from Country B, W's exports to Country A will become relatively

¹⁰ See, for example, the experience of Mauritius in Subramanian and Roy (2002).

¹¹ For a review of relevant literature, see Langhammer and Sapir (1987) and Tangermann (2002).

more expensive. Demand for W's production will decrease and their exports will be replaced by Country A's imports from Country B. Producers in W will lose.

These effects depend on several assumptions, for example, that the preference-receiving country is not the most efficient producer of the good for which a preference is provided and that the initial MFN rate is not prohibitive. If a preference for a developing country applies to a product that the latter country can export efficiently once the import barrier is reduced, and a new market is thereby opened to trade (where tariff barriers, for example, were previously prohibitive), no trade diversion from the rest of the world would occur.

To sum up, on the basis of the simplest analytical framework, preferences result in a transfer from the producers of the preferred good and the government in the preference-granting country to the producers in the preference-receiving country. Preferences may also divert trade from non-beneficiary countries, thus lowering these countries' welfare. But if preferences open a new market or the beneficiary country is globally efficient, non-beneficiary countries will not necessarily suffer a welfare loss.

Does Preference Erosion Imply Welfare Losses for Beneficiary Countries ?

So far, we have looked at what happens when a country introduces a preference, both from the perspective of the beneficiary country and of other countries supplying the preference-giving country. We now consider a situation in which a preference margin is eroded, either through a modification of the preferential conditions of access or as a result of MFN liberalization. Using the same simple framework as above, the erosion of Country B's preference margin will reduce B's competitive advantage, leading to reduced exports to Country A and lower welfare for exporters in Country B. At the same time, those countries (W) that did not receive the preference but are more efficient than Country B are better off, since they gain market in Country A. The trade-diverting effect of Country B's preference in Country A will be reduced.

On the basis of this simple analysis, it may seem appropriate to associate preference erosion directly with welfare loss, as there is a clear relationship between the two: the greater the erosion of preferences, the larger the welfare losses for exporters in beneficiary countries. But this is only one of the possible outcomes of preference erosion. Various alternative outcomes result when preference erosion is analyzed in the context of more complex economic frameworks. An alternative plausible situation is one in which following MFN liberalization, domestic prices in country A fall by less than

¹² Infinitely elastic export supply from the rest of the world

the reduction of the MFN tariff, implying a smaller loss for Country B, or even a gain.¹³ A possible reason for this is that the increase in the demand for the good in Country A is so large that the world price of the good increases.¹⁴ Another possible reason may be that imperfect competition among importing firms in A may impede a full price transmission of a fall in the tariff.

Situations may arise in which preference erosion attributable to MFN liberalization does not lead to negative welfare consequences for preference-receiving countries, even abstracting from terms-of-trade effects. The simplest case is where exports of a given product from a preference-receiving country to a preference-giving country occur both at the preferential and at the MFN rate.

Suppose, for example, that different exporters of the same product face different costs in actually utilizing a preference. Since producers use different technologies, it may be convenient for some to use the preference and satisfy the requirements, while the origin rules may make it less convenient for others.¹⁵ In this situation, a lower MFN rate will benefit those exporters subject to the MFN rate. These benefits may outweigh the losses of those receiving the preference. One can argue that the lower the share of preferential trade relative to MFN trade in a product, the more likely that exporters gain from MFN liberalization, despite the erosion of their preferences. The trade-off between gains from MFN and losses from preference erosion will also depend on whether it can be made easier to take advantage of preferences (e.g., through modified rules of origin).

To sum up, although preference erosion is generally associated with a welfare loss, beneficiary countries may not evince a monotonic relationship between changes in preference margins and welfare effects. The assessment of the welfare implications of MFN liberalization on preference-receiving countries after the erosion of preference margins is not always straightforward, including when looking at one single market.¹⁶ For example, preference erosion may not imply welfare losses for the preference-receiving country if the country benefits from large positive terms-of-trade effects or if exporters do not use the preferences to any large extent.

¹³ Although Country B's preference margin falls following MFN liberalization, the price received by exporters in Country B may still rise, and exports and welfare increase. The likelihood of this happening depends on the original margin of preference and on the responsiveness of export supply and import demand. In particular, the price received by the preferred exporter will be greater the higher the responsiveness of demand for imports in Country A to a variation of domestic prices (import demand elasticity) and the lower the responsiveness of the export supply from the rest of the world to export price variations.

¹⁴ This can be the case when Country A is "large". Also, in terms of the analytical framework, the assumption of a perfectly elastic supply curve from the rest of the world needs to be relaxed. Rather than a flat supply curve, the supply curve from the rest of the world would be, in this case, positively sloped.

¹⁵ The theoretical model for this is one with heterogeneous firms, as in Melitz (2003).

¹⁶ The assessment of the welfare impact of preference erosion becomes even more complex when other markets are taken into account. For example, preference erosion in one market may prove to be positive for the beneficiary country as a whole if preferences encouraged an inefficient allocation of resources by fostering specialization in sectors where the preference-receiving country does not have a comparative advantage.

Preference Margin: Which Measure?

We now discuss the limitations of the traditional measures of the value of preferences and then describe the measures of preference erosion we use and provide the rationale for them.

Traditional Measures of the Value of the Preference

The simplest framework reveals a direct link between the extent of a preference and the potential gains for a beneficiary country. Therefore, as a first approximation, the value of the preference for the preference-receiving country is often measured by the preference margin. At the tariff line, this is simply the difference in percentage points between the MFN and the preferential tariff rate.

The preference margin has a number of limitations as a measure of the value of a preference. First, it ignores the question of whether the advantage given to the preference-receiving country effectively helps it export to the preference-giving country. For example, if the MFN rate is set prohibitively high, a comparably high preference margin may not be sufficient to allow any trade in that sector. Similarly, preferences given in sectors where the receiving country is highly inefficient may not be sufficient to trigger exports. In addition, tariff- rate quotas may circumscribe the actual preference margin, as preferences are limited to a certain quantity of exports while the calculation of the preference margin or preference erosion refers to the beneficiary country's overall exports.

To account for bilateral trade, we calculate the trade-weighted value of the preference margin as the value of the preference. This is defined as the preference margin per unit of imports multiplied by the bilateral import value.

This measure of the value of the preference still neglects two important issues. First, it is based on the assumption that MFN rates are applied to the trade of all other countries supplying the same market. In reality, numerous and overlapping regional trade agreements exist around the world, so the MFN rate does not provide an appropriate basis for calculating the preference margin. Moreover, the value of a preference for one country will ultimately depend on how many other countries are competing in the same market with a preferential margin. For example, Ozden and Sharma (2004) show that apparel producers from the Caribbean Basin Initiative countries received less benefit in the U.S. market after the North American Free Trade Agreement (NAFTA) was formed because of competition from Mexico.

Second, the weighted preference margin is also based on the assumption that preferences are utilized for all exports, while in practice utilization rates vary both across countries and sectors. Utilization rates, defined as the ratio between imports actually receiving a preference and imports covered by the preferential agreement, can be substantially less than 100 percent.

Adjusted Measures of the Value of the Preference

In this paper, we adjust the value of the preference margin for the *de facto* erosion of preferences attributable to the existence of other exporters benefiting from the same preferential scheme and other non-reciprocal and reciprocal preferences. An "adjusted" preference margin is calculated as the percentage-point difference between the weighted average tariff rate applied to the rest of the world and the preferential rate applied to the beneficiary country, where weights are represented by trade shares in the preference granting market (hereafter, we will refer to this measure as the competition-adjusted preference margin). The idea for this adjustment follows from the findings of Anderson and van Wincoop (2004), which emphasize that bilateral imports depend on bilateral barriers to trade relative to the rest of the world. A second measure adjusts the preference margin for the rate of preference utilization (the utilization-adjusted preference margin); that is, the preference margin is weighted by the volume of trade that actually benefits from the preference. Owing to data deficiencies, we could only make this calculation for the United States.

The computation of our adjusted measures of the value of the preference requires information about MFN and preferential rates and the volume of trade by type of market access. For example, assume that the tariff profile and trade pattern of a country, Country A, is that portrayed in Table 1. Country A provides preferential access to Country B, but also abides by a number of other preferential agreements with countries in the rest of the world. Country B's preference margin, calculated as the simple difference between the MFN and the preferential rate, would be $10-5=5$. The competition-adjusted preference margin would instead be the (cross-country) trade-weighted average rate applied to the rest of the world and the preferential rate-- $7.5-5=2.5$. Moreover, if Country B utilizes its preference only for half its trade with Country A, then the utilization weighted duty for Country B would be 7.5 and the actual preference margin equal to zero.

Table 1: Access Provided by a Hypothetical Country A

Trading Partner by Type of Market Access	Duty Rate (percent)	Trade Values	Weighted Duty (percent)
Country B			5
Preferential	5	10	
Rest of the World			7.5
MFN	10	60	
Preferential	5	30	
FTA	0	10	

Despite the adjustment, these estimates remain a rough approximation of the actual value of a preference for the beneficiary country. One reason for this is that it cannot be safely assumed that the benefits of preferences accrue fully to the exporting country. The scarcity "rent" from preferences is usually shared in some measure by both exporters and importers. The distribution of the rent will depend on relative bargaining power in the market and on the strategic responses of third parties. The volume of trade and the preference margin do not provide information on the distribution of rents generated by tariff preferences. Actual gains from preferences enjoyed by exporters may be lessened if monopsonistic distributors are operating in the importing market, or if third parties not receiving preferences strategically cut their prices.¹⁷ Ozden and Olarreaga (2005) find that African exporters of clothing to the United States under the African Growth and Opportunity Act (AGOA) capture only one third of the available rent. Recent studies have also highlighted how rules of origin can affect the distribution of the rent from preferences. Cadot and others (2005) argue, for example, that the preferential tariff is the price to be paid for Mexican assemblers to agree to a rule of origin that forces them to buy U.S. intermediate goods.

Unresolved Issues on the Measure of Preference Erosion

Preference erosion is calculated as the difference in the value of the preference before and after MFN liberalization. In the analysis that follows we calculate preference erosion on the basis of both the unadjusted and the adjusted measure of preference erosion.

Despite being based on a more realistic measure of the value of the preference, these measures of preference erosion have certain limitations that need to be taken into account in interpreting the results. One relates to the likelihood that a reduced preference margin will also be reflected in reduced export volume. Since the common measure for preference erosion is calculated using a fixed value of exports, the real extent of erosion may be underestimated. Moreover, the analysis should not be limited only to existing suppliers as new entrants may appear in the market following MFN liberalization and affect competitive conditions. Ideally, the quantification of potential preference erosion should be undertaken in the context of a general equilibrium model that includes information at the tariff-line level on the responsiveness of demand and supply to price variation (including all cross-product linkages).

A second limitation relates to preference utilization rates. Even if utilization were taken into account, preference erosion is calculated assuming that utilization rates are unaffected by MFN liberalization. But the erosion of the preference margin may affect an exporter's decision on whether to use a

¹⁷ This requires imperfect market conditions.

preference. Candau and others (2004) find, for example, that the utilization of preferences in the European Union is lower when the preference margin is low, which they interpret as evidence of significant compliance costs. This seems to suggest that a reduction of the preference margin following MFN liberalization may have a negative impact on the utilization rate, thus further increasing the extent of the preference erosion relative to that measured assuming no relationship between preferential margins and utilization.

A third limitation relates to the fact that in adjusting estimates of non-reciprocal preference margins by allowing for other preferential trade arrangements, one may erroneously assume that the latter preferences are fully utilized when this is not the case. Under regional free trade agreements (FTAs), for example, traders may not take advantage of the right to sell into a partner market duty free because of restrictions on rules of origin or the heavy administrative costs involved in securing FTA treatment relative to the cost of paying the MFN tariff. This is exactly the same utilization issue that applies in the case of non-reciprocal preferential trade, and it should be treated comparably in estimating the true value of preferences and risk from preference erosion.

The Value of Non-reciprocal Preferences: Setting the Scene

We now introduce the basic data used to calculate the value of non-reciprocal preferences, adjusted for non-MFN trade (and in the case of the United States, for less than full preference utilization). These data include information on the relative importance of preferential and non-preferential trade, both from the point of view of the preference giver and beneficiary country. This makes it possible to set the scene for considering the scope for additional non-reciprocal preferences later in the paper. It also allows us to gauge how far potential preference erosion poses a threat to beneficiary countries, depending on the degree of MFN liberalization that occurs. We develop a specific MFN liberalization scenario in the next section.

The data presented here refer to selected country examples. Detailed information about all countries that benefit only from non-reciprocal preferences from the Quad (Canada, the European Union, Japan, and the United States) and Australia¹⁸ are reported in different sets of tabulations included as annexes to the paper. Information on data sources, the list of preferential schemes covered in the database, and guidelines to the Annex tables are shown in the Appendix.

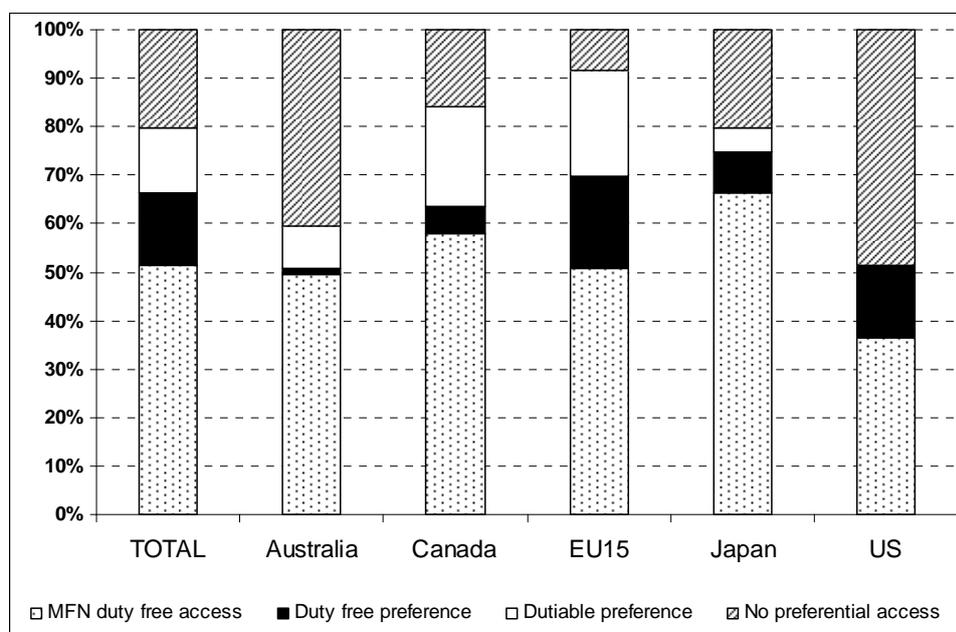
¹⁸ For the developing countries that benefit from both reciprocal and non-reciprocal preferences we cannot distinguish between the impact of MFN liberalization on the erosion of reciprocal preferences and that on the erosion of non-reciprocal preferences. These excluded countries are: Romania, Bulgaria, Turkey, Morocco, Mexico, Former Republic of Macedonia, Croatia, Jordan, Chile, South Africa, Israel, Tunisia, Costa Rica, Singapore, Fiji and Papua New Guinea.

Preferential Schemes by Providers

We first focus on the various non-reciprocal preferential schemes offered by the Quad plus Australia. Charts 1 and 2 show import shares for each of the five preference giving countries by type of market access under the GSP and the various LDC schemes, respectively.¹⁹ Chart 1 shows that a large share (nearly 70 percent) of Quad plus Australia imports from beneficiaries of the GSP enter their markets duty free (either MFN or preferential). The percentage of dutiable imports (paying either MFN or preferential duty) under the GSP scheme varies across preference-giving countries, ranging between approximately 50 percent (for the United States and Australia) and about 23 percent (for Japan). The comparison between the LDC schemes and the GSP schemes shows that a much larger percentage of imports under the LDC schemes entering the preference-giving countries duty free. In the case of Australia, Canada, and the European Union, all imports entering under LDC preferences are duty free. In addition, Table A1 shows that nearly all imports entering under AGOA or ACP preferences (for example, for the United States and the European Union, respectively), are duty free.

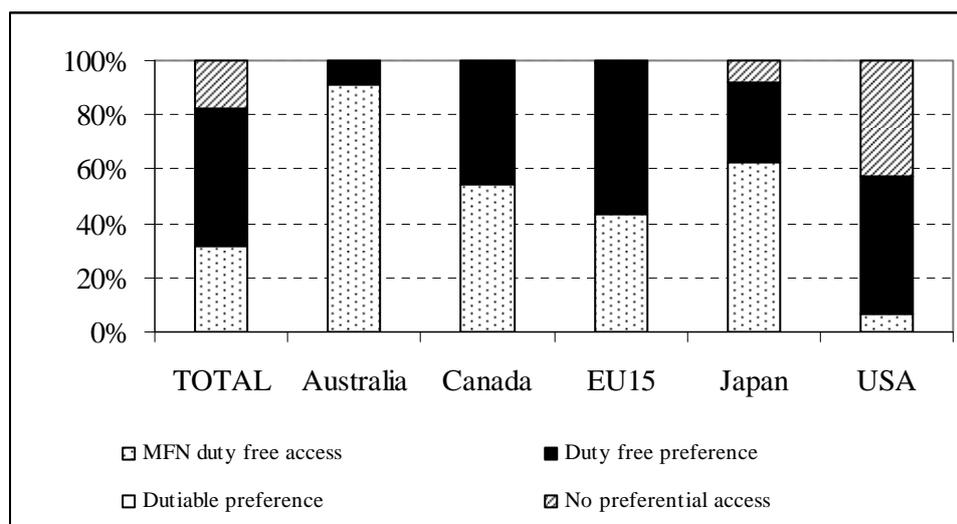
If one looks at the data in terms of possible trade solutions to preference erosion, this means that there is no scope to compensate for the erosion of preferences by either introducing new preferences or reducing the preferential rate.

Chart 1: Imports under the GSP Scheme by Type of Market Access



¹⁹ Table A1 in the annexes provides detailed information on the GSP, LDC schemes, and other selected individual non-reciprocal schemes for each of the five preference-giving markets, both in terms of imports and tariff lines.

Chart 2: Imports under LDCs Preferences by Type of Market Access



A similar picture arises from tariff-line information. Table 2 shows data on the percentage of tariff lines that either attract a positive MFN rate with no preferences, or enjoy preferences but at a positive rate under both the GSP and the LDC schemes for each of the five preference-giving countries. In addition, for the European Union and the United States, the percentage of remaining tariff lines and the corresponding percentage of imports where there may be further scope to introduce preferences are reported for the ACP and the AGOA schemes, respectively. Overall, the data show that the scope for extending preferences to compensate for preference erosion is limited, especially under some schemes.

Table 2: Scope to Extend Preferences

(percentage)

	GSP		LDC		Other Schemes	
	tariff lines	imports	tariff lines	imports	tariff lines	imports
Australia	53.3	50.2	0.0	0.0		
Canada	32.1	37.7	0.0	0.0		
EU-15	32.7	28.1	1.2	0.1	0.9	3.5
USA	31.6	50.4	18.8	44.1	11.0	0.5
Japan	34.2	23.0	5.5	8.6		

Note: Other schemes refer to the ACP scheme for the European Union and the AGOA scheme for the United States.

Importance of Preferences by Beneficiaries

We now look at preferences from the point of view of beneficiary countries. The importance of preferences for preference-receiving countries and their vulnerability to preference erosion will depend on their dependence on preferences and their value.

To provide an overall picture of the importance of preferences for beneficiary countries, Table 3 reports overall percentages for developing countries and LDC exports by type of market access to the Quad plus Australia and the average value of preferences (measured both according to the traditional unadjusted measure of preference margins and the competition-adjusted measure²⁰). While developing countries enjoy a higher share of duty-free trade (52.1 percent) than least developed countries (20.2 percent), a much larger share of least-developed country trade benefits from preferences (61.2 percent compared with 15.9 percent for developing countries). The average preference margin for LDCs in the Quad plus Australia drops from 6.4 to 1.6 when taking into account competition from other countries benefiting from preferences. Moreover, the equivalent preference margin for the developing countries that only benefit from non-reciprocal preferences as a whole is negative. This means that at least some developing countries face market conditions worse than their trade competitors.²¹ As noted earlier, for data reasons, we cannot provide the figures for the utilization-adjusted preference margins except for the United States..

Table 3: The Value of Preferences: Non-agricultural Products, 2003
(percentage)

	Exports to the Quad plus Australia					
	MFN-duty free	MFN dutiable	Preferential	Preference Margin		
				Un- adjusted	Competition- Adjusted	
Developing countries	52.1	31.8	15.9	0.7	-0.5	
LDCs	20.2	18.3	61.2	6.4	1.6	

²⁰ See the earlier discussion of preference margin measures for the definition of the competition-adjusted preference margin and a discussion on alternative measures of preference value.

²¹ Recall that the adjustment for competition is made considering all competitors in the same markets, thus including countries that benefit from reciprocal preferences.

The percentage of exports that enjoy preferences in the Quad plus Australia markets (Table A2, columns 2-4) and preference margins (Table A3) differ considerably across individual countries.²² For some countries--such as Chad, Guatemala, El Salvador, Haiti, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, and Senegal--preferential schemes (including both a non-reciprocal and reciprocal preferential schemes) cover more than 90 percent of their total exports. For other developing countries, preferential trade is not a significant share of their trade with the Quad and Australia; among these are Botswana and the Central African Republic (with a share of preferential trade below 5 percent).²³ Similarly, the estimated figures for the average (unadjusted) preference margin enjoyed by developing countries exporting to Quad plus Australia range between zero for some developing countries such as Angola, Botswana, Congo and Nigeria, and 19 percentage points for Lesotho and Malawi.

Nine of the 10 countries named above whose preferential trade represents more than 90 percent of total exports (excluding only Chad) also appear among the countries enjoying the highest preference margins from the Quad plus Australia, whether adjusted for competition or not (Table A3, columns 7 and 1, respectively). These 10 countries also appear to have narrow export bases (Table A2, columns 5-7), exporting a range of products covering no more than 3 percent of tariff lines. And some of them (e.g., Lesotho, Malawi, and Mozambique) hardly export at all at the MFN rate. The extent of coverage of preferences for the products exported by these countries, the large margin of preference, and their low degree of export diversification (especially for those products not covered by preferences) seem to suggest little scope for a trade solution for these countries.

Estimates of the value of preferences are highly sensitive to the specific measure used for the calculations. For example, Chart 4 shows the value of preferences for non-agricultural exports to the United States as being estimated using four alternative measures: the simple weighted preference margin, the preference margin adjusted for the rate of preference utilization, the margin adjusted for the preferences that the United States grants to other countries, and an overall measure adjusting for both competition from other preference beneficiaries and the utilization rate.²⁴ For some countries -- such as the Bangladesh, the Philippines, and Sri Lanka--preference margins prove to be negative when adjusted for competition from other preference beneficiaries. Thus, on an overall basis, these

²² Table A2 in the annexes report data on the percentage of exports to the Quad plus Australia that benefit from preferential access or MFN treatment by each individual exporting developing country (beneficiary of exclusively non-reciprocal preferences) or LDC. In addition, Table A2 reports for the same set of countries data on how diversified their exports are (measured by the percentage of tariff lines on which they export). The figures for the value of the preferences, including the adjustment for competition, for each individual country are reported in Table A3. Note that the overall figures for developing countries refer to all developing country members of the WTO.

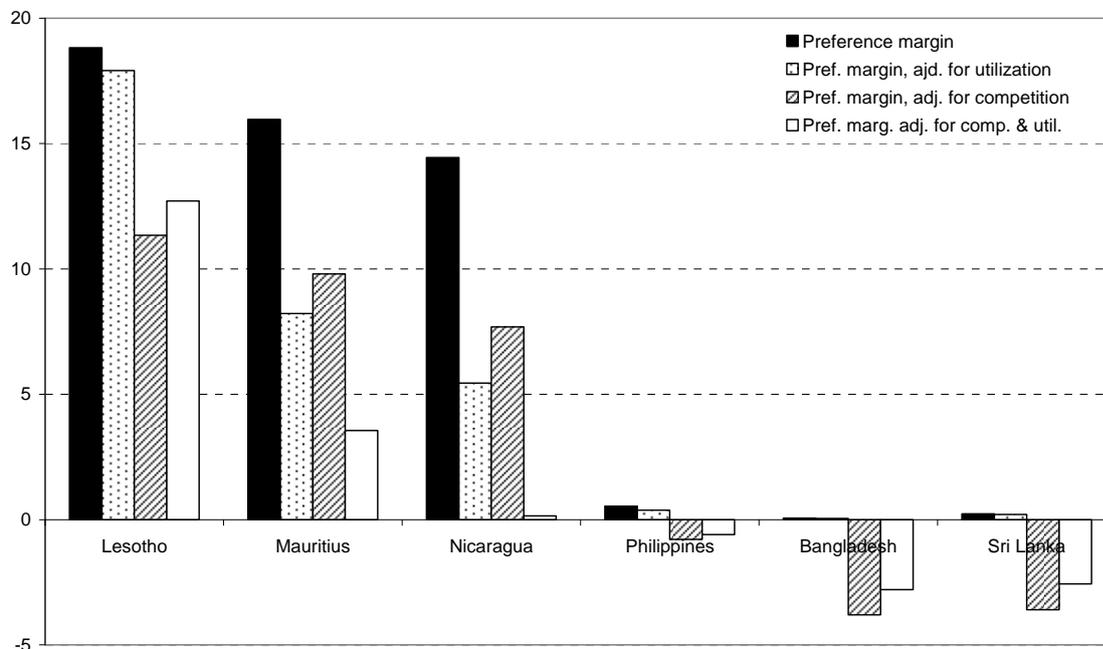
²³ Individual data can be found in column 4 of Table A2 in the annexes.

²⁴ Data for preference margin, adjusted and unadjusted, are reported in Table A3 in the annexes.

countries' exports benefit from less beneficial treatment than other countries competing in the U.S. market.

Chart 4: Value of the Preference for Non-agricultural Product Exports to United States: Selected Countries, 2003

(percent)



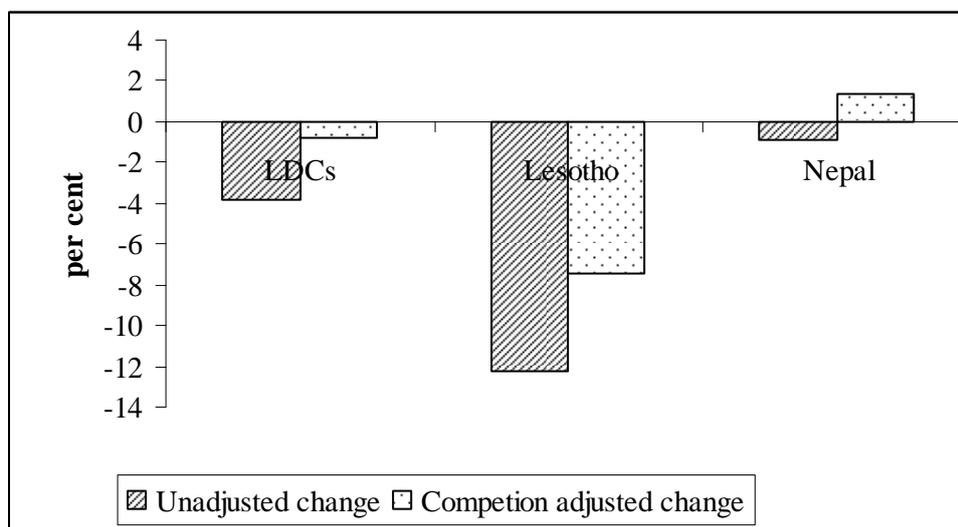
Simulating an MFN tariff Cut in NAMA: What Happens to Preference Margins?

We now simulate an MFN tariff cut on non-agricultural products and estimate the impact of this cut on the value of preferences. We calculate preference erosion as the change in the value of the preference before and after the MFN cut. The simulations undertaken here only include estimates of preference margins adjusted for competing non-MFN trade, and not for utilization rates. We have taken the Swiss formula proposed in the modalities for NAMA (WTO 2008) with a coefficient of 10 and calculated the tariff cuts on 2003 MFN applied rates. The base for cutting tariffs in the negotiations would be bound rates rather than applied rates. But the three major reporters (excluding Australia), represent 90 percent of imports, and their bound and applied rates differ only slightly. Therefore, we can confidently assume that the margin of error we introduce with this approximation is low.

To illustrate, Chart 5 shows the impact of MFN liberalization on the value of preferences for LDCs—and particularly for Lesotho and Nepal. The comparison between the impact estimated on the basis of the traditional measure of preference erosion and our competition-adjusted measure shows that when taking into account competition arising from other preference-receiving countries, the estimated

losses from preference erosion generally ease. In some countries (Nepal in the chart), the adjustment may even result in a gain from MFN liberalization as opposed to a loss relative to a reduced preference margin.

Chart 5: Change in the Value of the Preference, Selected LDCs



Examples of this type also exist among developing countries. Table A4 in the annexes provides the results of the exercise for LDCs and those developing countries that benefit only from non-reciprocal preferences in Quad plus Australia markets. Malaysia, for example, is estimated to lose \$70 million in terms of preference erosion before the adjustment and then to gain \$47 million after the adjustment. The latter figure represents what Malaysia gains as a result of the losses of others from preference erosion. Countries that rely less on preferences, or have competitors with better preferential access, typically suffer from preference erosion without adjustments and then score gains after the adjustments are made.

Overall, developing countries (excluding LDCs) as a group would gain some \$2 billion after the MFN tariff cut. The gains, however, are concentrated in only about a third of the countries while the losses are more widespread.

As far as LDCs are concerned, two countries show significant gains from MFN liberalization in terms of an increased preference value: Nepal (\$4 million) and Maldives (\$2 million). Overall, the LDCs experience a loss from preference erosion, equal to about \$170 million after adjusting for competing non-MFN trade (\$841 million before adjusting). The adjusted preference erosion figures for the LDCs reveal some striking differences. The major losers from preference erosion include

Bangladesh, Cambodia, Haiti, Lesotho, and Madagascar. On the other hand, a significant number of LDCs do not appear to incur any losses from preference erosion following the MFN tariff cut simulated here. This is largely because these countries rely on preferences to a limited extent; the bulk of their exports into the five reporter countries (the Quad plus Australia) are MFN duty-free (first three columns of Table A2). Countries in this group include Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Guinea, Mali, Niger, Rwanda, Sierra Leone, Solomon Islands, Togo, and Zambia.

To obtain an indication of the relative vulnerability of countries to preference erosion, we calculate the change in the value of the preference as a percent of bilateral trade (Table A4, column 4). Our estimates suggest that the 10 developing countries most affected by MFN liberalization are likely to be the Dominican Republic, El Salvador, Guatemala, Honduras, Kenya, Mauritius, Namibia, Nicaragua, and Swaziland. The five most affected LDCs are Bangladesh, Cambodia, Haiti, Lesotho, and Madagascar.

We then looked at preference erosion at the product level for these 15 most vulnerable countries. We identified some broad product categories (MTN categories) and calculated our "adjusted" preference erosion for these categories. The results of these calculations are reported in Table A5 in the annexes for each of the five preference-giving countries. The table shows that in the five reporting markets, clothing is by far the largest part of the preference erosion story for the most affected countries. In fact, among nearly all countries reported in the table, the highest variation in the preference margin before and after the MFN cut is recorded for the clothing sector. Some countries also experience significant figures for preference erosion in other sectors--such as textiles, fish and fish products (especially Namibia, but also Madagascar and Mauritius), leather and leather products (especially Cambodia but also Bangladesh), electrical machinery, and wood and wood products.

Trade Solutions to Preference Erosion

Increased Preference Utilization

A number of studies have calculated preference utilization rates to assess the actual coverage of eligible products, the de facto exclusion of some potential beneficiary countries, and the access conditions in the markets of preference-giving countries. Some studies suggest that non-reciprocal preference utilization rates are frequently low. Focusing on the EU's Everything but Arms (EBA) initiative, Brenton (2003) finds very low utilization rates for LDC exports to the European Union in 2001. Inama (2003) estimates that less than 40 percent of Quad imports from all beneficiary countries eligible for GSP preferences entered under the preferential scheme. For Japan, utilization rates in

2001 are estimated at about 30 percent. Under the AGOA scheme, utilization rates vary between 36 percent for textile and 67 percent for mineral products.

Some have argued, however, that it may be misleading to measure utilization rates for single preferential schemes in order to assess the importance of preferential access to certain markets. This is because an exporter may have preferential access to a certain market through various preferential schemes. This is the case for preferential access to the E.U. market where, for example, sub-Saharan African countries benefit from preferential access through the EBA initiative and the Cotonou agreement.²⁵ When a broader measure of utilization is used, based on the utilization rate of "at least one" preferential agreement, figures on the overall use of preferences are much higher. Candau and Jean (2005) find that when all E.U. preference schemes are examined together, utilization rates are considerably higher. Bureau and Gallezot (2004) find a rate of utilization across eligible imports for all preferential schemes of some 90 percent for both the United States and the European Union in agriculture and food products. Overall, Candau and others (2004) find that utilization rates above 80 percent are prevalent for textiles, clothing, and other manufactured products in the European Union. The difference in the results for the European Union arise primarily because the EBA is poorly utilized in sub-Saharan Africa, while the Cotonou regime is strongly used.

The above results are reported at a high level of aggregation. Utilization rate data show wide variation across countries and preference schemes. Brenton and Ikezuki (2005) find, for example, that Madagascar and Côte d'Ivoire utilize 86 percent and 58 percent, respectively, of the value of preferences for which they are eligible in the U.S. market. Exporters from Mali request preferential treatment for 66.8 percent, 87.5 percent, and 49.8 percent, respectively, of the exports under eligible product categories in E.U., U.S. and Japanese markets.

Utilization rates also vary across sectors. A recent WTO study (Anson and Bacchetta 2005) of the textile and clothing sector finds high variability in the utilization rates calculated at the tariff-line level across all preferential regimes for the Quad countries. This is important to bear in mind more generally, namely, that aggregation often hides high variance. High variability also suggests that producers of similar products facing similar preferential margins react differently; some use MFN tariffs while others use preferences.

²⁵ The Cotonou Agreement is a treaty between the European Union and the group of African, Caribbean and Pacific states (ACP countries). It was signed in June 2000 in Cotonou, Benin, by 79 ACP countries and the then 15 EU members. The agreement is aimed at reducing and eventually eradicating poverty, while contributing to sustainable development and to the gradual integration of ACP countries into the world economy.

Why are utilization rates less than 100 percent and why do they vary across sectors, countries, and preferential regimes? Most studies point to rules of origin in answering these questions. Rules of origin can impose additional production costs on exporters in developing countries, which reduce the attraction of preferences or perhaps simply render them unusable. Exporters may incur additional production costs as a result of an obligation to source inputs from high-cost suppliers, or because of the need to design production structures that comply with rules of origin requirements. Such documentation requirements as certificates of origin and complex accounting systems may also add to costs.²⁶

Owing to the higher costs, restrictive rules of origin will affect the exporter's decision about whether to use the preference. Clearly, if the cost of compliance²⁷ with rules of origin exceeds the margin of preference, the producer would not use the preference. He will source inputs on the basis of profit considerations and export at the MFN rate. For example, Brenton and Manchin (2003) note that many Eastern European exporters have preferred to continue exporting under OPT arrangements²⁸ rather than under the free trade agreement (FTA), despite the lower tariffs, because of origin constraints. Similarly, some have argued that the strong preference for the Cotonou regime over the EBA is attributable to more restrictive rules of origin for the EBA.

Anson and Bacchetta demonstrate a clear inverse relationship between the restrictiveness of origin rules and utilization rates by LDCs in the textile and clothing sector. Some of the results of their study are reported in Table 4. The data for Australia, Canada, Japan, and Switzerland refer to the GSP regime for LDCs. For the United States and the European Union, data are for the AGOA and the Caribbean Basin Trade Partnership Act (CBTPA) and for Cotonou and EBA, respectively. Although based on qualitative information on rules of origin, the data suggest that utilization rates tend to be higher the lower the local content requirement, the less complex the rules (see, for example, the case of Japan), and the more liberal the cumulation regime,²⁹ both in terms of country coverage and type of cumulation.

²⁶ Recent studies focusing on NAFTA (Estevadeordal 2000, Anson and others 2005, and Cadot and others 2005) show that rules of origin effectively limit Mexico's duty-free access to the United States and Canada. In particular, Anson and others (2005) estimate total compliance costs for Mexican exporters at 6 percent of the value of preferential exports, of which about a third is due to administrative costs.

²⁷ Carrère and de Melo (2004) show that compliance costs change across different rules of origin. They are lowest for a change in the tariff classification, somewhat higher for regional value content restrictions, and highest for technical requirements. Focusing on Mexican exports to the United States, they find that in some circumstances preference margins of at least 10 percent would be required to offset the cost-raising effect of a typical regional value content rule.

²⁸ OPT—Outward Processing Trade for Textiles—is a trading arrangement that allows manufacturers of clothing garments within the European Community to take advantage of cheaper production costs outside the EC when there are quantitative restrictions (quotas) in place for that country.

²⁹ Cumulation rules indicate the conditions under which a preference beneficiary country may combine inputs originating from other countries while maintaining the preferential status of the final product. Three types of cumulation rules can be distinguished: bilateral, diagonal (or regional) and full cumulation. Bilateral

Table 4: Utilization Rates and Rules of Origin Restrictiveness for LDCs in Clothing (HTS 61-62)

	Australia	Japan	Switzerland	Canada	US		EU	
					AGOA	CBTPA	Cotonou	EBA
Utilization rates	37.9	40.3	43.8	71.6	79.8	71.3	76	37.8
Rules of Origin								
Local content	25*	no mention	60*	25*	7**	7**	47.5*	47.5*
Product specific rules	no	yes	yes	no	no	no	yes	yes
Cumulation	bilateral	no mention	regional	bilateral	global	regional	full for ACP	bilateral/regional

Note: Data refer to the year 2004. Regional defines diagonal cumulation of inputs from a set of countries.

*highest percentage of value added

**percentage of weight

Source: Anson and Bacchetta 2005

Canada is a particularly successful example of the impact of reforms in existing preferential regimes on utilization rates. Starting on January 1, 2003, Canada added 903 tariff lines at the HS 8-digit level to the list of duty-free tariff items for LDCs. Canada also introduced new rules-of-origin requirements for textile and clothing. For this sector, these reforms implied duty-free access to the Canadian market for all LDC imports, as well as more liberal rules of origin.³⁰ The effects of this reform have been remarkable. The study by Anson and Bacchetta shows a substantial rise in preference utilization rates for Bangladesh in textiles and clothing. Not only have utilization rates increased for all four-digit categories previously utilized, but Bangladesh has substantially diversified its exports. Bangladesh's utilization rates of Canadian preferences were low in 2002, with the highest rate equal to 45.1 percent, and with the utilization rate equal to zero for most of the tariff headings for clothing for which exports are recorded (sub-sectors at the four-digit level). But the situation changes completely only one year after the reform; just 6 out of 40 sectors show a utilization rate of less than 40 percent. Bangladesh's exports have been diversified across 40 tariff headings and only 2 tariff headings show a zero utilization rate. More generally, the study shows that the reforms of Canada's preferential regime led to a higher value of textile and clothing exports for all LDCs and favored the entry of more countries into the Canadian market. The number of LDCs exporting to Canada increased from 33 in 2002 to 41 in 2004.

cumulation implies that the beneficiary country can only use domestic inputs and inputs imported from the preference-giving country. Diagonal cumulation implies that materials supplied by a specific set of countries can be used, provided that the input processing requirements have been fulfilled. Under full cumulation, any input originating from the defined set of countries can be used, regardless of the processing or transformation undertaken.

³⁰ The relevant WTO notification is WT/COMTD/N/15/Add.1, February 13, 2003.

A low utilization rate is generally interpreted as a sign that the design of the preferences limits their utility to developing countries. More liberal rules of origin may, in many cases, help compensate for preference erosion following MFN liberalization. But MFN liberalization *per se* in sectors characterized by a low preference utilization rate may be thought of as compensatory trade policy for preference beneficiaries (and others). The rationale is as follows: A low preference utilization rate with respect to a specific tariff line implies that producers of the same good facing the same rules of origin and preference margin make different decisions about whether to use the preference or the MFN rate to export. This may be because producers use different technologies or have different information, and hence face different costs for switching to different inputs or fulfilling the administrative requirements of rules of origin. Where exports from developing countries to developed countries take place at both the preferential and MFN rate, the reduction of the MFN rate will benefit MFN-rate exporters. This benefit may outweigh the loss to those who receive a preference. In other words, when the option of liberalizing rules of origin is not available, countries or sectors with low utilization rates may be better off pursuing a policy aimed at deepening MFN liberalization rather than preserving preference margins.

The data on utilization rates are scarce and make it hard to draw a conclusion. Overall, available data appear to suggest, however, that while there are undoubtedly areas and countries where low preference utilization occurs at least partly because of rules of origin limitations, for the most part underutilization of preferences is not a major factor. Therefore, improvements in utilization offer only limited scope for mitigating preference erosion in the face of MFN liberalization.

Scope for Extending Non-reciprocal Preferences in the Quad plus Australia

As noted previously, an obvious trade solution to non-reciprocal preference erosion arising from MFN liberalization would be to extend preferential arrangements to other product areas where positive MFN rates apply. In this paper, we have not addressed the situation with respect to preferences at a detailed product or tariff-line level. Therefore, we cannot offer a precise indication of which products in which markets may lend themselves to new preferential arrangements.

Table A4 in the annexes shows the aggregate value of trade by exporter with respect to which additional preferences could potentially be extended by preference receivers. Before looking more closely at these numbers, we reiterate a caveat made in the opening section. Just as all the data in this paper are essentially static in nature (i.e., they take no account of possible supply and demand responses to changes in relative prices), the data are also based exclusively on actual trade performance – that is, the numbers reflect actual rather than potential trade patterns. Thus, in considering the scope for extending preferences, we are doing so only with respect to products

actually traded by countries. No doubt, some exporters would be able to export other products under different tariff arrangements.

Bearing in mind this important analytical limitation, we note that the scope for additional preferential treatment on aggregate developing country exports to the five reporter countries amounts to nearly \$11 billion (in terms of 2003 trade flows). This more than covers the sum of the losses faced by some developing countries. The comparable figure relating to the scope for extending preferential treatment to least-developed countries is \$217 million. This would also appear to cover the \$170 million preference erosion estimate for LDCs.

While the aggregate picture may suggest that extending preferential treatment to new product lines offers a solution to preference erosion in the five reporter countries (the Quad plus Australia), this suggestion is severely undermined when the data are disaggregated by country. We find, for example, by comparing columns 3 and 5 of Table A4 in the annexes by individual countries, scope for compensation in just 13 countries (of which 9 are developing countries and 4 are LDCs) out of 97 (of which 65 are developing countries and 32 are LDCs) for which simulations were run (Table 5).

Table 5: Scope for Compensation: Total Number of Countries

	with scope for compensation	Total
Developing Countries	9	65
LDCs	4	32
Most affected countries	2	15

In particular, of the 15 countries most affected by preference erosion (Bangladesh, Cambodia, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Kenya, Lesotho, Madagascar, Mauritius, Namibia, Nicaragua, Saint Lucia, and Swaziland) , only two (Bangladesh and Cambodia) have scope for additional preferences in excess of the value of preference erosion incurred as a result of MFN liberalization. The other 13 countries lack sufficient scope for additional preferences to cover the value of estimated losses from preference erosion. Bearing in mind the caveats above about what we are actually measuring, the evidence suggests that this particular trade solution to preference erosion does not hold much promise in the immediate future.

Scope for Compensating Preference Erosion Through Preferences in other Markets

In this paper, we have focused only on non-reciprocal preferential exports from developing countries to Australia, Canada, the European Union, Japan, and the United States (the five reporter countries). Although these markets represent a large share of the trade of many developing countries, the question arises of whether part of a trade solution to preference erosion resulting from MFN liberalization may lie in extending preferential treatment in markets other than the five reporter countries. This question is not systematically addressed in this paper. All developed countries not covered here, however, already have non-reciprocal preference schemes. These schemes would need to be studied in detail to determine the degree to which their value to developing countries would be lessened through MFN liberalization, and how far such losses were amenable to trade solutions.

What about South-South trade, which is enjoying a growing share of global trade? The possibility of rejuvenating the Generalized System of Trade Preferences (GSTP) among developing countries has been mooted recently. Many reciprocal preferential trade agreements already exist or are being negotiated among developing countries. Moreover, some twenty developing countries provide some non-reciprocal preferences to LDCs, either under the GSTP or some other agreement.³¹

Finally, Table A4 (column 6) provides a rough indicator of the possible scope for individual developing countries to seek trade solutions to preference erosion in markets other than those of the five reporter countries. Column 6 shows the ratio (in percentage terms) of exports to the five reporter countries to exports to the rest of the world. A low percentage value in column 6 suggests possible scope for recouping losses from preference erosion in the five reporter countries through preferential trading arrangements in other markets. This is obviously a rough indicator of potential, but once again, abstracting from possible supply responses to new trade opportunities, it shows that this trade solution is not too promising for the countries most hurt by preference erosion in the five reporter markets. In the case of the 16 most affected countries, for example, the five reporter countries accounted for well over 75 percent of their total exports in 2003. Three outliers were Kenya (49 percent), Namibia (53 percent), and Swaziland (23 percent). But in each case, a significant part of this trade share is already likely to be preferential – East African Community trade in the case of Kenya, and South African Customs Union trade in the case of Namibia and Swaziland. Once again, we are left with the conclusion that trade solutions are not too promising for the majority of the countries most seriously at risk from preference erosion stemming from MFN liberalization.

Conclusions

³¹ See Annex Table 10 of WTO document WT/COMTD/LDC/W/35.

We have taken a fairly detailed look at the likely dimensions of non-reciprocal preference erosion for developing countries arising from MFN trade liberalization. We have estimated the degree of preference erosion affecting all developing countries as a result of an MFN tariff cut on non-agricultural products while agricultural products are included in our companion paper on agriculture (Chapter 8).³² We have also considered the extent to which "trade" solutions may be found for preference erosion by improving preference utilization rates and extending preferential arrangements to new products, either in the preference-giving countries examined here or in other markets.

Our main conclusions, summarized below, are based on a static MFN liberalization scenario that does not take account of possible supply and demand responses to relative price changes. Moreover, our analysis is based on observed trade flows and therefore does not allow the possibility of new trade occurring in new product lines as a result of relative price changes:

- Developing countries would enjoy a net gain of \$2 billion in the value of adjusted preference margins if the Quad plus Australia were to reduce MFN tariffs on non-agricultural products using a Swiss formula with a coefficient of 10. Significant gains and losses underlie the net figure. The 10 largest developing-country losers (excluding LDCs) from non-reciprocal preference erosion are the Dominican Republic, Honduras, Kenya, Mauritius, Saint Lucia, El Salvador, Guatemala, Namibia, Nicaragua, and Swaziland.
- Least-developed countries would suffer a net loss of \$170 million under the same liberalization scenario, but in this case only two LDCs (Maldives and Nepal) register a gain. The major losers from preference erosion are Bangladesh, Cambodia, Haiti, Lesotho, and Madagascar. Many LDCs would suffer little or no preference erosion, however, because their export structure is such that they enjoy MFN duty-free treatment on a large share of their exports to the five reporter markets. This group includes Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of Congo, Djibouti, Guinea, Mali, Niger, Rwanda, Sierra Leone, Solomon Islands, Togo, and Zambia.
- Much of the preference erosion story in the most affected countries is about clothing, especially for the LDCs (except Madagascar). Other sectors of some interest to certain of the affected countries in the five reporter markets include textiles, fish and fish products, leather and leather products, electrical machinery, and wood and wood products.
- As to trade solutions to preference erosion, improved utilization levels will may or may not have a decisive impact in most of the affected countries. There may, however, be one or two

³² We have undertaken a similar exercise for agricultural products in another study (Low and others, 2006).

important exceptions. Some preliminary evidence suggests a positive effect from reforms of preferential schemes. More definitive conclusions are not possible because of an acute lack of comprehensive and reliable information. What information there is provides a mixed picture. While utilization problems seem to emerge in some reciprocal and non-reciprocal preference schemes, most developing and least-developed countries appear to enjoy reasonably high utilization rates (e.g., ACP countries into the European Union and most countries into the United States). This issue requires additional research based on better information.

- Limited scope exists for expanding preference schemes to other product lines in the five reporter countries in order to ameliorate the impact of preference erosion on the most affected countries. This is because significant positive tariffs do not fall on non-preferential trade flows to the reporter countries. Four countries that are exceptions to this conclusion are Bangladesh and Cambodia, and less so, Myanmar and Nepal.
- Limited scope also exists, at least in the near future, for softening the impact of preference erosion in the most affected countries through exports to markets other than those of the reporter countries. This is because the latter account for a substantial share of the exports of the most affected countries.

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Appendix

A. Data Sources

The data are sourced from CAMAD (Common Analytical Market Access Data Base), which is maintained by the ITC, UNCTAD, and the WTO Secretariat. The reference year for both trade and tariff data is 2003; tariff lines outside chapters 01 to 97 of the 2002 Harmonised System (HS02) have been excluded. Note that:

- total imports may not be in line with other international sources as some confidential trade flows are not submitted to the WTO Integrated Data Base;
- only those bilateral trade flows higher than one thousand dollars have been included in the analysis; and
- whenever available, *ad valorem* equivalents calculated by the ITC for the Millennium Development Goals have been used.

The analysis has been carried out at national tariff-line level. Australia, Canada, and the United States use 8-digit tariff numbers, Japan uses 9 digits, and the European Union provides import data at the 8-digit level but preferential tariffs are defined at the 10- or 12-digit level. To align E.U. tariff data with imports, the data are aggregated at 10 digits and then at 8 digits.

The tariff information for the United States does not identify the clothing products that benefit from the African Growth and Opportunity Act and the Caribbean Basin Trade Partnership Act. It has been assumed that all products under chapters 61 and 62 of HS02 are eligible under those two preference schemes.

The countries benefiting from the Generalized Systems of Preferences and/or LDC programs may vary from one donor country to another.

B. Coverage of Preferential Schemes³³

Market	Preferential scheme
Australia	General System of Preferences (GSP)
	Least Developed Countries (LDC)
	South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA)
	Hong Kong, Korea and Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu
	Australia – Malaysia free trade agreement
	Norfolk Island Act, Christmas Island Agreement, Cocos Islands Act, Australian Territories, Heard and McDonald
	PAPUA NEW GUINEA. Agreement on Trade and Commercial Relations Agreement (PATCRA)
	Canada – Australia trade agreement (CANATA)
	Australia New Zealand Closer Economic Relations trade agreement (ANZERTA-CER))
	Singapore-Australia free trade agreement (SAFTA)
Canada	General System of Preferences (GSP)
	Least Developed Countries (LDC)
	Commonwealth Caribbean Countries Tariff
	Australia Tariff
	Canada-Costa Rica Free Trade Agreement
	Canada-Israel free trade agreement (CIFTA)
	Chile Tariff under the Canada-Chile Free Trade Agreement (CCFTA)
	Mexico Tariff under NAFTA
	Mexico-United States Tariff under NAFTA
	New Zealand Tariff
United States Tariff under NAFTA	
Japan	General System of Preferences (GSP)
	Least Developed Countries (LDC)
United States	General System of Preferences (GSP)
	Least-developed beneficiary developing countries (LDC)
	African Growth and Opportunity Act (AGOA)
	Andean Trade Preference Act (ATPA) and Andean Trade Promotion and Drug Eradication Act (ATPDEA)
	Caribbean Basin Economic Recovery Act (CBI)
	Caribbean Basin Trade Partnership Act (CBTPA)
	Automotive Products Trade Act (APTA)
	Canada under the North American Free Trade Agreement (NAFTA)
	Mexico under the North American Free Trade Agreement (NAFTA)
	United States-Israel Free Trade Area
United States-Jordan Free Trade Area Implementation Act	
Market	Preferential scheme
European Communities	General System of Preferences (GSP)
	Least Developed Countries (LDC)
	Preferential tariff for ACP countries
	Preferential tariff for countries fighting drug

³³ Exclusions to preferential schemes have been taken into account.

	Preferential tariff for Overseas Countries and Territories Albania, Algeria, Andorra, Bosnia and Herzegovina, Bulgaria, Chile Croatia, Cyprus, Czech republic, Egypt, Estonia, Faeroe Islands, The Palestinian Authority of the West Bank and the Gaza Strip, Hong Kong, China, Hungary, Iceland, Israel, Jordan, Latvia, Lebanon, Liechtenstein Lithuania, Macedonia, Malta, Mexico, Morocco, Myanmar Norway, Poland, Romania, Slovak Republic, Slovenia, South Africa, Switzerland, Syria, Chinese Taipei, Tunisia, Serbia and Montenegro
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C. Guidelines on Annex Tables

Table A1: Non-reciprocal Schemes in Selected Markets for Non- agricultural Markets, 2003.

Information is provided on GSP, least-developed country (LDC) schemes, and other selected individual non-reciprocal schemes for each of the five preference-giving markets. The bold figures represent the value of total non agricultural imports of each reporting country from all beneficiaries in 2003. They also indicate the number of national tariff lines for products with trade from those beneficiaries. It may be observed, for example, that 49.1 percent of Australia's non-agricultural imports from GSP beneficiaries entered MFN duty free while 9.4 percent of imports were eligible to preferential access of which 0.7 was duty free. The MFN dutiable imports would stand at 41.5 percent (100 - 49.1 - 9.4).

Table A2: Imports of Non-agricultural Products from Preference Beneficiaries by Type of Market Access, 2003

Tables A2 presents disaggregated data for individual preference receiving developing countries; it indicates the shares of non agricultural imports from preference beneficiary developing countries into the five reporter countries, by different kinds of tariff treatment. The first columns of the table show [1] the value of imports into the reporter market concerned; [2] the share of total bilateral exports for each developing country listed that is duty free; [3] the share of MFN dutiable imports that pay duty; and [4] the share of total imports that benefit from preferences (reciprocal and non-reciprocal), whether at zero duty or a positive duty. For example, 52 percent of Brazil's exports of non agricultural products enter the five reporter markets MFN duty free. A further 24 percent attract a positive MFN duty, and 23 percent enjoy a preference. Table A2 also provides statistics expressed in terms of tariff lines rather than import values using the same type of breakdowns. This information shows how narrow the export base is for many countries, especially least-developed countries.

An important difference between Tables A1 and A2 is that in Table A2 the preference data refer to all non-MFN trade – that is, both non-reciprocal and reciprocal preferential trade--while Table A1 related to only specific non-reciprocal preference schemes.

Table A3: Weighted Duty Margins, Non-agricultural Products, 2003

Table A3 presents weighted preference margins for non agricultural products, detailed by each preference receiving countries and by markets. There is a preference margin if the duty applied to a beneficiary of a preferential scheme is lower than the MFN statutory applied duty. The margin is calculated as the difference between those two duties and then weighted for bilateral trade. Note that, for the sake of simplification, MFN statutory duties have been applied to countries that are not part of WTO; this means that general duties for Japan and the United States have not been used.

Columns 1-6 report preference margins for each individual country in the five markets. To take the example of Jamaica's situation in the five reporter markets, the table indicates that the average preference margin, weighted by imports flows of all non agricultural products, is 5 percent .

In columns 7-12, the values for preference margin have been adjusted in order to take account of all MFN and better-than-MFN exports to the reporter countries that compete in these markets with each of the countries listed in the table. For a particular country and tariff line, the adjusted preference margin has been defined as the difference between the trade weighted average of the best duties³⁴ that all other countries would benefit from (calculated on the basis of bilateral imports) and the best duty of the specific country. For example, Jamaica's preferential margin for all exports products expressed in terms of all exports of to the five reporters has fallen from five percentage points before the adjustment to two percentage points. Some countries result into negative preference margin; this is due to other competitors benefiting, on average, from more favourable preferential schemes.

Column 13 provides an indication of the effects on the value of preference margins of factoring in preference utilization rates for the United States.³⁵ It shows the overall preference margin after adjustments have been made also for best duty treatment of all competitors in the U.S. market. It should be noted at the outset that part of the under-utilization of preferences recorded in the table reflects an initial over-estimate of the value of preferences, since in the case of clothing it was assumed that all lines (chapters 61 and 62) received duty free treatment under the African Growth and Opportunity Act (AGOA) and the Caribbean Basin Trade Partnership Act (CBTPA).

³⁴ The "best duty" for a tariff line is defined as the lowest duty that a country can benefit from. If no ad valorem equivalent is available, the best duty would exclude the non ad valorem duty. If there is no preference for a particular tariff line, then the MFN statutory applied duty is used.

³⁵ In case of unmatched tariff lines between CAMAD data and the utilisation data, it is assumed that the preference utilisation is zero.

Table A4: Impact of NAMA MFN Tariff Reduction on Preference Value and Scope for Future Preferences, 2003

Table A4 reports the change in the value of the preference³⁶ of a MFN liberalization scenario. For simulation purposes, a Swiss formula with a coefficient of 10 has been applied: $t_1 = \frac{t_0 \times 10}{t_0 + 10}$ on 2003

MFN applied rates. Note that the Swiss formula implies that the higher the initial tariff (t_0), the higher the cut. All new tariffs (t_1) will be lower than 10.

Columns 1 and 2 of Table A4 show what MFN liberalization has done to the value of average preference margins before any adjustment is made for competing non-MFN trade. Columns 3 and 4 show the effects of the MFN cut with adjustments for competing MFN trade in the five reporter markets. Negative numbers, such as Namibia's \$19.7 million shown in the first column as the amount by which Namibia would lose overall from preference erosion, is reduced to \$10.7 million after adjustment. What this means is that Namibia suffers preference erosion to the value of some \$10.7 million in the five reporter countries according to our simulations.

Table A5: Impact of Swiss Formula Cut on Preferences by Selected Countries, 2003

Table A5 provides details by some broad product categories (MTN categories) in non agricultural products for selected countries, based on the calculations of "adjusted" preference erosion. The imports share in terms of all imported products (agricultural and non agricultural) is first shown followed by the adjusted preferential margin before and after the cut using the same Swiss formula as for Table A4.

³⁶ The value of preferences of a beneficiary is defined as the bilateral import value multiplied by the preference margin. Overall preference margins are calculated by dividing the value of preferences by the beneficiary's overall bilateral imports.

Table A1
Non reciprocal schemes in selected markets, non agricultural products, 2003
(Million dollars and percentages)

	Category	Imports		Number of national tariff lines				
		Value	%	Number	%	With trade(%)		
Australia	GSP	All tariff lines	19,649.5	100.0	5,330	100.0	77.9	
		MFN duty free access	9,647.5	49.1	2,332	43.8	31.2	
		Preferential access	1,855.2	9.4	790	14.8	11.6	
		Duty free preference	136.7	0.7	158	3.0	1.8	
	LDC	All tariff lines	110.7	100.0	5,330	100.0	7.6	
		MFN duty free access	99.6	90.0	2,332	43.8	2.7	
		Preferential access	11.1	10.0	2,998	56.2	4.9	
		Duty free preference	11.1	10.0	2,998	56.2	4.9	
Canada	GSP	All tariff lines	41,656.9	100.0	7,125	100.0	81.8	
		MFN duty free access	23,778.7	57.1	3,710	52.1	41.5	
		Preferential access	11,168.0	26.8	2,484	34.9	28.4	
		Duty free preference	2,188.4	5.3	1,131	15.9	12.5	
	LDC	All tariff lines	703.4	100.0	7,125	100.0	10.0	
		MFN duty free access	366.1	52.0	3,710	52.1	3.9	
		Preferential access	337.3	48.0	3,415	47.9	6.1	
		Duty free preference	337.3	48.0	3,415	47.9	6.1	
	Commonwealth Caribbean Countries	All tariff lines	519.1	100.0	7,125	100.0	5.3	
		MFN duty free access	456.2	87.9	3,710	52.1	3.2	
		Preferential access	56.8	10.9	2,678	37.6	1.6	
		Duty free preference	56.7	10.9	2,412	33.9	1.6	
	EU-15	GSP	All tariff lines	393,955.5	100.0	8,289	100.0	94.3
			MFN duty free access	202,725.2	51.5	1,774	21.4	19.3
			Preferential access	165,321.0	42.0	6,179	74.5	71.6
			Duty free preference	80,639.3	20.5	3,804	45.9	43.8
LDC		All tariff lines	12,143.8	100.0	8,289	100.0	32.9	
		MFN duty free access	5,115.7	42.1	1,774	21.4	7.3	
		Preferential access	7,017.9	57.8	6,414	77.4	25.6	
		Duty free preference	7,017.9	57.8	6,414	77.4	25.6	
ACP		All tariff lines	22,101.5	100.0	8,289	100.0	42.7	
		MFN duty free access	15,803.9	71.5	1,774	21.4	9.4	
		Preferential access	5,516.8	25.0	6,439	77.7	33.0	
Countries fighting drugs		All tariff lines	10,815.9	100.0	8,289	100.0	41.7	
		MFN duty free access	6,154.5	56.9	1,774	21.4	7.9	
		Preferential access	4,487.5	41.5	6,307	76.1	33.1	
USA		GSP	All tariff lines	160,732.0	100.0	8,688	100.0	81.9
			MFN duty free access	57,070.5	35.5	2,836	32.6	26.7
			Preferential access	22,771.2	14.2	3,106	35.8	29.4
			Duty free preference	22,731.1	14.1	3,106	35.8	29.4
		LDC	All tariff lines	9,691.8	100.0	8,688	100.0	13.0
			MFN duty free access	413.4	4.3	2,836	32.6	3.6
	Preferential access		5,006.6	51.7	4,215	48.5	3.6	
	Duty free preference		5,006.6	51.7	4,215	48.5	3.6	
	African Growth and Opportunity Act	All tariff lines	18,018.1	100.0	8,688	100.0	27.8	
		MFN duty free access	3,470.1	19.3	2,836	32.6	9.7	
		Preferential access	14,457.1	80.2	4,900	56.4	15.0	
		Duty free preference	14,457.1	80.2	4,900	56.4	15.0	
	Andean Trade Preference Act & Andean Trade Promotion and Drug Eradication Act	All tariff lines	9,077.8	100.0	8,688	100.0	26.3	
		MFN duty free access	2,505.2	27.6	2,836	32.6	8.5	
		Preferential access	5,347.6	58.9	4,559	52.5	11.8	
		Duty free preference	5,347.6	58.9	4,559	52.5	11.8	
	Caribbean Basin Economic Recovery Act	All tariff lines	20,615.4	100.0	8,688	100.0	28.7	
		MFN duty free access	6,114.5	29.7	2,836	32.6	10.8	
		Preferential access	2,587.6	12.6	4,668	53.7	13.0	
		Duty free preference	2,549.5	12.4	4,618	53.2	12.6	
Japan	GSP	All tariff lines	159,684.1	100.0	7,438	100.0	77.6	
		MFN duty free access	109,728.6	68.7	2,888	38.8	32.3	
		Preferential access	20,513.4	12.9	3,087	41.5	29.3	
		Duty free preference	13,274.4	8.3	2,008	27.0	20.5	
	LDC	All tariff lines	1,387.0	100.0	7,438	100.0	8.8	
		MFN duty free access	818.4	59.0	2,888	38.8	3.4	
		Preferential access	449.4	32.4	4,143	55.7	4.7	
		Duty free preference	449.4	32.4	4,141	55.7	4.7	

Table A 2
Imports of non-agricultural products from preference beneficiaries by type of market access, 2003
(in % of total bilateral imports, million dollars)

Country	QUAD + Australia						
	Bilateral imports	Imports (%)			Average percentage of tariff lines with trade		
		MFN duty free access	MFN dutiable access	Preferential access	MFN duty free access	MFN dutiable access	Preferential access
Developing	1	2	3	4	5	6	7
Albania	184	30	2	68	0.50	0.14	0.86
Antigua & Barbuda	416	81	0	19	0.14	0.00	0.10
Argentina	5,055	30	37	32	3.68	2.18	4.00
Armenia	202	66	6	27	0.29	0.17	0.23
Bahrain	770	20	38	42	0.56	0.36	0.70
Barbados	39	54	0	45	0.42	0.03	0.30
Belize	84	70	7	23	0.23	0.06	0.16
Bolivia	233	49	16	35	0.52	0.43	0.48
Botswana	1,712	98	0	2	0.22	0.03	0.13
Brazil	28,711	52	24	23	8.98	5.61	8.06
Brunei Darussalam	2,579	88	12	0	0.25	0.31	0.13
Cameroon	1,534	79	1	20	0.64	0.11	0.65
China	343,804	46	40	14	24.86	27.40	11.78
Colombia	6,361	40	9	51	2.33	1.54	2.61
Congo	731	47	0	53	0.39	0.00	0.24
Côte d'Ivoire	778	62	0	37	0.58	0.04	0.64
Cuba	362	77	6	16	0.54	0.07	0.44
Dominica	18	13	22	64	0.13	0.06	0.07
Dominican Republic	4,135	23	1	76	1.64	0.61	1.78
Ecuador	2,496	19	6	75	1.49	0.52	1.16
Egypt	4,189	31	26	43	1.81	1.32	3.05
El Salvador	1,917	3	3	93	0.63	0.54	0.82
Gabon	1,934	27	0	73	0.43	0.00	0.26
Georgia	335	35	51	14	0.54	0.11	0.24
Ghana	647	46	1	54	0.78	0.11	0.62
Grenada	7	50	0	50	0.07	0.09	0.03
Guatemala	2,244	5	2	93	0.81	0.54	1.17
Guyana	294	93	0	7	0.40	0.02	0.18
Honduras	3,136	9	2	89	0.70	0.51	0.77
Hong Kong, China	20,332	46	52	0	11.79	21.17	1.47
India	29,057	31	28	41	12.07	12.36	10.65
Indonesia	37,349	57	22	21	8.68	7.86	7.44
Jamaica	740	44	0	56	0.52	0.06	0.35
Kenya	335	18	2	80	0.79	0.15	0.97
Korea, Republic of	84,674	53	45	2	16.36	29.67	2.08
Kuwait	8,591	68	25	7	0.64	0.26	0.54
Kyrgyz Republic	49	65	20	16	0.12	0.13	0.09
Macao, China	2,200	2	86	12	0.77	2.69	0.53
Malaysia	54,093	80	13	7	10.02	8.39	5.89
Mauritius	1,125	6	1	92	0.77	0.40	1.53
Moldova	183	5	59	36	0.27	0.35	0.57
Mongolia	209	1	94	5	0.21	0.50	0.17
Namibia	615	39	1	60	0.40	0.05	0.39
Nicaragua	665	18	1	82	0.35	0.16	0.38
Nigeria	17,398	40	4	56	0.79	0.04	0.81
Oman	3,216	82	15	3	0.55	0.41	0.60
Pakistan	5,922	3	45	51	2.20	4.02	3.44
Panama	531	64	21	15	0.93	0.14	0.77
Paraguay	95	65	8	27	0.29	0.12	0.30
Peru	4,753	64	13	24	1.82	1.60	1.98
Philippines	23,065	75	12	13	7.22	4.52	5.12
Qatar	7,242	90	9	1	0.53	0.20	0.53

Table A 2 (cont'd)

Imports of non-agricultural products from preference beneficiaries by type of market access, 2003

(in % of total bilateral imports, million dollars)

Country	QUAD + Australia						
	Bilateral imports	Imports (%)			Average percentage of		
		MFN duty free access	MFN dutiable access	Preferential access	MFN duty free access	MFN dutiable access	Preferential access
Developing	1	2	3	4	5	6	7
Paraguay	95	65	8	27	0.29	0.12	0.30
Peru	4,753	64	13	24	1.82	1.60	1.98
Philippines	23,065	75	12	13	7.22	4.52	5.12
Qatar	7,242	90	9	1	0.53	0.20	0.53
Saint Kitts & Nevis	50	35	1	63	0.22	0.01	0.16
Saint Lucia	13	25	0	75	0.15	0.01	0.16
St Vincent & Grenadines	47	94	0	6	0.07	0.01	0.04
Sri Lanka	3,286	14	51	35	1.73	2.45	2.26
Suriname	341	71	4	25	0.32	0.01	0.20
Swaziland	173	9	3	88	0.37	0.03	0.29
Taipei, Chinese	70,460	65	35	0	17.42	32.42	0.31
Thailand	37,574	53	21	26	11.19	9.77	8.86
Trinidad and Tobago	4,796	58	1	41	0.71	0.04	0.55
United Arab Emirates	19,673	84	8	8	2.77	2.08	3.34
Uruguay	511	38	20	42	1.02	0.51	0.91
Venezuela, Boliv. Rep.	16,611	41	53	6	1.79	0.56	1.55
Zimbabwe	321	28	2	70	0.48	0.21	0.46
Developing total	871,202	52.1	31.8	15.9	n.a.	n.a.	n.a.
LDC							
Angola	5,361	26	0	74	0.38	0.01	0.27
Bangladesh	6,460	3	30	67	0.69	0.81	2.15
Benin	11	34	1	65	0.13	0.01	0.11
Burkina Faso	16	32	0	67	0.21	0.01	0.18
Burundi	3	71	0	29	0.05	0.00	0.03
Cambodia	1,962	0	64	36	0.30	0.49	0.99
Central African Rep.	98	97	0	3	0.10	0.00	0.05
Chad	22	3	0	97	0.06	0.00	0.06
Dem. Rep. of the Congo	970	86	0	14	0.30	0.00	0.15
Djibouti	4	82	0	18	0.07	0.00	0.06
Gambia	3	16	1	83	0.10	0.01	0.11
Guinea	474	88	0	12	0.24	0.01	0.18
Guinea-Bissau	8	30	0	70	0.03	0.00	0.03
Haiti	330	2	0	98	0.28	0.01	0.43
Lesotho	406	1	0	99	0.03	0.00	0.19
Madagascar	594	4	0	95	0.51	0.06	1.10
Malawi	25	4	0	96	0.10	0.00	0.09
Maldives	138	1	79	21	0.09	0.12	0.18
Mali	13	44	1	55	0.30	0.03	0.27
Mauritania	406	50	0	49	0.26	0.01	0.32
Mozambique	640	2	0	98	0.20	0.00	0.15
Myanmar	844	14	31	55	0.52	0.78	0.75
Nepal	276	4	57	23	0.49	0.56	1.39
Niger	13	77	1	22	0.28	0.01	0.20
Rwanda	8	88	0	12	0.08	0.00	0.06
Senegal	297	9	1	90	0.55	0.03	0.68
Sierra Leone	121	87	0	13	0.41	0.00	0.58
Solomon Islands	22	39	30	31	0.14	0.02	0.02
Tanzania	656	75	0	25	0.50	0.01	0.33
Togo	39	61	0	39	0.21	0.02	0.19
Uganda	102	24	0	76	0.33	0.00	0.27
Zambia	113	60	0	40	0.26	0.01	0.19
LDC	20,436	20.2	18.3	61.2	n.a.	n.a.	n.a.
TOTAL	891,638	51.4	31.5	17.0	n.a.	n.a.	n.a.

Table A 3
Weighted duty margins, non-agricultural products, 2003
(weighted by bilateral imports)

Country	Weighted preference margins						Adjusted weighted preference margin						Adj. weighted pref. margin further adj. for comp. and util.
	QUAD +AUS	AUS	CAN	EU	JAP	US	QUAD +AUS	AUS	CAN	EU	JAP	US	US
	1	2	3	4	5	6	7	8	9	10	11	12	13
Developing	1	2	3	4	5	6	7	8	9	10	11	12	13
Albania	5	0	0	5	0	2	1	0	-1	2	0	1	2
Antigua & Barbuda	0		0	0	4	2	0		0	0	3	2	0
Argentina	1	0	0	3	0	0	0	0	0	0	0	0	0
Armenia	1	0	0	1	0	4	0	0	-4	0	0	1	1
Bahrain	1	0	0	3	0	1	-2	0	-3	-1	0	-4	-3
Barbados	1	0	1	2	0	1	1	0	0	1	0	0	0
Belize	3	1	1	1	0	3	2	0	-1	0	0	2	1
Bolivia	2	1	0	1	0	2	0	0	0	0	0	0	0
Botswana	0	3	0	0	0	12	0	3	0	0	0	7	8
Brazil	1	1	1	1	0	1	0	0	-1	0	0	0	0
Brunei Darussalam	0	0	0	0	0	0	-1	0	-4	-1	0	-4	-3
Cameroon	1	5	0	1	0	0	0	2	0	0	0	0	0
China	0	0	1	1	1	0	-1	-1	-1	-1	0	-1	-1
Colombia	1	0	0	2	2	1	0	0	-1	0	0	-1	0
Congo	0	5	0	0	0	0	0	1	0	0	0	0	0
Côte d'Ivoire	5	4	0	5	0	0	1	1	0	1	0	0	0
Cuba	1	0	0	4	0	0	0	0	0	-1	0	0	1
Dominica	2	0	3	2	0	4	1	0	-1	1	0	2	2
Dominican Republic	10	0	1	3	2	11	5	0	-2	1	0	6	4
Ecuador	3	0	1	16	0	0	0	0	0	3	0	0	0
Egypt	3	0	0	4	0	0	0	0	-1	1	0	-3	-3
El Salvador	16	0	0	7	0	16	9	0	-5	2	0	9	5
Gabon	1	5	0	2	0	0	0	2	0	0	0	0	0
Georgia	1	0	0	0	2	1	0	0	0	0	1	0	0
Ghana	5	2	0	6	0	2	1	0	0	1	0	1	1
Grenada	4		2	7		0	1		0	1		0	0
Guatemala	15	0	0	8	0	15	10	-1	-4	0	0	10	2
Guyana	1	0	0	1	0	2	1	0	0	0	0	2	1
Honduras	15	0	0	9	0	15	8	0	-5	2	0	9	7
Hong Kong, China	0	0	0	0	0	0	-2	0	-2	-2	0	-3	-2
India	1	0	1	2	1	1	-1	0	-2	-1	0	0	0
Indonesia	1	0	1	2	0	1	0	0	-1	-1	0	-1	-1
Jamaica	5	0	0	6	0	6	2	0	0	2	0	3	2
Kenya	12	0	1	6	0	17	7	0	-4	1	0	10	11
Korea, Republic of	0	0	0	0	0	0	-1	0	-2	-2	0	-1	-1
Kuwait	0	0	0	1	0	0	0	0	0	0	0	0	0
Kyrgyz Republic	1	0	1	2	0	0	-1	0	0	-1	0	-5	-4
Macao, China	0	0	0	1	0	0	-5	-1	-3	-5	0	-6	-4
Malaysia	0	0	0	1	0	0	0	0	0	0	0	0	0
Mauritius	12	0	0	11	0	16	5	-1	-4	3	0	10	4
Moldova	1	0	0	1	0	0	-2	-8	-2	-1	0	-4	-3
Mongolia	0	0	0	2	0	0	-5	0	-5	-3	0	-5	-4
Namibia	6	0	0	6	0	6	4	0	0	4	0	4	3
Nicaragua	14	1	0	6	0	14	7	0	-1	0	0	8	0
Nigeria	0	0	0	0	0	0	0	0	0	0	0	0	0
Oman	0	0	0	3	0	0	0	0	-4	-1	0	-2	-1
Pakistan	5	0	1	9	1	0	0	0	-5	4	0	-3	-2
Panama	1	0	1	2	0	1	0	-1	-2	0	0	0	0
Paraguay	1	0	0	1	1	1	0	-5	0	0	0	-1	0
Peru	1	0	1	1	0	1	0	0	0	0	0	-1	-1
Philippines	0	0	0	1	0	1	0	0	0	0	0	-1	-1
Qatar	0	0	0	1	0	0	0	0	0	0	0	-2	-2

Table A 3 (cont'd)
Weighted duty margins , non-agricultural products, 2003
(weighted by bilateral imports)

Country	Weighted preference margins						Adjusted weighted preference margin						Adj. weighted pref. margin further adj.
	QUAD +AUS	AUS	CAN	EU	JAP	US	QUAD +AUS	AUS	CAN	EU	JAP	US	US
	1	2	3	4	5	6	7	8	9	10	11	12	13
Developing													
Saint Kitts and Nevis	2		2	3	0	2	1		1	1	0	1	1
Saint Lucia	6		0	3	1	6	4		-1	1	0	4	0
St. Vincent & Grenadines	0	0	0	0	0	4	0	-2	0	0	0	2	2
Sri Lanka	1	0	1	2	1	0	-3	0	-3	-3	0	-4	-3
Suriname	2	0	0	3	0	0	0	0	0	1	0	0	0
Swaziland	17	0	1	3	0	18	10	0	-1	1	0	11	12
Taipei, Chinese	0	0	0	0	0	0	-1	0	-2	-1	0	-1	-1
Thailand	1	1	1	1	0	1	0	0	-1	-1	0	0	0
Trinidad and Tobago	1	0	2	4	0	1	0	0	0	1	0	0	0
United Arab Emirates	0	0	1	2	0	0	0	0	-2	0	0	-1	-1
Uruguay	1	0	1	2	0	1	0	-1	0	0	0	0	0
Venezuela, Boli. Rep.	0	3	0	1	0	0	0	1	0	0	0	0	0
Zimbabwe	3	0	0	3	4	3	1	0	0	0	2	0	0
Developing total	0.7	0.3	0.7	1.1	0.3	0.6	-0.51	-0.40	-1.30	-0.95	0.15	-0.46	
LDC													
Angola	0	1	0	0	0	0	0	0	0	0	0	0	0
Bangladesh	9	3	17	12	46	0	2	3	13	4	10	-4	-3
Benin	5		7	5	0	0	1		0	1	0	0	0
Burkina Faso	2	5	1	2	3	1	0	4	0	0	2	0	0
Burundi	1		11	1	3	0	0		9	0	3	0	0
Cambodia	13	12	18	12	202	0	1	11	14	5	50	-5	-4
Central African Republic	0		1	0	0	0	0		0	0	0	0	0
Chad	1	15	0	4	0	0	0	14	0	2	0	0	0
Dem. Rep. of Congo	0	15	5	0	0	0	0	14	0	0	0	0	0
Djibouti	1		0	1	0	0	1	6	0	1	0	0	0
Gambia	10		1	11	0	1	3		0	4	0	1	0
Guinea	1	8	0	1	3	0	0		0	0	2	0	0
Guinea Bissau	8			10	7	0	2			3	4	0	0
Haiti	18	25	14	8	6	19	10	24	9	2	6	10	7
Lesotho	19	15	18	3	10	19	11	14	13	1	10	11	13
Madagascar	14	0	16	13	1	16	6	0	12	4	1	10	11
Malawi	19		16	1	2	20	12		11	1	1	12	14
Maldives	4	8	17	19	1	0	-2	7	12	6	0	-5	-5
Mali	2	0	1	2	2	2	1	0	0	1	1	1	1
Mauritania	5	1	2	4	7	2	2	1	1	1	5	1	0
Mozambique	6	0	0	7	1	17	3	0	0	3	1	7	8
Myanmar	12	1	0	10	51	0	2	1	-2	4	9	-4	-3
Nepal	2	6	12	8	5	0	-2	5	8	4	3	-5	-3
Niger	1	3	3	1	0	1	0	2	1	0	0	1	0
Rwanda	1		1	1	0	1	0		0	0	0	1	0
Senegal	11	1	1	12	5	0	3	0	1	3	3	0	0
Sierra Leone	1	5	4	1	3	3	0	3	2	0	3	2	0
Solomon Islands	3	1	0	2	3	1	2	0	0	2	2	1	0
Tanzania	2	1	1	3	0	1	0	1	0	0	0	1	1
Togo	3	0	5	4	3	0	1	0	0	2	3	0	0
Uganda	7	0	1	7	3	6	1	0	0	1	3	3	3
Zambia	1	2	3	1	2	0	1	2	1	0	1	0	0
LDC	6.4	2.3	14.8	7.4	41.9	2.1	1.6	2.1	11.3	2.6	10.2	-0.7	
Total	0.8	0.3	0.9	1.4	0.5	0.7	-0.5	-0.4	-1.1	-0.8	0.2	-0.5	

Table A 4
Impact of NAMA MFN tariff reduction on preference value and scope for future preferences, 2003
(Swiss formula cut with a=10 applied on 2003 MFN applied rates)

QUAD + Australia							
	Change in the preference value for unadjusted and adjusted preference margin				Scope for additional preferences Mill USD	Exports to Quad + Australia in % Total Exports	
	No adjustment		With adjustment				
	Mill USD	% of imports	Mill USD	% of imports			
Developing	1	2	3	4	5	6	
Albania	-4.0	-1.9	-1.2	-0.6	0	46	
Antigua and Barbuda	-0.3	-0.1	0.0	0.0	0	100*	
Argentina	-40.6	-0.4	0.3	0.0	51	35	
Armenia	-1.1	-0.5	0.1	0.0	1	30	
Bahrain	-5.0	-0.7	8.3	1.1	20	12	
Barbados	-0.2	-0.2	-0.1	-0.1	0	40	
Belize	-1.3	-0.7	-0.7	-0.3	0	98	
Bolivia	-1.5	-0.5	0.8	0.3	2	19	
Botswana	-1.7	-0.1	-0.8	0.0	0	61	
Brazil	-100.3	-0.2	7.3	0.0	228	55	
Brunei Darussalam	-0.1	0.0	8.5	0.3	14	62	
Cameroon	-2.8	-0.1	-1.0	0.0	1	96	
China	-810.3	-0.2	1,274.6	0.4	5,930	80	
Colombia	-28.7	-0.3	19.5	0.2	36	70	
Congo	-0.4	0.0	0.0	0.0	0	30	
Côte d'Ivoire	-25.3	-0.7	-6.0	-0.2	0	59	
Cuba	-3.2	-0.5	-0.4	-0.1	2	39	
Dominica	-0.1	-0.3	0.0	-0.1	0	75	
Dominican Republic	-262.4	-5.5	-139.2	-2.9	3	88	
Ecuador	-43.7	-1.1	-6.8	-0.2	12	68	
Egypt	-49.4	-1.1	5.8	0.1	42	75	
El Salvador	-193.3	-9.1	-110.5	-5.2	4	67	
Gabon	-3.5	-0.2	-0.5	0.0	0	68	
Georgia	-0.7	-0.2	-0.1	0.0	5	79	
Ghana	-19.9	-1.4	-4.4	-0.3	0	59	
Grenada	-0.1	-0.6	0.0	-0.1	0	59	
Guatemala	-220.5	-6.5	-141.7	-4.2	4	100*	
Guyana	-1.6	-0.3	-1.0	-0.2	0	88	
Honduras	-303.2	-8.3	-167.0	-4.6	4	100*	
Hong Kong, China	-2.4	0.0	264.2	1.3	505	9	
India	-226.7	-0.7	94.8	0.3	569	55	
Indonesia	-159.1	-0.4	105.9	0.3	527	65	
Jamaica	-17.8	-1.7	-6.4	-0.6	0	91	
Kenya	-26.4	-2.2	-14.0	-1.2	0	49	
Korea, Republic of	-19.5	0.0	382.3	0.4	1,292	44	
Kuwait	-9.7	-0.1	1.4	0.0	54	42	
Kyrgyz Republic	-0.2	-0.3	0.4	0.7	1	9	
Macao, China	-8.7	-0.4	72.6	3.3	123	85	
Malaysia	-70.1	-0.1	46.6	0.1	303	53	
Mauritius	-81.9	-5.6	-31.0	-2.1	1	77	
Moldova	-1.5	-0.6	1.5	0.6	5	31	
Mongolia	-0.2	-0.1	6.9	3.0	12	37	
Namibia	-19.7	-2.9	-10.7	-1.6	0	53	
Nicaragua	-59.2	-6.7	-31.1	-3.5	1	100*	
Nigeria	-6.6	0.0	-1.3	0.0	5	90	

Table A 4 (cont'd)

Impact of NAMA MFN tariff reduction on preference value and scope for future preferences, 2003

(Swiss formula cut with a=10 applied on 2003 MFN applied rates)

QUAD + Australia						
	Change in the preference value for unadjusted and adjusted preference margin				Scope for additional preferences Mill USD	Exports to Quad + Australia in % Total Exports
	No adjustment		With adjustment			
	Mill USD	% of imports	Mill USD	% of imports		
Developing	1	2	3	4	5	6
Oman	-3.3	-0.1	5.7	0.2	12	28
Pakistan	-139.7	-2.2	3.3	0.1	138	52
Panama	-3.9	-0.5	-0.4	-0.1	4	94
Paraguay	-0.3	-0.1	0.1	0.0	0	33
Peru	-14.9	-0.3	17.2	0.3	36	61
Philippines	-46.9	-0.2	66.0	0.3	188	66
Qatar	-2.1	0.0	3.0	0.0	19	55
Saint Kitts and Nevis	-0.2	-0.4	-0.1	-0.1	0	100*
Saint Lucia	-0.4	-1.1	-0.3	-0.7	0	95
Sri Lanka	-22.3	-0.6	56.7	1.6	137	69
St. Vincent & Grenadines	-0.1	-0.1	0.0	0.0	0	100*
Suriname	-2.4	-0.7	-0.2	-0.1	0	55
Swaziland	-19.2	-5.8	-11.9	-3.6	0	23
Taipei, Chinese	-6.0	0.0	245.2	0.3	797	47
Thailand	-182.5	-0.4	69.2	0.2	502	51
Trinidad and Tobago	-15.8	-0.3	-2.8	-0.1	1	94
United Arab Emirates	-21.7	-0.1	13.3	0.1	78	30
Uruguay	-4.1	-0.4	-0.2	0.0	7	46
Venezuela	-22.6	-0.1	-3.7	0.0	33	70
Zimbabwe	-5.5	-0.7	-1.9	-0.3	4	62
Developing total	-3,348.9	-0.4	2,087.1	0.2	11,718.5	53.5
LDC						
Angola	-0.9	0.0	-0.3	0.0	0	52
Bangladesh	-335.2	-5.2	-61.6	-1.0	111	93
Benin	-0.3	-0.7	0.0	-0.1	0	7
Burkina Faso	-0.1	-0.1	0.0	0.0	0	17
Burundi	0.0	0.0	0.0	0.0	0	81
Cambodia	-215.6	-11.0	-18.8	-1.0	74	96
Central African Rep.	0.0	0.0	0.0	0.0	0	87
Chad	-0.1	-0.1	0.0	0.0	0	15
Dem. Rep. of Congo	-0.1	0.0	0.0	0.0	0	
Djibouti	0.0	-0.3	0.0	-0.2	0	6
Gambia	-0.2	-1.8	0.0	-0.4	0	80
Guinea	-2.1	-0.4	-0.2	0.0	0	84
Guinea Bissau	-0.3	-3.2	0.0	-0.5	0	15
Haiti	-40.3	-11.3	-21.7	-6.1	0	100*
Lesotho	-49.6	-12.2	-30.1	-7.4	0	85
Madagascar	-48.7	-5.0	-19.1	-2.0	0	100*
Malawi	-3.3	-1.0	-2.0	-0.6	0	70
Maldives	-3.5	-2.5	1.6	1.1	5	91
Mali	-0.1	-0.1	0.0	-0.1	0	6
Mauritania	-9.3	-2.3	-1.7	-0.4	0	100*
Mozambique	-17.1	-2.5	-5.5	-0.8	0	81
Myanmar	-79.7	-9.1	-8.3	-1.0	15	35
Nepal	-2.6	-0.9	3.8	1.3	10	43
Niger	0.0	-0.2	0.0	-0.1	0	5
Rwanda	0.0	-0.2	0.0	-0.1	0	39
Senegal	-19.3	-4.9	-3.6	-0.9	0	30
Sierra Leone	-0.6	-0.4	-0.2	-0.2	0	100*
Solomon Islands	-0.3	-1.2	-0.1	-0.5	0	32
Tanzania	-7.2	-0.9	-1.2	-0.1	0	67
Togo	-0.6	-0.7	-0.2	-0.2	0	13
Uganda	-3.3	-1.0	-0.7	-0.2	0	57
Zambia	-0.4	-0.2	0.0	0.0	0	21
LDC	-840.5	-3.8	-170.3	-0.8	216.6	61.6

*: Imports from beneficiaries into Quad and Australia is greater than exports to world due to inconsistencies in data reporting.

Table A5: Impact of Swiss formula cut on preference margins by selected countries, 2003

			QUAD and Australia															
			Developing countries										LDC					
MTN	Description		Dom. Rep	Honduras	Kenya	Mauritius	Saint Lucia	El Salvador	Fiji	Guatemala	Namibia	Nicaragua	Swaziland	Bangladesh	Cambodia	Haiti	Lesotho	Madagascar
02a	Clothing	Import share	44.2	72.2	16.1	61.3	7.6	82.9	30.7	52.8	6.2	55.4	42.3	83.8	90.0	85.1	98.6	33.6
		Pref.Margin adj.	9.3	9.6	10.8	5.5	12.9	9.7	7.0	12.0	10.6	9.8	12.4	1.9	-2.2	10.5	11.4	8.5
		Pref.Margin adj. after cut	3.2	3.3	3.7	2.4	4.3	3.4	1.7	4.1	3.9	3.4	4.0	1.1	-0.6	3.5	3.9	3.4
02b	Textiles	Import share	5.0	0.5	0.7	0.9	2.4	2.1	1.0	0.5	0.1	0.1	2.6	6.2	1.2	2.1	0.0	1.2
		Pref.Margin adj.	1.0	0.1	0.6	1.9	3.2	-0.6	6.1	-0.3	2.0	3.6	2.0	1.5	-0.2	8.0	4.8	2.3
		Pref.Margin adj. after cut	0.6	0.2	0.4	1.2	2.3	-0.4	3.7	-0.1	1.2	1.7	1.5	0.7	-0.1	3.4	2.8	1.4
03	Leather, rubber, footwear & travel goods	Import share	2.2	0.0	0.5	0.1	0.2	0.5	1.5	0.8	1.0	0.2	0.0	2.3	8.0	0.6	0.0	0.1
		Pref.Margin adj.	9.1	0.7	0.5	3.1	0.5	7.6	13.8	1.9	0.3	0.2	2.1	10.7	32.5	1.0	13.2	2.7
		Pref.Margin adj. after cut	3.6	0.2	0.2	1.7	0.2	4.1	5.5	1.4	0.2	0.1	1.5	3.0	3.4	0.6	5.5	1.9
08	Electric machin	Import share	9.1	2.8	1.5	1.0	19.7	1.6	0.5	0.1	0.1	4.5	0.6	0.1	0.0	1.6	0.0	0.2
		Pref.Margin adj.	1.0	0.4	0.1	0.1	1.0	0.1	3.9	0.6	0.3	0.3	0.1	0.5	0.5	0.8	0.0	0.3
		Pref.Margin adj. after cut	0.7	0.3	0.1	0.1	0.8	0.0	2.5	0.4	0.3	0.2	0.1	0.4	0.4	0.6	0.0	0.3
09	Mineral pdts, precious stones and	Import share	6.3	1.9	1.6	3.9	0.1	0.0	9.3	1.3	21.3	4.8	0.0	0.9	0.2	0.2	1.1	1.3
		Pref.Margin adj.	1.8	0.0	0.5	0.6	2.6	1.8	0.0	1.6	0.0	0.5	9.0	2.9	2.4	17.9	0.0	0.2
		Pref.Margin adj. after cut	1.1	0.0	0.3	0.4	1.7	1.2	0.0	1.0	0.0	0.3	3.4	1.5	1.6	4.8	0.0	0.1
10	Manufactured articles n.e.s	Import share	10.6	0.5	0.8	2.4	1.4	0.7	0.2	1.1	0.2	0.0	0.8	0.4	0.1	1.0	0.0	1.3
		Pref.Margin adj.	0.1	1.9	1.6	1.7	0.1	0.5	1.5	0.6	0.3	0.6	0.8	1.2	0.3	1.3	1.4	0.9
		Pref.Margin adj. after cut	0.1	1.3	1.1	1.3	0.1	0.3	1.0	0.4	0.2	0.4	0.5	0.8	0.2	0.7	1.1	0.7
11	Fish and fish pdts	Import share	0.1	5.0	4.8	5.4	0.2	1.0	15.3	2.0	46.8	9.2	0.1	5.0	0.1	1.0	0.0	22.3
		Pref.Margin adj.	0.1	0.7	1.6	4.0	0.0	1.9	-0.1	-0.3	6.3	0.0	8.6	2.6	0.2	1.7	9.6	3.5
		Pref.Margin adj. after cut	0.1	0.2	0.8	1.3	0.0	0.7	-0.1	-0.4	3.9	-0.1	4.2	2.3	0.2	1.2	4.8	2.4
Total imports (Million dollars)			4,806	3,656	1,184	1,462	38	2,113	468	3,386	684	880	333	6,478	1,965	357	406	972