



IPC Policy Focus

AGOA and Agriculture

This is an updated version of the AGOA and Agriculture Policy Brief, August 2009. The International Food and Agricultural Trade Policy Council (IPC), a nonprofit organization, promotes a more open and equitable global food system by pursuing pragmatic trade and development policies in food and agriculture to meet the world's growing needs. For more information, see www.agritrade.org. The Partnership to Cut Hunger and Poverty in Africa is a nongovernmental organization committed to analysis, dialogue, and advocacy to significantly increase the level and effectiveness of U.S. public assistance and private investment to strengthen African agricultural and rural development. For further information, visit www.africanhunger.org. IPC and the Partnership thank Ed Gresser for his contribution to this policy brief.

Introduction

The African Growth and Opportunity Act (AGOA) was enacted in 2000 to help diversify Africa's export production, expand trade and investment with the United States, and accelerate Africa's economic growth. Countries must qualify for AGOA benefits based on criteria which include the establishment of a market-based economy, rule of law, and enactment of poverty reduction strategies. Thirty eight African countries are currently eligible for AGOA benefits¹, which provide preferential access to the US market above and beyond the Generalized System of Preferences (GSP) and Most-Favored Nation (MFN) systems.

AGOA has over the years contributed to a significant increase in African exports to the US, but most of this export growth has been oil and gas products. Given strong demand for petroleum products and relatively low tariffs on these products, this level of expansion of exports might arguably have occurred without AGOA preferences. In contrast, AGOA has had a very limited impact on African agricultural exports to the US. The 2008-09 economic crisis significantly depressed actual trade flows from Africa to the US, with imports falling from \$86 billion to \$47 billion in 2009, but these are showing some rebound in the first few months of 2010.

This brief will provide a background on African agricultural exports to the US, and suggest ways in which these could be increased both through improvements to preference schemes and changes to other facets of US policy. Considering that agriculture is a key driver for poverty alleviation and economic growth, the brief examines how US policy can serve to strengthen the

¹ On December 23, 2009, Mauritania was declared AGOA-eligible while Guinea, Madagascar and Niger were dropped from the list of AGOA beneficiary countries.

export performance of this important sector. The brief will also argue, however, that the success of US policies should not *only* be measured by the impact US trade preferences have on African exports to the US, but also more broadly on whether they also contribute to increased capacity and competitiveness of African agricultural producers in diverse markets.

Agriculture in Africa's Trade

- According to the WTO, in 2008 sub-Saharan Africa exported agricultural products worth \$30 billion, \$66 billion in manufactured products and \$250 billion in energy/metal products, for a total export value of \$346 billion or 37 percent of the total GDP. Agriculture accounted for about 9 percent of total exports in 2008. Conversely, Africa imported \$64 billion worth of agricultural goods, revealing a huge agricultural trade deficit.
- Africa's total exports were worth \$245 billion in 2007. Africa accounts for slightly less than two percent of total world trade, slightly more than one percent of U.S. merchandise exports, and slightly more than three percent of U.S. merchandise imports, of which about 80 percent are petroleum products.
- Compared to other regions, the US remains a minor market for African farmers. In 2008, Europe bought nearly half of Africa's agricultural products, intra-Africa trade accounted for 21%, Asia 16%, North America 5% and the Middle East 5%.

US Imports from Africa - the Big Picture

- US imports from Africa doubled in the period from 2000-08, including 112 percent growth in imports of African manufactured goods, well above the 29

percent rate for the world as a whole. However, total imports fell sharply by almost 50 percent, from \$86 billion in 2008 to \$47 billion in 2009 due mainly to effects of the economic crisis.

- The US buys roughly one quarter of Africa’s total exports, but most of these imports remain heavily concentrated in oil and gas products. About 80 percent of total US imports from Africa and 92 percent of all imports under AGOA fall into that category. Agricultural products accounted for 2-3 percent of total US imports from Africa in 2008-2009, equivalent to \$1.46 billion in 2008 and \$1.44 billion in 2009, according to the US International Trade Commission.
- Only a relatively small fraction of US agricultural imports from Africa benefit from trade preferences under GSP or AGOA since most of these agricultural imports from Africa already come in duty-free under the MFN system, leaving little scope for beneficial preferential tariff treatment. Some 620 of the 1300 total agricultural tariff lines, accounting for about 70 percent of the value of African farm exports to the US each year, are MFN duty-free. These products, which include vanilla from Madagascar, raw chocolate from Cote d’Ivoire, tea from Kenya, birdseed and coffee from Ethiopia, and coffee from Rwanda, rarely have any tariffs and thus do not appear under AGOA or GSP. Cote d’Ivoire’s cocoa beans alone account for about half of the dollar-value of Africa’s agricultural imports.
- Agricultural imports under AGOA tariff waivers total \$100-\$300 million per year. An additional \$100 million worth of agricultural products come in every year under the GSP and GSP-Plus programs. South Africa is Africa’s major AGOA agricultural exporter to the US. The goods include oranges, mandarins, raisins, macadamia nuts, some fruit juices, ethanol, wine and canned goods. In 2009, AGOA registered \$280 million in farm goods and South Africa accounted for \$154 million of this total. The only other two countries using AGOA for significant agricultural exports were Malawi for tobacco and Cote d’Ivoire and Ghana’s processed cocoa, all accounting for another \$100 million.

US Tariff Rate Quotas and Market Access

- Please refer to the new July 2010 IPC/Partnership paper on *US Tariff Rate Quotas and AGOA Market Access* for a detailed discussion of the effects of tariff rate quotas on specific African agricultural commodities, and suggestions for reform.
- AGOA’s agricultural benefits are constrained in

two ways: (1) by quotas which predate and were not amended by AGOA, and; (2) by excluding certain agricultural products from duty-free access. The US maintains 46 TRQs on these seven commodities: sugar, tobacco, dairy, beef, peanuts, cotton and tobacco. Most of these TRQs were formerly quotas imposed to prevent disruption of domestic price support or production control programs, which served the purpose of ensuring a higher price for domestic producers. It was also usually necessary to restrict imports of the processed derivatives and substitutes of the primary commodity. There are TRQs for raw cane sugar and eight other sugar-containing products - together covering 49 tariff lines² while 22 TRQs for dairy products cover 107 tariff lines.

- For sugar, nine African countries – Cote d’Ivoire, Congo, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland and Zimbabwe – have a defined quota under the US sugar program, amounting to 102,000 metric tons of the total 1.12 million metric tons allocated annually. In 2009, South Africa and Swaziland filled their quotas – 24,000 and 17,000 tons, respectively – and Malawi filled 88 percent of its 10,530 tons quota. Congo, Cote d’Ivoire and Madagascar did not export any sugar while Mauritius, Mozambique and Zimbabwe only exported very small volumes of sugar (below 2 percent of their quotas).
- The tariff-rate quota applies to raw sugar apportioned to countries based on their share of exports to the US during a 6-year period nearly thirty years ago. Additional first-come/first-served quotas exist on sugar-containing processed products including intermediate cocoa inputs. Although Africa is a significant exporter of cocoa, there are virtually no sugar-containing cocoa products imported into the US. For dairy, no significant imports arrived from Africa. This is more reflective of challenges with sanitary and phyto-sanitary issues as well as lack of market access for milk, cheese and butter products. The dairy quota program also limits import of many forms of chocolate.
- Full duty-free access into the US under AGOA is denied to certain agricultural products including sugar, tobacco, dairy, beef and processed agricultural goods such as dried garlic, canned peaches and apricot. Again, using sugar and sugar-

² This counts only in-quota tariff lines, over-quota imports are assigned different tariff lines. TRQ specifications are found in “additional notes” at the beginning of various HTSUS chapters. An online searchable U.S. harmonized tariff schedule is available at the U.S. International Trade Commission website: <http://hts.usitc.gov/> .

containing processed products as an example, AGOA waives the lower *in-quota* duty, yet applies the higher *over-quota* duty rate if imports cannot access the quota. As a result, AGOA over-quota imports are treated the same as imports from developed countries under MFN. In contrast, many US Free Trade Agreement (FTA) countries receive reduced duties on in-quota imports as well as additional preferential quota access and/or reduced over-quota rates.

Preference Reform Can Improve Trade Incentives

- It is clear that the tariff treatment under AGOA could be improved by removing or relaxing quotas, which will allow increased imports of agricultural commodities, related processed products and products containing these commodities.
- The domestic commodity programs the TRQs were initially design to protect no longer exist or have radically changed such that the rationale is gone but the TRQs persist. Change is overdue. While the U.S. has created additional, bilateral TRQs for its many FTAs, it has yet to do so as part of its preference programs: it should consider doing so. Providing improved market access for TRQ-controlled commodities will help to expand the number of countries benefiting from AGOA and to diversify AGOA exports away from oil and gas.
- The remaining tariffs on value-added goods could also be removed or relaxed. The US could move toward granting duty-free and quota free (DFQF) treatment to all LDCs, as other major importers are already doing or considering.³ This action would help the US fulfill its obligations under the UN MDGs and in the context of the WTO Doha negotiations, where developed and developing countries were asked to provide DFQF market access on a permanent basis for all LDC products by 2008 or the end of the Doha Round to ensure stability, security and predictability.⁴

3 By the end of 2009, the EU will be offering 100% DFQF to LDCs; Turkey has followed the EU approach and Switzerland is considering the same. Japan is providing 99% DFQF through a 2007 reform; New Zealand provides 99.5% DFQF; and Canada provides close to 100% DFQF, but still excludes eggs, poultry and dairy. The exclusions by other countries are also mostly agricultural. Source: Center for Global Development, "Summary of Major Trade Preference Programs." 2009.

4 This language is also included in the latest agricultural modalities text of December 2008 – see http://www.wto.org/english/tratop_e/agric_e/chair_texts08_e.htm. See also a review of DFQF commitments and the relationship to the MDGs by Kim Elliott of the Center for Global Development at <http://www.cgdev.org/doc/2009/>

Other Ways to Boost African Agricultural Trade

Trade preference schemes such as AGOA by definition keep the focus on tariff reductions and waivers, but there are other important US policies and programs that can enhance Africa's trade capacity.

- The US could help African producers meet US sanitary and phyto-sanitary (SPS) standards, so they can take fuller advantage of US preference programs like AGOA. This could be accomplished by expanding and accelerating capacity building efforts on food safety and animal and plant health. At the same time, the US should examine whether some of its import approval procedures could be streamlined – without in any way sacrificing safety – in order to facilitate greater trade from Africa. Multiple US agencies with oversight on food safety leads to confusing overlaps and differing requirements, and often to overly burdensome and long import approval procedures. Please refer to the new July 2010 IPC/Partnership paper on [Horticultural Exports from AGOA Countries to the US: Challenges and Consideration](#), for a more thorough assessment of these challenges and recommendations to exporting countries, US agencies handling horticultural imports and on capacity building.
- AGOA should be integrated with other preference and trade capacity building (TCB) programs to strengthen the competitiveness of African products in regional and global markets. The effectiveness of integrated US trade-related programs should be measured by the increase in trade, especially in agricultural commodities, between African countries and with other emerging markets, and not just with the US. The US provides significant trade capacity building⁵ assistance to sub-Saharan Africa, totaling over \$1 billion. While this assistance is extremely important, current TCB programs are fragmented in purpose and implementation among multiple US agencies, and uncoordinated with assistance from other donors. Embrace of the AU/NEPAD Comprehensive African Agriculture Development Program (CAADP) framework, especially Pillar 2, and the US whole-of-government approach to its new Global Food Security or Feed the Future

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5 TCB includes assistance for strengthening rural markets, agricultural value chains and private sector engagement; promoting regional trade by harmonizing cross-border customs regulations and trade flows; helping local farmers meet international food safety standards; and improving trade negotiation capacities to strengthen African participation in the WTO.

Initiative should help create a solid foundation for improved coordination of TCB as well as investments by African countries and donors in rural infrastructure and trade-related capacities for market access.⁶

- *A successful conclusion of the Doha Development Round would still be beneficial.* It will create a fairer global trading system and importantly contribute towards increased trade with emerging markets such as China and among LDCs, especially if these countries also undertake significant liberalization in food and agricultural trade. The US should provide leadership to jumpstart the Doha process and be willing to address agricultural subsidies, which have been low in the recent past years due to the spike in commodity prices, but still require improved disciplines. Trade distorting subsidies, such as on cotton, not only depress global prices but also discourage investments in the agricultural sectors of African economies.

Conclusions

In 2000, AGOA represented a watershed in US-Africa relations, providing an important political platform for dialogue. AGOA recognized the critical importance of trade and private sector investment as engines of economic growth, and broadened the constituency for African investment and development to include key Congressional and private sector leaders. It is now time to build upon the important foundation established

by AGOA by adopting a more holistic approach to strengthening trade, markets, and agriculture as key drivers of broad-based economic development.

The success of AGOA should not only be measured by the impact US trade preferences have on African exports to the US, but also more broadly, on whether AGOA and related programs contribute to the increased competitiveness of African producers in diverse markets. As a first step, the US should sit down with country and regional partners to define strategic trade-related objectives at national, regional, and international levels, and tailor preference and assistance programs to meet these specific objectives, including assistance to strengthen critical trade- and agriculture-related infrastructure.

Integrated assistance for agriculture and trade capacity-building would draw upon resources across US government agencies, and be coordinated with other donors, the private sector and civil society. A restructured “AGOA Plus” set of preference and trade capacity building programs would provide incentives for trade with regional and emerging markets as well as US-oriented trade. The annual AGOA dialogues might then be used to mutually assess progress in identifying and addressing trade, capacity and infrastructure-related barriers to African exports at regional and global levels, especially agricultural exports, and to explore priority areas for policy reform and future focused assistance by the US in collaboration with African and donor partners.

6 See <http://www.caadp.net/pillar-2.php>