[683] Paper

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GSP in the "spaghetti bowl" of trade preferences

Arne Melchior

[Abstract] The paper examines the relative position of GSP (tariff preferences for developing countries) compared to ordinary tariffs and free trade agreements in Norway, the EU and the USA. On average, ordinary GSP gives a tariff rebate of less than 50% in all countries. "Extended" GSP, given to the Least Developed Countries (LDCs) and others, implies zero tariffs in Norway and the EU, but only partial liberalisation in the USA. EU provides extended GSP for 119 countries, while the USA does so for 76 and Norway for 52. Considering the shares of trade rather than the number of countries, extended GSP covers 5% or less of total trade in all cases, and ordinary GSP is much more important. Compared to tariffs in free trade agreements, ordinary GSP is inferior in the USA and the EU, but not too far behind in Norway. This is due to recent cuts in MFN tariffs as well as improvements in the GSP system of Norway. For manufacturing, Norway has low tariffs and a generous GSP system. This is however not the case for agriculture.

The GSP project

This is a paper from a project on the Norwegian GSP system, undertaken by the Norwegian Institute of International Affairs for the Ministry of Foreign Affairs in 2004-2005. In addition, the following papers are available:

* Melchior, A., The future of Norway's GSP system (main report from the project, NUPI Paper No. 680b or Norwegian version in NUPI Paper No. 680a).
* Maurseth, P.B., Trade and development – a selective review, NUPI Paper No. 681.
* Maurseth, P.B., Norway's trade with developing countries, NUPI Paper No. 682.
* Melchior, A., The Norwegian import regime for agriculture, NUPI Paper No. 684.
* Melchior, A., Trade policy differentiation between developing countries under GSP schemes, NUPI Paper No. 685.

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1. Introduction[1]

Due to the ever increasing number of free trade agreements (FTAs) as well as unilateral preference arrangements, the world trade system has developed into what Jagdish Bhagwati has baptized a "spaghetti bowl".[2] This trend also led Melchior (2003) to ask whether the MFN (Most Favoured Nation) treatment was actually becoming the *Least* Favoured Nation treatment. In this paper, we shall undertake a more detailed assessment of trade preferences in the EU, USA and Norway in order to check the content of these propositions.

While this paper is written as part of a study of the Norwegian GSP system, we cover free trade agreements (FTAs) as well since the impact of GSP cannot be properly grasped without comparing to the trade conditions under FTAs. If a large share of trade is covered by FTAs with better market access than under GSP, this will obviously have a bearing on the impact of GSP. If GSP turns out to be among the least generous regimes, too much of a trade-creating impact should not be expected. We are interested in establishing this ranking, and to quantify the relative difference between GSP and other trade preferences. For this purpose, the trade regimes of Norway, EU and the USA will be analysed.

The GSP systems may be classified in terms of

- country coverage; how are non-members of the WTO, and the more wealthy developing countries, treated?
- differentiation between beneficiaries; all countries give better terms for the LDCs but also for some other countries,
- the coverage and depth of tariff cuts; are there important exceptions and "sensitive" sectors?
- mechanisms for "graduation" or withdrawal of concessions for the richer or more competitive countries
- rules of origin and administrative barriers, and the extent of utilisation of the systems
- criteria for differentiation related to e.g. security, environmental standards, labour standards etc.

In the paper, we attempt to quantify or describe most of these elements but not all. We do not go into great detail on e.g. rules of origin, so it is mainly the tariff component that is properly quantified. The worth of GSP also depends on the level of contingent protection such as anti-dumping, or quotas for textiles and clothing, or tariff rate quotas in agriculture, and we do not attempt to measure these elements.

For each country, we use national sources[3] for classifying the trade regimes, and in addition

- trade data from the UN COMTRADE database

[1] I thank Hege Medin and Per Botolf Maurseth for comments to an earlier draft. The normal disclaimer applies.

[2] We discussed with an Italian colleague whether the term is influenced by Americans mixing more things in the spaghetti than customary in Italy, but apparently the wording refers to the "crisscrossing" of numerous different trade regimes (see Bhagwati and Panagariya 1997).

[3] For the EU, we frequently refer to the Official Journal of the European Communities. When referring to this, we use the shorthand form OJ xx.xx.xxx, where the x's refer to the date of publication.

- (for Norway) national trade data for Norway from Statistics Norway
- tariff data from the UNCTADs TRAINS database and the IDB/WTO database
- various country data from the World Development Indicators 2004 from the World Bank, CIA World Factbook (for completing data coverage) and other sources.

For useful reviews of the EU and U.S. GSP systems, see also UNCTAD (2003) and OECD (2005).

In the following, we classify the trade regimes of Norway, EU and the USA for 233 countries and territories.[4]

2. GSP, FTA and MFN: A classification of regimes

Given that GSP is for developing countries, many countries are commonly included in all GSP systems. There are nevertheless some differences, since there is no unambiguous definition of developing countries, and the GSP donors may use different definitions. Hence the coverage of GSP varies across countries.

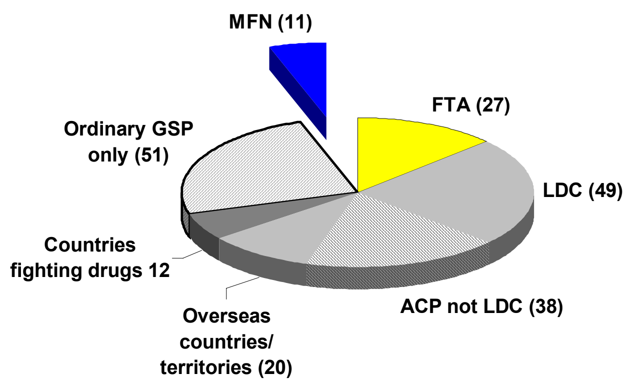
Secondly, there is some scope for differentiating between developing countries within GSP systems.[5] It is accepted that LDCs may be given better preferences than other developing countries, and we shall se that other forms of differentiation also exist.

Third, the number of FTAs is increasing worldwide, and this also applies to the three countries studied. FTAs are important in this context not only because they may cover developing countries, but even more because the value of GSP depends on its position in the overall trade policy of each country. If MFN tariffs are 20% and GSP 10%, the tariff preference is worth less if other countries have 0% in FTAs.

Classifying the 208 trade partners of EU-25, we obtain the following distribution:

[4] Western Sahara is not included due to lack of data. Otherwise, the country list should be complete although a few minor territories could have been added (e.g. the Vatican and some smaller Pacific Islands).
[5] On legal aspects and criteria for differentiation, see Melchior (2005a).

Diagram 1: EU-25 - trade regimes for 208 countries



Hence MFN conditions apply for eleven countries only. The members of this exclusive club are: Australia, Canada, Hong Kong, Japan, South Korea, Myanmar (LDC treatment suspended temporarily), North Korea, New Zealand, Singapore, Taiwan and the USA.[6] Except for North Korea, all these are WTO members.

Free trade agreements of various kinds apply to 27 countries (in addition to the EU countries themselves), and ordinary GSP to 51.[7] In addition, as many as 119 countries have extended unilateral preferences:

- The Least Developed Countries (LDCs) have zero tariffs for goods trade due to the Everything but Arms (EBA) initiative of 2001 (OJ 31.12.2001). This provides for duty-free access for everything but arms (HS chapter 93). Arms are in fact duty-free for ACP as well as most free trade partners, but not for LDCs. In addition, there are transition periods for some sensitive agricultural goods; these are bananas (until 2006), sugar and rice (until 2009). As noted above, GSP treatment for Myanmar has been suspended.
- 40 of the LDCs are in fact also members of the ACP (Africa, Caribbean, Pacific) group; currently 79 countries that are mainly former EU colonies. In 1974, i.e. after the GSP system of the EU was established, additional preferences were granted to the ACP countries through the Lomé Convention. Later, it was replaced by the Cotonou Agreement. South Africa has its own FTA with the EU, and we therefore obtain 38 countries with the classification “ACP not LDC”.
- The 20 Overseas Countries and Territories (OJ 30.11.2001) are small states with modest populations; in fact the combined population of them all is only around 1.2 million.

[6] There are some preferential arrangements for agricultural goods for New Zealand, so this is a borderline case.

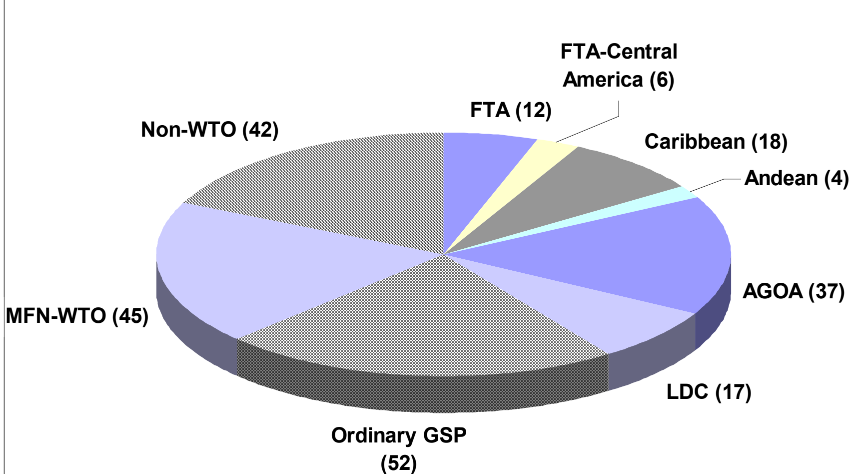
[7] In order to simplify, we have included three Balkan countries (Albania, Bosnia and Herzegovina, Serbia and Montenegro) under ordinary GSP, even if the regime for these country is legally different. For a list of GSP beneficiaries, see OJ 1.3.2001.

- Countries Fighting Drugs include 11 countries in Latin America, plus Pakistan. In order to improve relations with Latin America, these countries were given extended preferences, and Pakistan was later added to the group.[8]

The four country groups with extended preferences comprise a total of 119 countries.

The EU therefore gives "extended GSP" to several countries beyond the LDCs. This is not the case for Norway's GSP system, and the USA is an intermediate case. Diagram 2 shows the U.S. distribution of trade regimes:

Diagram 2: USAs trade regimes for 233 countries



For the USA, there are 76 countries with extended preferences – i.e. more than 40 less than for the EU, whereas the number of countries with ordinary GSP is 52 – i.e. similar to the EU. The gap is mainly explained by the fact that the USA does not automatically grant MFN treatment to non-members of the WTO. Many of the non-WTO countries and territories may therefore face tariffs much higher than MFN. At the time of writing (May 2005), USA has 18 free trade agreements. Central America is shown separately since these countries are also entitled to extended preferences under the Caribbean arrangements. The number of FTAs is smaller than for the EU, but this number is growing as the U.S. is negotiating more, including with the four Andean countries and South Africa/SACU.

The extended preferences of the USA may briefly be summarized as follows[9]:

- For the Caribbean countries, extended preferences have been granted in the form of CBERA (Caribbean Basin Economic Recovery Act,

[8] This led India to protest against the EU regime in a WTO dispute. The Appellate Body supported India on important points, see Melchior (2005a). For this reason, the drugs regime will be abandoned when the EU GSP regime is reformed.

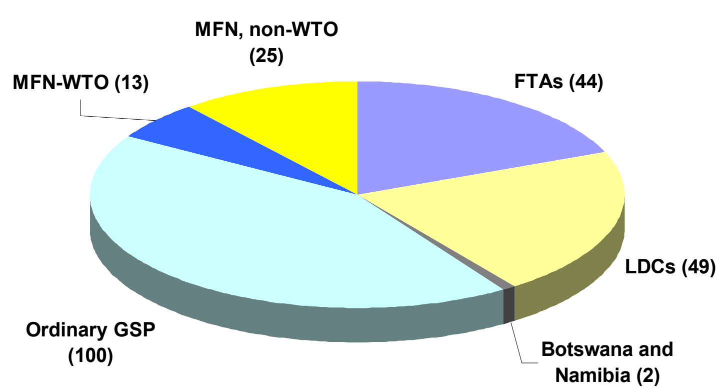
[9] For more details, see UNCTAD (2003), OECD (2005) and USTR (1999).

1993). Some more products have been included due to CBTPA (Caribbean Basin Trade Partnership Act, 2000).

- Pending the free trade agreement under negotiation, the four Andean countries (Bolivia, Colombia, Ecuador, Peru) have extended preferences through the Andean Trade Preference Act (ATPA), in 2001 overtaken by ATPDEA (Andean Trade Promotion and Drug Eradication Act).
- The AGOA (African Growth and Opportunity Act) of 2001 provides extended preferences for 37 African countries. In addition to AGOA, there is an apparel protocol giving extended preferences for clothing for some of the AGOA beneficiaries, subject to certain conditions.
- In Diagram 2, only 17 countries are included in the LDC category. Out of the 50 LDCs, the remaining 33 are covered by AGOA (24), non-WTO treatment (five; i.e. East Timor, Liberia, Sudan, Samoa, Laos), in addition to Haiti (Caribbean preferences), Afghanistan (FTA), Maldives and Myanmar (MFN-WTO). Hence the USA does not strictly adhere to the UN list of LDCs, but modifies this for own purposes. The LDCs receive extended GSP as part of the U.S. GSP system.

Compared to these systems, the Norwegian GSP system is much more limited when it comes to providing extended preferences beyond LDCs. This is shown in Diagram 3.

Diagram 3: Norway's trade regimes for 233 countries



Hence in the case of Norway, extended preferences are given mainly to the LDCs; only Botswana and Namibia are in addition. Myanmar has been excluded since 1997; hence only 49 LDCs are covered. Ordinary GSP covers twice as many countries as for the EU and the USA; 100 versus 52. As part of the Western European free trade area, Norway has many free trade areas (44). Note that in Diagram 1 we did not count members of EU-25; for an individual EU country we may add 24 to the FTA category – bringing the EU number of FTAs up to 51. Hence the

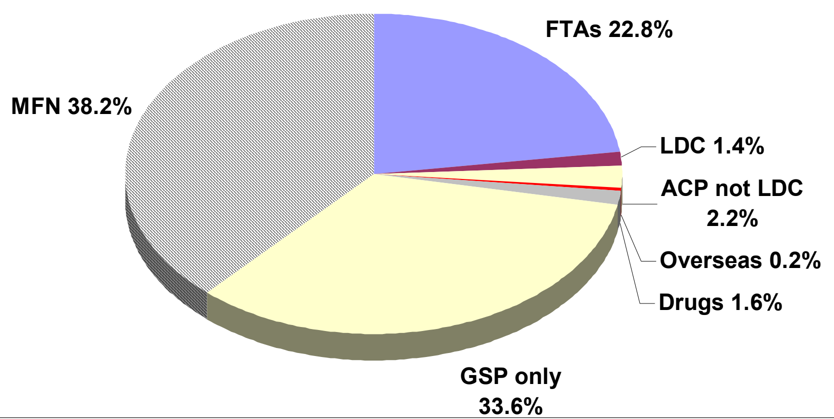
EU is still the champion of regional integration, but the EFTA countries follow not far behind.

Regarding non-WTO countries, Norway is in an intermediate position compared to EU and the USA. Out of the 25 countries in this category, the EU gives GSP to ten, including the eight transition countries Azerbaijan, Belarus, Kazakhstan, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The USA gives GSP to Kazakhstan, Russia and Uzbekistan. The Norwegian GSP system does not cover these countries.

3. The share of trade for various regimes

Hence trade preferences of various sorts cover a large number of countries in all three cases. Many of the beneficiaries are however very small economies, so the share of trade covered by the different regimes is radically different from the share of countries. Diagram 4 shows this for the EU:

Diagram 4: EU trade regimes - shares of extra-EU imports into the EU-25 countries, 2003



While countries with extended preferences account for more than half of the countries, they accounted for only 5.4% of the imports of EU-25 countries in 2003. In trade coverage, MFN is much more important than the small number of countries would suggest. Observe also that ordinary GSP is much more important than extended preferences if we consider the amount of trade covered. Table 1 provides figures for all the three donors. For the EU, we present figures including intra-EU trade (i.e. with 51 FTAs) and with only extra-EU trade (i.e. 27 FTAs). The diagram above shows only extra-EU-25 trade, and hence the share of FTAs is much lower than with intra-EU trade.

Table 1: Norway, EU and the USA; % shares of imports covered by different trade regimes (using 2003 import data)				
	Norway	EU – individual country	EU together	USA
Free trade agreements	74.2	72.5	22.8	33.0
Extended preferences	0.7	1.9	5.4	4.0
Regular preferences	10.8	12.0	33.6	9.5
MFN-WTO	12.0	13.6	38.1	51.9
Other	2.4	0.0	0.1	1.6
Sum	100	100	100	100

In all cases, extended preferences account for a modest share of trade, and regular preferences are more important. MFN-WTO trade constitutes more than half of U.S. imports, and 38% for the EU if only extra-EU trade is considered. If intra-EU trade is included, however, the MFN-WTO share drops to 14% for the EU, close to the 12% figure for Norway.

For the Norwegian GSP regime, this raises the issues such as:

- Should GSP be given to more non-WTO countries, including the former Soviet Union?
- Should “extended GSP” be given to more countries, as for EU and the USA?
- Should high-income countries be “graduated” from GSP?

In Melchior (2005a) the answer is affirmative for all three. The main argument for extended GSP is to stimulate more competition and include countries with larger supply capacity than the LDCs.

4. Tariff levels: Between the Most and the Least Favoured Nation treatment?

Due to the extension of free trade agreements and preferences, Melchior (2003) asks whether MFN is actually the *Least* rather than the *Most* Favoured Nation treatment. In order to assess whether this is true, we need to quantify the difference between trade regimes. For this purpose, we use tariffs for trade in goods as an indicator.[10] The different trade regimes also differ in other respects, but since GSP is mainly about goods tariffs, this choice is appropriate here. We shall revert to some other aspects of the preferential trade regimes, such as graduation, rules of origin and the like.

For the comparisons undertaken, we only use *ad valorem* tariffs. Some tariff lines, especially for agriculture, but in the USA also for textiles and clothing, are specific (some value per quantity unit). Table 2 shows the proportion of *ad valorem* tariffs and the averages of *ad valorem* MFN applied tariffs. For the purpose, we have divided goods into broad classes, with classification provided in Appendix Table A1.

[10] Data are taken from the TRAINS database of UNCTAD.

Table 2: Tariff lines and average ad valorem tariffs for USA, Norway and EU

	USA (2004)			Norway (2003)			EU (2003)		
Product group	Tariff lines	% ad valorem	Tariff average	Tariff lines	% ad valorem	Tariff average	Tariff lines	% ad valorem	Tariff average
Agriculture	1648	56	9.3	1239	41	11.6	4709	40	10.2
Fish	190	95	2.1	257	98	0.0	737	100	11.8
Mineral products and metals	1986	97	1.9	1385	100	0.0	2498	100	2.8
Chemical products	1931	99	3.6	1158	99	0.5	2574	99	5.2
Leather and fur products	222	100	4.3	95	100	0.0	176	100	2.9
Textiles and footwear	1191	94	8.0	776	100	0.5	1412	100	7.1
Clothing	568	89	10.8	289	100	11.5	471	100	11.7
Other manufactures	2710	92	1.9	1927	100	0.0	3306	99	2.7
Arms and ammunition	40	90	1.1	27	100	0.0	30	100	2.3
All goods	10486	89	4.3	7153	89	1.6	15913	82	5.6
Non-agriculture	8838	97	5.7	5922	100	0.7	11218	99	4.8

All three countries use specific tariffs extensively for agriculture, and the USA also uses such tariffs for some other goods; especially textiles and clothing. In Melchior (2005b), ad valorem equivalents for Norway are calculated and show a simple tariff average in agriculture in the range 73-103%. With more than 600 specific tariffs, this is sufficient to raise the total Norwegian tariff average above that of the EU or the USA. These countries also have specific tariffs in agriculture, but the averages for these are, according to Böuet et al. (2004) closer to 10 than to 100. Tariff averages including only *ad valorem* tariff in agriculture therefore give a wrong basis for comparison. Figures for agriculture and for the total including agriculture in Table 2 does therefore not give an accurate representation of the difference between countries, since the Norwegian agricultural protection is hidden.

For this reason, we also show in Table 2 tariff averages for all non-agricultural goods. Based on this, we may conclude that:

- For non-agricultural goods, Norway has clearly lower MFN tariffs than EU and the USA. In fact, Norway has eliminated tariffs fully for five out of the nine sectors. For chemicals and textiles, very few tariffs remain. For chemical goods, remaining tariffs are related to agriculture (HS Chapter 35, proteins etc.).
- For all three countries, agriculture and clothing are "sensitive" sectors with higher MFN tariffs. For EU and the US, the textile sector is also sensitive, and for the EU we may add fish to this list.[11]

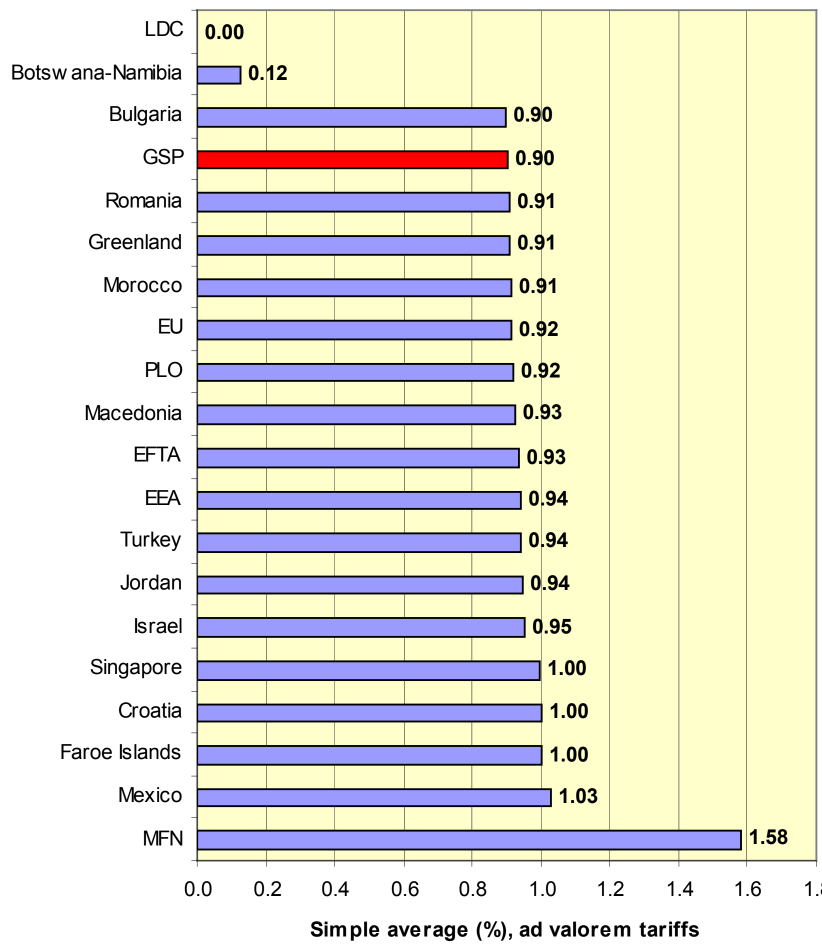
Due to the specific tariffs, we cannot give an accurate comparison across countries. Hence in spite of Table 2, Norway is not in the position to celebrate its liberal-mindedness: This applies to manufacturing only. For agriculture, Norway is clearly the most protective among the three. If

[11] Observe also EU has a detailed classification of goods with almost 16 000 items at the 10-digit level, compared to Norway with 7153 (8-digit) only and the USA between these extremes. Complex national classifications beyond the international common 6-digit level (with a bit more than 5000 products in the latest version) may act as a non-tariff barrier.

this is taken into account, it is likely that the overall tariff average is highest for Norway – although we do not present such calculations here.

In spite if this ambiguity about the comparison across countries, the *ad valorem* tariffs provide a useful tool for ranking the multitude of trade regimes for each country. Diagrams 5, 6 and 7 present average MFN tariffs for all goods across different regimes for the three countries. [12]

Diagram 5: Tariff levels for Norway's trade partners 2003
Calculations from TRAINS data.



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[12] Since we use simple averages, it should be observed that trade-weighted averages could change the levels. For Norway, it can e.g. be shown that the trade-weighted tariff average for developing countries is higher than the simple average, due to higher tariffs are higher for clothing. For comparing the "depth" of different regimes for each country, however, we believe the simple average may be used.

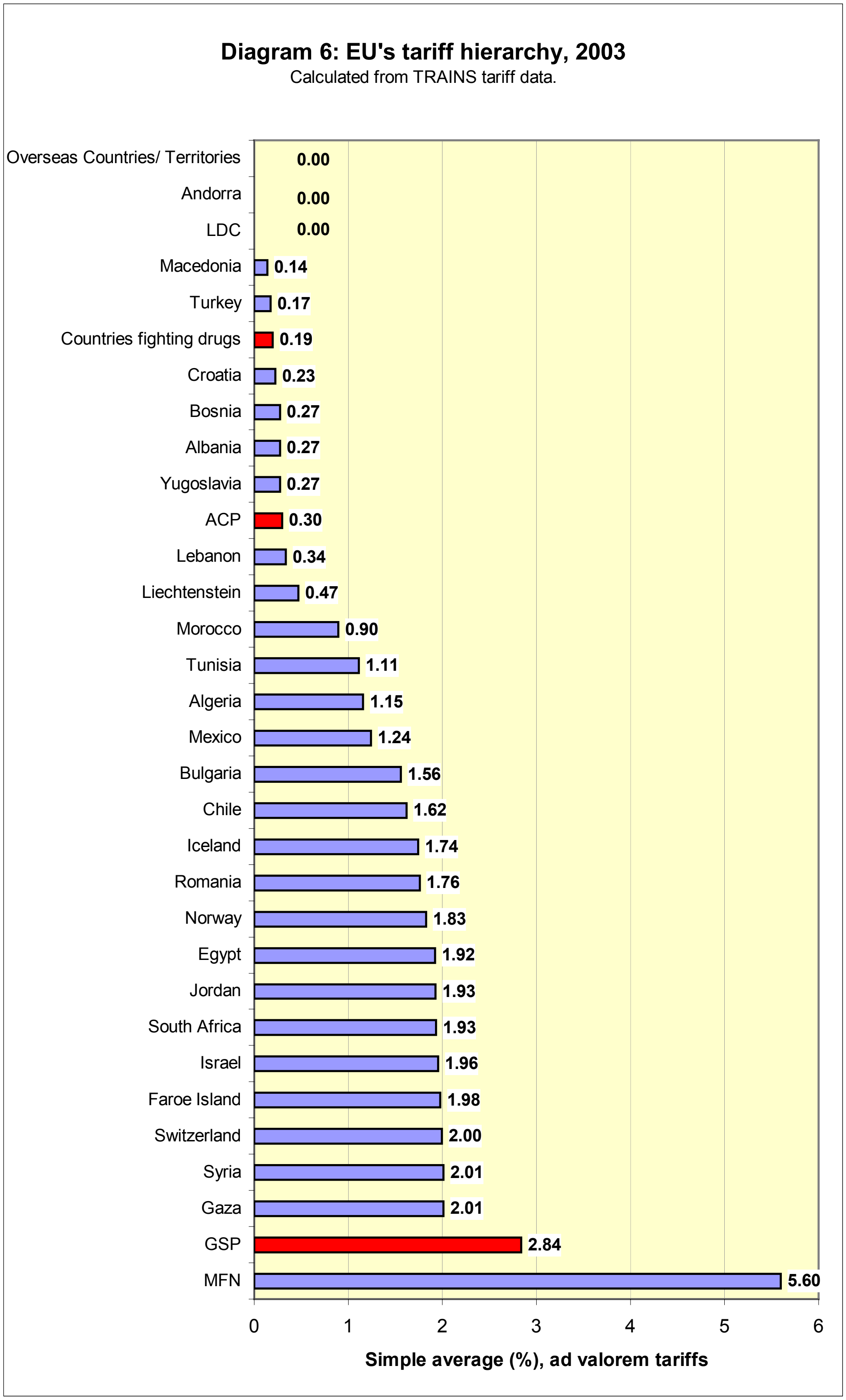


Diagram 6: EU's tariff hierarchy, 2003
Calculated from TRAINS tariff data.
Overseas Countries/ Territories 0.00
Andorra 0.00
LDC 0.00
Macedonia 0.14
Turkey 0.17
Countries fighting drugs 0.19
Croatia 0.23
Bosnia 0.27
Albania 0.27
Yugoslavia 0.27
ACP 0.30
Lebanon 0.34
Liechtenstein 0.47
Morocco 0.90
Tunisia 1.11
Algeria 1.15
Mexico 1.24
Bulgaria 1.56
Chile 1.62
Iceland 1.74
Romania 1.76
Norway 1.83
Egypt 1.92
Jordan 1.93
South Africa 1.93
Israel 1.96
Faroe Island 1.98
Switzerland 2.00
Syria 2.01
Gaza 2.01
GSP 2.84
MFN 5.60
0 1 2 3 4 5 6
Simple average (%), ad valorem tariffs

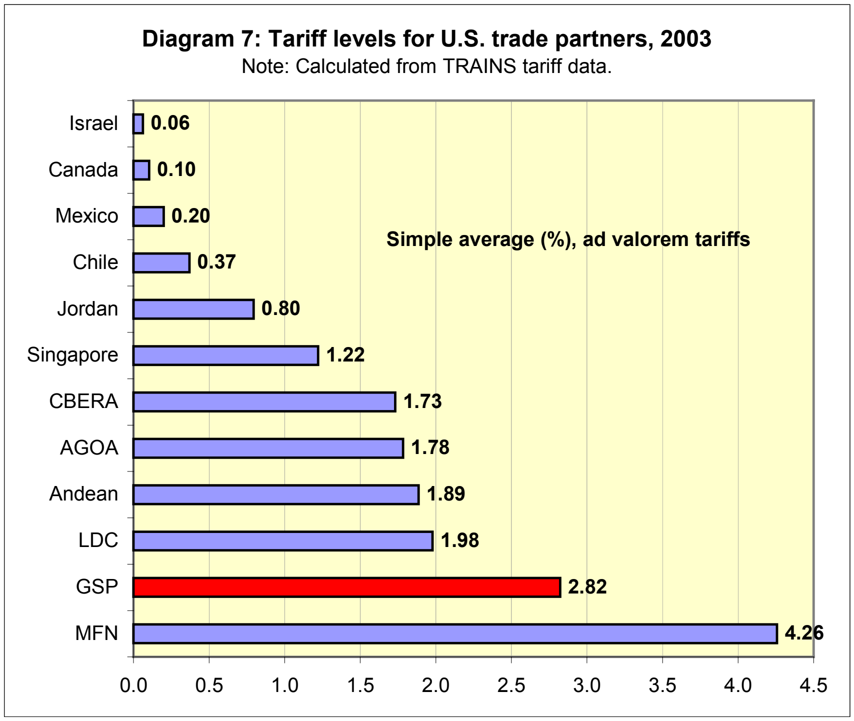


Table 4 shows average tariffs for the different types of regimes, in order to illustrate the ranking shown in the diagrams:

Table 4: The hierarchy of trade regimes in the EU, USA and Norway (average of *ad valorem* tariffs)

	EU	USA	Norway
MFN-WTO	5.60	4.26	1.58
GSP	2.84	2.82	0.90
LDC	0.00	1.98	0.00
Extended GSP	0.26	1.80	0.12
FTAs	1.30	0.46	0.95
Expressed in % of the MFN tariff:			
	EU	**USA**	**Norway**
MFN-WTO	100	100	100
GSP	51	66	57
LDC	0	46	0
Extended GSP	5	42	8
FTAs	23	11	60

The pattern that emerges from this, is that:

- In all three countries, ordinary GSP implies on average less than 50% tariff cuts and the average rate is similar – with the smallest cuts in the USA.
- In Europe (EU and Norway), extended GSP is generous by providing almost complete tariff elimination, but in the USA this is not the case. The difference viz. the USA is however exaggerated here, since AGOA includes non-automatic additional preferences for textiles that have not been taken into account in the figures above.

- For the USA, FTAs is the most beneficial tariff regime, while in Norway, FTAs are not much better than ordinary GSP. The EU is in-between.

As shown by Melchior (2005b), including specific tariffs in agriculture does not change this ranking of regimes for Norway very much. When comparing tariff levels across countries, however, the picture is changed by agriculture; the low tariffs for Norway in Table 4 mainly reflect manufacturing and the more liberalized parts of agriculture.

Diagrams 5-7 clearly show the strong differentiation between different trade regimes. For Norway, there are mainly three steps on the ladder, but for the USA, there are 12. And for the EU, there is a continuous stairs leading to the top, where we find the extended preferences to ACP, LDCs, Overseas Countries and Territories, and Countries Fighting Drugs.

Hence there is really, particularly for the EU, a “spaghetti bowl” of trade preferences. It also demonstrates that the MFN trade conditions are at the bottom, as the Least Favoured Nations. Only for the USA it is possible to sink lower: Tariffs may be considerably higher for countries that are not members of the WTO. If countries are not given MFN status by the USA, they face tariffs that are on average 33%! Although not shown in Diagram 7, this may bring some relief to the MFN countries.

5. Partial tariff cuts in sensitive sectors

The depth of average tariff cuts is determined partly by the product coverage of tariff cuts, and partly by the depth of cuts for each tariff line. As an illustration, consider that we have 10 products with 10% MFN tariffs each, so the tariff average is also 10%. Now consider that the GSP tariff average is 6%. This may either be obtained by cutting all tariffs to 6%, or by cutting four tariffs to zero while the other six remain at 10%. c Partial tariff cuts are more common in sensitive sectors, e.g. agriculture in Norway and agriculture, fish, textiles and clothing in the EU. The US tends to provide full tariff elimination if a tariff line is included; hence GSP is limited more by the product coverage. This has also been the case for clothing in Norway, where GSP tariffs remain high for some goods but are cut to zero for others.

Diagrams 8-10 show the depth of GSP tariff cuts for different sectors.

Diagram 8: GSP versus MFN tariffs - EU 2003

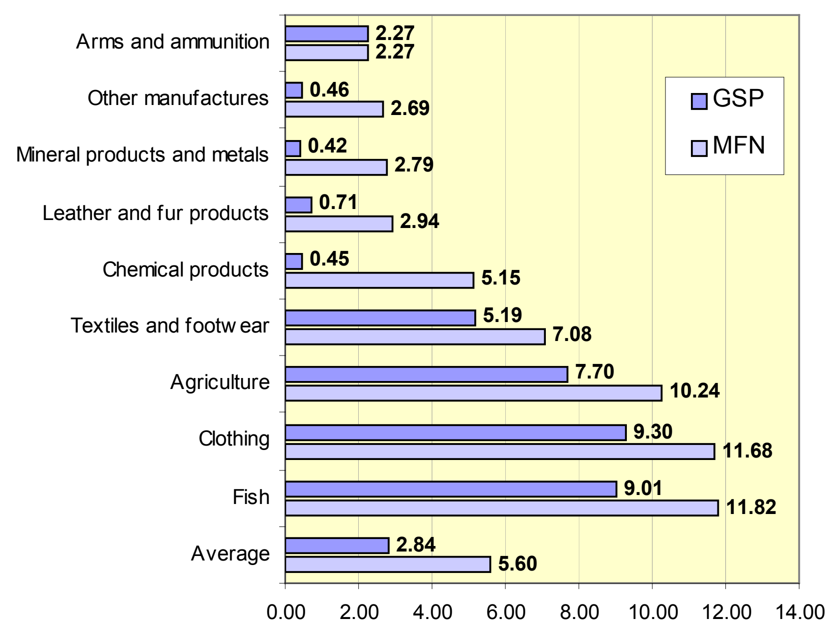
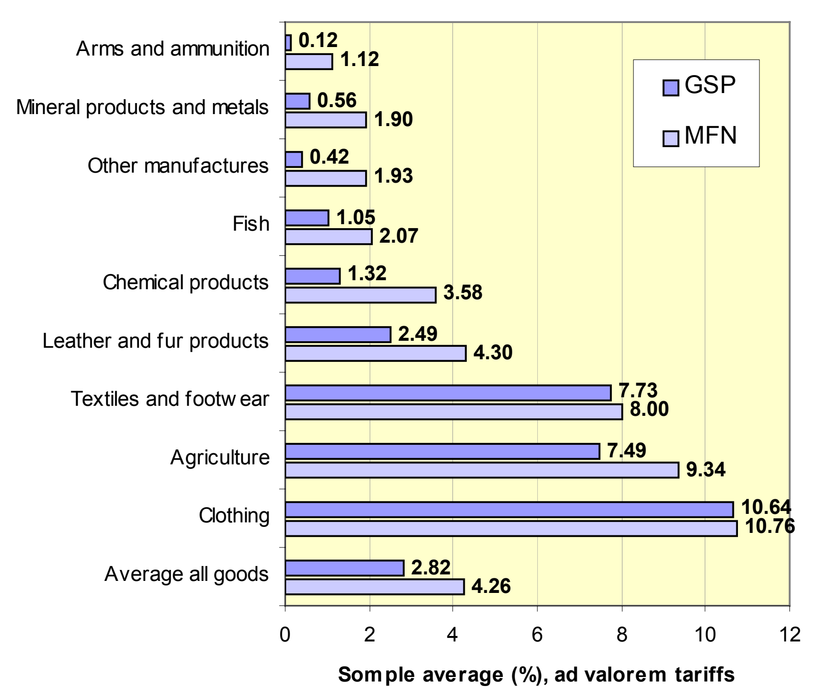
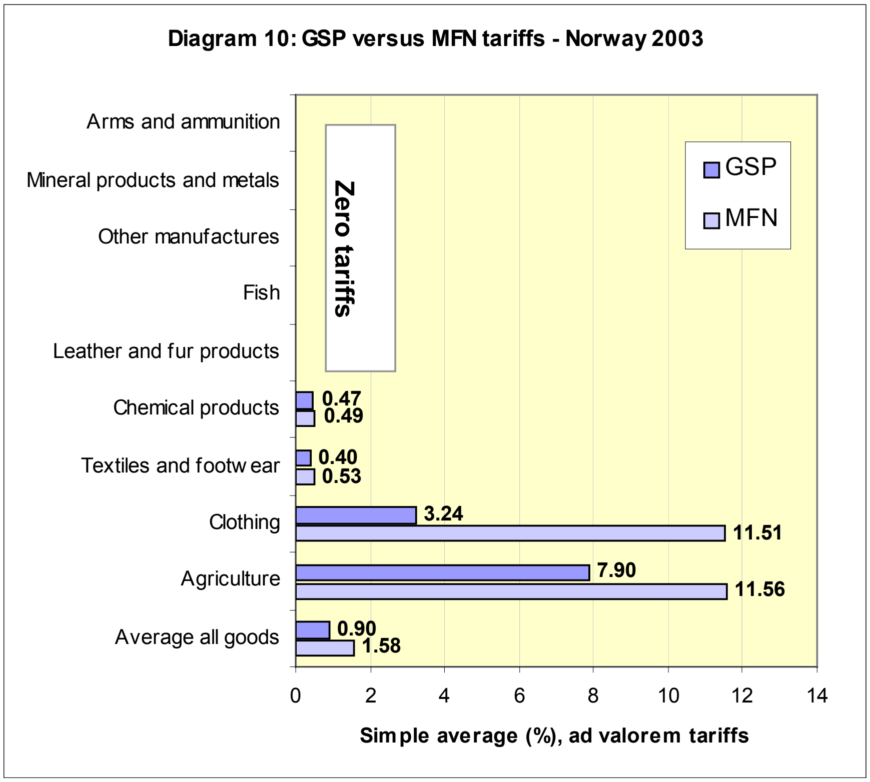


Diagram 9: GSP versus MFN tariffs, USA 2004





For the sensitive sectors, tariff cuts under ordinary GSP are quite modest in the EU as well as the USA. This also applies to agriculture in Norway, but for clothing the Norwegian tariff cuts are deeper.[13] To some extent, the remaining tariffs for clothing in Norway constitute a historical inheritance; textile quotas are now long gone and there are no more sharp conflicts over textile and clothing protection. In the EU and the USA, there are currently fierce debates about new protection in the wake of textile quota elimination from 1 January 2005. Norway is past this stage, and further tariff cuts for clothing are not likely to cause political rows. For agriculture, however, there is a deep conflict involved.

Corresponding to their unilateral character, the GSP systems of the EU and the USA are determined for a set time period. The current GSP system of the USA runs until the end of 2006, while the EU system is renewed for 10-year intervals and is about to be replaced by a new version. The EU preferences for LDCs are without any time limit, and this also applies to the U.S. CBERA preferences for the Caribbean (OECD 2005, 71).

6. Renewal of the EU GSP system – a brief note

The GSP system of the EU has since its first vintage in 1971 been characterised by a distinction between "sensitive" products with small or non-existent tariff reductions, and non-sensitive products with full or far-reaching tariff elimination. The extent of fine-tuning and the methods for

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[13] In Melchior (2005b) it is shown that if specific tariffs are included, tariff cuts in agriculture are only 10-15%.

differentiation have developed over time, towards a simpler and better system. Before 1995, imports of sensitive goods were subject to tariff quotas (i.e. with tariff reductions applying to a limited quantity only), or tariff ceilings (so than ordinary tariffs were reinstated if imports exceeded some quantity). Tariff quotas could be allocated between EU members as well as beneficiary countries – giving rise to a very complex system.[14]

From 1995, tariff quotas and ceilings were abolished. Tariff reductions were given at five different levels (0, 15, 30, 65, 100%) according to product sensitivity. A new safeguard clause was added, so that tariffs could be reinstated in so-called "exceptional circumstances".

The version of the EU GSP system (OJ 1.3.2001) described in this paper has applied since 1.1.2002. It was envisaged for 2002-4 but was extended until the end of 2005. After a prolonged battle in the EU Council of Ministers, the proposal for a new regime has recently been adopted (OJ 30.6.2005). Most aspects of the new regime will enter into force from 1.1.2006 and last until end-2008, but the drugs regime was abandoned already from 1 July 2005.[15] [16]

In terms of product coverage and the depth of tariff cuts, the new regime will not be a revolution, but some improvements are envisaged: In the current system, tariff cuts for sensitive products are 3.5 percentage points, so that e.g. a 10% tariff is reduced to 6.5%. For textiles and clothing, the cut is 20% of the tariff so the new rate would be 8%. In the new system, these rules are maintained[17], but the lists of goods included , as well as sensitive goods, has been revised. According to the EU Commission, another 300 products are included; mainly agriculture and fish products. Some specific tariffs for sensitive goods are to be reduced by 30%, and this is an improvement especially for agriculture.

A potentially important reform is the EU plan to base the rules of origin on value added criteria rather than relying on processing rules. If this eliminates the "double processing requirement" for clothing, it will be an important reform. Especially for small countries, it is difficult to have an own yarn and fabric industry, which is necessary to obtain GSP for clothing (see also Brenton and Manchin 2003, Mattoo et al. 2003). From the EU descriptions of the new rules, it is not immediately clear whether this requirement would be abandoned. In the AGOA apparel

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[14] For a review of the early GSP system of the EU, see Peers (1995).

[15] See Melchior (2005c) concerning the WTO dispute about the drugs regime.

[16] The EU Commission had proposed that the new system should enter into force on 1.4.2005. This was announced as a measure to assist countries hit by the Tsunami (see communication by the EU Commission of 10.2.2005, http://trade-info.cec.eu.int/doclib/docs/2005/february/tradoc_121410.pdf). In March 2005, the EU Council of Ministers however failed to agree on the new system, so more discussions were needed before the new system could be adopted. Hence the Tsunami victims has to wait a bit more for the relatively modest improvements offered by the new system. For general information about the EU GSP system, see http://europa.eu.int/comm/trade/issues/global/gsp/gspguide.htm.

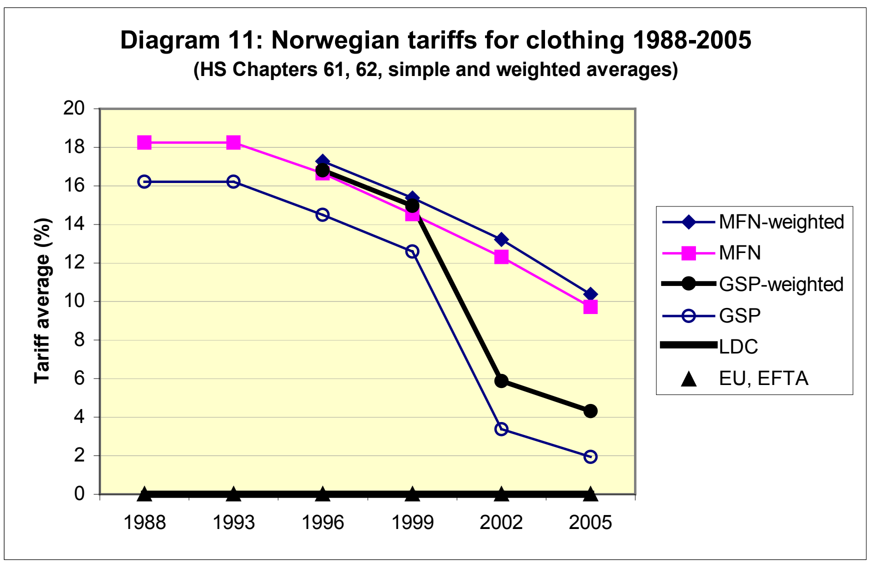
[17] See EUR-Lex document 52005PC0043, Amended Proposal for a Council Regulation applying a scheme of generalised tariff preferences/* COM/2005/0043 Final – CNS 2004/0242.

protocol, there is an exemption from the double processing requirement (see Olarreaga and Özden 2005).

7. The Norwegian GSP system: Developments over time

The relative equality of GSP and FTA tariff levels in the Norwegian system has not been present historically. Until the 1990s, FTAs in Europe had lower tariffs, and developing countries were also subject to textile quotas under the MFA (Multifibre Agreement). Quotas were gradually removed throughout the 1990s, and during the last years, there have been strong changes in the tariff regime. Diagram 11 compares Norwegian tariffs for clothing in 1988, 1993, 1996, 1999, 2002 and 2005.

For the last four years, we also show trade-weighted tariff averages – using Norway's imports from low and lower-middle income countries as weights.[18] Since tariffs are higher for economically more important items, the trade-weighted averages are higher than the simple averages.



While tariffs for LDCs and the European FTAs were zero already in 1988, MFN and GSP tariffs were high. From 1995 onwards, tariffs were reduced due to the Uruguay Round. After 1999, however, Norway has undertaken autonomous cuts in MFN applied tariffs, and also extended the product coverage of GSP. During this period, there has been a radical change so that the relative position of ordinary GSP has improved considerably. The Uruguay Round explains only a little of this; the rest has occurred because of autonomous decisions by the Norwegian Government.

[18] For this purpose, we use import data from COMTRADE at the 6-digit level. Tariffs are aggregated from the 8- to the 6-digit level by using simple averages, before the trade-weighting is carried out.

8. Concluding comments

The analysis above shows that for the three countries covered, ordinary GSP on average leads to tariff cuts between 1/3 and 50%. Extended GSP is more valuable, especially in Norway and the EU where it is equivalent to more or less complete tariff elimination.

GSP benefits may however be nullified by other restrictions. In addition to the rules of origin mentioned above, tariff benefits may be undermined in other ways:

- The USA as well as the EU are frequent users of contingent protection such as anti-dumping.
- The USA and the EU also practice product graduation (eliminating GSP when imports from particular countries exceed certain thresholds) as a regular feature of their GSP. This also creates uncertainty that may limit trade.
- Country graduation or exemptions due to various standards are also used in the GSP of the big powers, but not in Norway.

Hence on the whole, the GSP system of Norway may be considered as more generous than the ones of the EU and the USA. There is, however, a very big footnote, and its name in agriculture. The liberal-mindedness of Norway in the field of manufacturing is severely compensated by its restrictive trade policy for agriculture. Birdsall and Roodman (2003) were right when they used this to criticize Norway’s “development-friendliness”; although their estimate on trade protection in Norway’s agriculture (from Cline 2002) was inflated.

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Table A1: Classification of sectors

Sector	HS numbers included
Agriculture	Chapters 1-2 Chapters 4-14 1501-1503 1505-1602 Chapters 17-24
Arms	Chapter 93
Chemicals	Chapters 28-39
Clothing	Chapters 61-62
Fish	Chapter 3 1504 1603-1605
Leather	Chapters 41-43
Other manufacturing	Chapter 49 Chapters 82-92 Chapters 94-96
Mineral products	Chapters 25-27 Chapter 40 Chapters 44-48 Chapters 68-81
Textiles	Chapters 50-60 Chapters 63-67

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