International Food & Agricultural Trade Policy Council

Partnership to Cut Hunger and Poverty in Africa

Research-Based Advocacy for African Agricultural Development

AGOA and Agriculture[1]

Introduction

The African Growth and Opportunity Act (AGOA) was enacted in 2000 to help diversify Africa's export production, expand trade and investment between the United States and sub-Saharan Africa, 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. Forty African countries are currently eligible for AGOA benefits, 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 contributed to a significant increase in African exports to the US, but most of the export growth has come from oil and gas products, and, in a few years, increases in textile products.[2] Given strong demand for petroleum products and relatively low tariffs on these, this expansion of exports might arguably have occurred without AGOA preferences. In contrast, AGOA has had a very limited impact on African food and agricultural exports to the US.

This brief will provide a background on African food and agricultural exports to the US, and suggest ways in which these could be increased both through improvements to the preference scheme and changes to other facets of US policy. Considering that agriculture has been identified as a key driver for poverty alleviation and economic growth, the brief examines how US policy can serve to strengthen the export performance of this important sector. The brief will also argue, however, that the success of US policies and programs 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 contribute to increased competitiveness of African producers in diverse markets.

US Imports from Africa - the Big Picture

- Although US imports from Africa have tripled from 2000-07, and the US buys roughly one quarter of Africa's total exports (total exports from Africa are $245 billion), these imports are heavily concentrated in the oil and petroleum product sector. About 80 percent of total US imports from Africa and 92% of all imports under AGOA fall into that category.

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[1] 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 (www.africanhunger.org) 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. IPC and the Partnership thank Ed Gresser, Kim Elliott, Marietta Bernot, and senior advisers to our organizations for their contributions to this brief.

[2] More recently, textile exports from Africa have suffered due to competition from other countries following the termination of the global Multi-Fibre Agreement in December 2005.

- Agriculture is only a small fraction of US imports from Africa, usually at $1.2-$1.4 billion per year. Africa exports less to the US than to Europe, Asia and the Middle East, respectively, and exports to the US account for less than intra-African trade.
- Only a relatively small fraction of US farm imports from Africa benefit from trade preferences under GSP or AGOA. This is because most food imports from Africa already come in duty-free under the MFN system, leaving no scope for preferential tariff treatment. Some 620 of the 1300 total agricultural tariff lines are MFN duty-free. These apply to about $1 billion of the $1.2-$1.4 billion in African farm exports to the US each year, or 70 percent of total farm imports to the US. These are usually primary tropical products such as vanilla from Madagascar, raw chocolate from Cote d'Ivoire, tea from Kenya, birdseed and coffee from Ethiopia, and coffee from Rwanda. These products 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 dollar-value agricultural imports from Africa.
- Agricultural imports under AGOA tariff waivers total $120-$200 million per year. The vast majority of AGOA imports are from South Africa. These include oranges, mandarins, raisins, macadamia nuts, some fruit juices, ethanol, wine and canned goods. Last year was typical, with AGOA registering $143 million in farm goods and South Africa accounting for $125 million of the total. The only other two countries using AGOA for significant agricultural exports were Malawi for tobacco and Kenya for nuts and flowers. An additional $100 million per year comes in annually under the US GSP and GSP-Plus programs.
- AGOA's agricultural benefits are constrained in two ways: first, by quotas which predate and were not amended by AGOA, and second, by excluding certain agricultural products from duty-free access.

  Benefits for producers of sugar, tobacco, dairy and beef are limited by quotas. Using sugar as an example, only ten African countries – Cote d'Ivoire, Congo, Gabon, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland and Zimbabwe – have a defined quota under the US sugar program, amounting to 120,000 metric tons of the 1.12 million metric tons allocated annually. 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 imports of sugar-containing cocoa products imported into the US.

  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-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

- The tariff treatment under AGOA could be improved by **removing or relaxing quotas**, which will allow increased imports of agricultural commodities as well as processed products which contain such commodities.
- Moreover, 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]

Other Ways in Which to Boost African Food and 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 phytosanitary standards**, so they can take fuller advantage of US preference programs like AGOA. This could be accomplished by expanding 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 exercise oversight on food safety, leading to confusing overlaps and differing requirements, and often to overly burdensome and long import approval procedures.

- **AGOA should be integrated with other preference and trade capacity building (TCB) programs to strengthen the competitiveness of African products in regional as well as global markets**. The effectiveness of US trade-related programs should be measured by the increase in trade, especially in agricultural commodities, between African countries and with other emerging markets, as well as the US. The US provides significant TCB[5] assistance to sub-Saharan Africa, totaling over $1 billion in 2008. This assistance is extremely important; however, current programs are fragmented in purpose and implementation among multiple US agencies, and uncoordinated with assistance from other donors. We recommend that the US

[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/WG%20Background.pdf

[5] TCB includes assistance for strengthening rural markets, rural infrastructure, 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.

coordinate its investments with African countries and other donors by supporting the AU/NEPAD Comprehensive African Agriculture Development Program (CAADP) Pillar 2 framework for improving rural infrastructure and trade-related capacities for market access. The US should invest its TCB resources according to the priorities designated by CAADP country and regional programs around Pillar 2.

- As part of its trade capacity building support, **the US should commit to significantly increasing infrastructure investments.** Poor rural infrastructure – roads, water and electricity – is a critical constraint to improving sub-Saharan Africa's competitiveness in regional and global markets. For example, only 34% of sub-Saharan Africa's rural population lives within 2 kilometers of a paved road, compared to 65% in the world's next poorest region, South Asia. According to the World Bank, an initial investment of $20 billion coupled with $1 billion annually for maintenance would expand overland trade by about $250 billion over 15 years "with major direct and indirect benefits for the rural poor."

- **A successful conclusion of the Doha Development Round is needed**. It will create a fairer global trading system and importantly contribute towards increased trade with emerging markets, 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 recent years due to the spike in commodity prices, but still require improved disciplines. Trade distorting subsidies 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. 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 catalysts to 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 they contribute to the increased competiveness 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 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, and explore priority areas for focused US assistance and private sector investment.