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Preference Erosion: The Case of Everything But Arms and Sugar

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Abstract

Every change in policy creates winners and losers. One recent example for this truism is the introduction of the European Everything But Arms (EBA) initiative, particularly the recently implemented sub-section legislating the import of raw sugar. Associated with this policy is the change of the European Union Common Market Organisation (CMO) for sugar.

The EBA, an agreement between the group of the world's 48 so-called Least Developed Countries (LDCs) and the European Union (EU) granted market access for the LDCs for all products except of weaponries. The CMO was changed concurrently: In 2006, from when on LDC-quotas were gradually increased and tariffs reduced, the import quotas for Special Preferential Sugar (SPS), an agreement with the African/Caribbean/Pacific (ACP) countries, declined drastically. Together with a sharp decrease of the EU intervention price, these policies were targeted to reduce subsidised (re-)exports.

EBA is expected to be unambiguously positive for the benefiting LDCs, while the CMO reform is bad for both LDCs and ACP countries. As the LDCs are having unlimited access to the European market since 2009 through EBA, their loss is better described as reduced future gains in terms of export earnings. The ACP countries however, which have been enjoying preferential access to the European Market for decades, face now the lower price of the reformed SMO, a process called “erosion of preferences”. In addition to that they are affected by cuts of their SPS-quotas.

The aim of this paper is the quantitative verification of these theoretically predicted impacts of the change of EU policies on the mentioned (non EU) countries, a heterogeneous group which differs widely with respect to their region, recent and colonial history and development states. The empirical analysis will be done with the estimation of a gravity model, laid out by Anderson and van Wincoop (2003). In the fixed-effect regression analysis with very recent data on trade (2002–2010), the variables of the biggest interest will be the ones indicating new policies.

Summing up, this analysis on global scale is highly relevant for the evaluation of the European Common Agricultural Policy with special respect to the Least Developed Countries.

Keywords: ACP, African Caribbean Pacific countries, EBA, everything but arms, LDC, least developed countries, preference erosion, preferential trade, sugar