



February 25, 2015 – Accessible Version

Congressional Requesters

**African Growth and Opportunity Act: Lessons Learned from Other Countries' Trade Arrangements with Sub-Saharan Africa**

Trade preference programs were instituted by several advanced economies in the 1970s to help developing countries pursue economic development. The African Growth and Opportunity Act (AGOA), a U.S. trade preference program, was signed into law in 2000 and offers eligible sub-Saharan African (SSA) countries the ability to export qualifying goods to the United States without import duties. Specifically, AGOA provides enhanced benefits to SSA countries under the auspices of the U.S. Generalized System of Preferences (GSP) program and provides duty-free, quota-free access for apparel items under specified conditions. The act supports efforts to reduce trade and investment barriers and negotiate reciprocal and mutually beneficial trade agreements between the United States and SSA countries. As of January 1, 2015, 39 SSA countries were eligible for AGOA benefits (AGOA countries).

The expiration of AGOA's authorization on September 30, 2015 provides Congress an opportunity to determine what, if any, changes may increase the program's effectiveness. Congressional requesters asked us to examine a range of issues relating to AGOA's effectiveness in promoting trade expansion and economic development, as well as factors affecting SSA trade with the United States and other countries. We addressed several of these issues, such as program eligibility reviews, in recent reports.<sup>1</sup> In this report, we examine how lessons learned from other countries' trade arrangements with SSA can clarify and provide insight into the trade-offs associated with making certain proposed modifications to AGOA. We briefed congressional requesters' staff on our preliminary findings on January 14, 2015. For the purposes of our briefing and this report, we focused on modifications the White House proposed in a 2014 strategy for investing in Africa trade.<sup>2</sup>

In conducting our work, we identified and reviewed documents and literature, including peer-reviewed academic articles, on AGOA and other countries' trade preference programs, trade agreements with AGOA countries, and SSA countries' participation in multilateral trade negotiations. In addition, we interviewed officials from the Departments of Agriculture, Commerce, State, and the Treasury; the Office of the U.S. Trade Representative (USTR); the

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<sup>1</sup>GAO, *African Growth and Opportunity Act: Eligibility Process and Economic Development in Sub-Saharan Africa*, [GAO-15-300](#) (Washington, D.C.: Feb. 12, 2015); *African Growth and Opportunity Act: USAID Could Enhance Utilization by Working with More Countries to Develop Export Strategies*, [GAO-15-218](#) (Washington, D.C.: Jan. 22, 2015); and *African Growth and Opportunity Act: Observations on Competitiveness and Diversification of U.S. Imports from Beneficiary Countries*, [GAO-14-722R](#) (Washington, D.C.: July 21, 2014).

<sup>2</sup>The White House, *Fact Sheet: Investing in African Trade for Our Common Future* (Washington, D.C.: Aug. 4, 2014), accessed February 12, 2015, <http://www.whitehouse.gov/the-press-office/2014/08/04/fact-sheet-investing-african-trade-our-common-future>.

U.S. International Trade Commission (USITC); and the U.S. Agency for International Development (USAID). We also conducted fieldwork in Geneva, Switzerland and Brussels, Belgium. We selected those locations for fieldwork based on our ability to interview multiple U.S. agency officials, African government officials,<sup>3</sup> government officials from countries with trade preference programs,<sup>4</sup> and representatives from think tanks and multilateral organizations with pertinent expertise. We did not independently assess the other countries' trade preference programs and agreements with SSA countries. The information on those programs and agreements is based on interviews and both primary (official) and other sources.<sup>5</sup> The lessons learned discussed herein are based on the views of those we interviewed as well as selected academic literature.

We conducted this performance audit from June 2014 to February 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Background

AGOA has been studied extensively, and many observers agree that it has been beneficial in helping expand trade between SSA countries and the United States. However, our prior work and available evidence suggest that AGOA has been only modestly effective in achieving its goals.<sup>6</sup>

Several distinct but interrelated program characteristics impact AGOA's scope, operation, and effectiveness, including the following:

- *Program duration*—the length of time during which the preferences are in effect.
- *Product coverage*—which products may receive tariff preferences. AGOA offers duty-free coverage of 97.5 percent of tariff lines for eligible least-developed countries (LDC) in sub-Saharan Africa according to analysis by the World Trade Organization (WTO) Secretariat. Most of the products excluded are agricultural products.

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<sup>3</sup>We interviewed African government officials from Ethiopia, Lesotho, Mauritius, Nigeria, South Africa, and Uganda—countries we selected because they represent a range of sizes, face a range of trade challenges, and actively use AGOA benefits.

<sup>4</sup>We interviewed government officials from Australia, Brazil, Canada, China, and the European Union (EU)—countries we selected based on the amount of trade they conducted with SSA countries, congressional interest in their trade programs, and whether they had made recent modifications to their trade programs that related to the White House's proposed modifications to AGOA. We refer to the EU as a country for the purpose of this report.

<sup>5</sup>Information on Japan's program and changes is based on official information that Japan provided to the World Trade Organization (WTO) Secretariat, which made it publicly available through the WTO's preferential trade arrangement portal. WTO, *Preferential Trade Arrangements Database*, accessed February 18, 2015, <http://ptadb.wto.org/?lang=1>.

<sup>6</sup>GAO, *U.S.-Africa Trade: Options for Congressional Consideration to Improve Textile and Apparel Sector Competitiveness under the African Growth and Opportunity Act*, [GAO-09-916](#) (Washington, D.C.: Aug. 12, 2009); GAO, *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, [GAO-08-443](#) (Washington, D.C.: Mar. 7, 2008); and USITC, *AGOA: Trade and Investment Performance Overview*, Publication No. 4461, April 2014.

- *Rules of origin*—ensure that benefits of a preference program accrue to intended recipients by specifying a proportion of an imported product’s value that must be produced in the preference beneficiary country. Rules of origin vary between different countries’ preference programs and often from product to product within individual programs. For example, special rules are in effect that allow certain AGOA countries to export apparel tariff-free to the United States even if they use “Third Country” fabric—fabric from a country other than the United States or another AGOA country.
- *Program eligibility*—the ability of a country to qualify for participation in the program. Eligibility for AGOA includes meeting the statutory criteria to qualify for the program, as determined by annual reviews of each SSA country that requests consideration for AGOA benefits.

One part of the White House’s five-part strategy for investing in Africa trade, announced in August 2014, is to “Renew and Update AGOA to Increase Market Access Opportunities for Africa.” It consists of the following four specific recommendations for AGOA modifications:<sup>7</sup>

- Approve a long-term extension of AGOA including “Third Country Fabric.”
- Expand AGOA’s product coverage.
- Improve rules of origin.
- Update eligibility criteria and review processes.

Three major developed countries have made significant modifications to their trade preference programs. Although their programs are more general in application than AGOA, which focuses on sub-Saharan Africa, the features of their programs provide insights into how AGOA might be affected or be made more effective by the White House’s proposed modifications.

#### Other Countries’ Programs Offer Insights into Trade-offs Associated with Proposed AGOA Modifications

In this section, for each of the President’s four proposed modifications to AGOA, we (1) identify trade-offs associated with the proposed modification and (2) present insights derived from other developed countries’ experiences.

#### **Extending AGOA Reduces Risk to Investors, but Could Hinder U.S. Flexibility**

##### **President’s Proposed Modification and Justification**

*Approve a Long Term Extension of AGOA including “Third Country Fabric”*

*A long-term extension of AGOA will offer greater certainty in the investment climate, help incentivize such investments and allow lesser-developed African beneficiaries to continue to develop the capacity to trade and take advantage of AGOA preferences.*

Source: The White House, Fact Sheet: Investing in African Trade for Our Common Future, Aug. 4, 2014. | GAO-15-393R

<sup>7</sup>The other four parts of the strategy are: Find Synergies through Aligning Assistance; Improve Infrastructure to Enhance Competitiveness; Strengthen Trade Capacity Building, Value Added Production, and Supply Chains to Increase AGOA Utilization; and Create New Markets for Africa.

## Trade-offs

AGOA was initially authorized for 8 years; this authorization was subsequently extended through September 30, 2015 with enhanced benefits. The Third Country Fabric provision was authorized for a shorter period of time and has subsequently been extended several times. The majority of the African government officials we interviewed supported the extension of AGOA for a longer period of time and thought that extending AGOA by 10 or 15 years could help support increased investment. An official we interviewed from one AGOA country said many jobs were eliminated in his country because companies moved their investments elsewhere to avoid the risk associated with delays in the renewal of AGOA's Third Country Fabric provision. Making that provision's authorization more predictable was also viewed as particularly important. According to officials from two AGOA countries, investors in the apparel sector need the assurance that AGOA benefits will cover their products for at least 9 months before they export them, because their production cycle includes planning for future seasons. Several studies note that the more flexible U.S. rule of origin introduced under the Third Country Fabric provision was largely responsible for significant increases in U.S. apparel imports under AGOA.

However, extending AGOA could reduce U.S. flexibility in making changes to its trading arrangement with SSA countries—including considering whether to pursue or insist upon free trade or reciprocal agreements. AGOA directed the President to develop a plan to negotiate and enter into Free Trade Agreements (FTA) with SSA partners, but negotiations have not yet been successful.<sup>8</sup> Regardless of the length of reauthorization, foreign trade experts believe that the United States would need to request another WTO waiver because participation in the program is limited to countries in a specific region (sub-Saharan Africa). According to U.S. and WTO officials, securing the requisite consent to the United States' request for the AGOA program's current WTO waiver proved to be a time-consuming and difficult task.<sup>9</sup>

## Insights from Other Countries' Programs

The EU, Canada, and Japan reauthorized their programs for a decade, while making major changes to their programs. According to information from the European Commission, the EU, noting that importers and exporters needed stability and predictability to use preferences, changed the duration of its GSP scheme from 3 years to 10 years. However, trade experts noted that under EU market access regulations,<sup>10</sup> non-least developed countries (non-LDC) in the African, Caribbean, and Pacific region that had previously benefited from one-way preferences must have converted to reciprocal trade agreements known as Economic Partnership Agreements (EPA) by October 1, 2014, or revert to the EU's less generous GSP program if they were still eligible.<sup>11</sup> The EU initialed its first three EPAs with regional groups of

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<sup>8</sup>Francisco Sanchez, Undersecretary of International Trade, U.S. Department of Commerce, responses to questions submitted for the record by Senator James M. Inhofe. S. HRG. 112-653 (2012) 60-61. Sanchez indicated that the East African Community was not ready or willing to conclude a high standard FTA with the United States and that a U.S. effort to conclude an FTA with the Southern African Customs Union was also abandoned.

<sup>9</sup>The AGOA program's current WTO waiver and the AGOA program's authorization both expire on September 30, 2015.

<sup>10</sup>EU Market Access Regulation MAR 1528/2007, Dec. 20, 2007; EU Market Access Regulation MAR 527/2013, May 21, 2013.

<sup>11</sup>According to foreign government and trade officials we spoke with in Geneva and Brussels, the EU's decision to shift to reciprocal agreements was driven in part by the EU's loss of two WTO disputes involving preferences as well as the 2007 expiration of its WTO waiver pertaining to EU preferences for African, Caribbean, and Pacific countries.

SSA countries in July 2014 and October 2014.<sup>12</sup> According to trade experts, the EPAs provide EU exporters favorable access in their markets, relative to others such as the United States. According to information from the European Commission and Canadian government, the EU and Canada also lowered the cut-off point for graduating countries, as explained more fully below. According to information from the WTO Secretariat and the Japanese Ministry of Foreign Affairs, Japan instituted a partial graduation mechanism and graduated numerous products from China. Sources indicate that the revised programs incorporate ongoing review of country and product eligibility in line with established, internationally developed criteria. Thus, while the overall programs are stable, country and product participation is subject to change and will continue to evolve.

### **Increasing Product Coverage Could Increase Exports, but May Raise Concerns among U.S. Domestic Producers**

#### **President's Proposed Modification and Justification**

##### *Expand AGOA's Product Coverage*

*AGOA already provides duty-free access for 97.5 percent of all tariff lines for virtually all AGOA beneficiaries. However, there are 316 tariff lines – most covering agricultural products – that are not currently included. While these products have historically been import sensitive, it is important to examine whether any products can now be added to AGOA.*

Source: The White House, Fact Sheet: Investing in African Trade for Our Common Future, Aug. 4, 2014. | GAO-15-393R

#### **Trade-offs**

Foreign officials note that adding some currently excluded products to AGOA, particularly those in the agricultural sector, could provide greater benefits to Africa. Many African countries' exports are highly concentrated in a few products, and some of Africa's most important and globally competitive export products are still excluded from available preference programs. For example, the 2013 Africa Competitiveness Report recently noted that countries such as Burundi, Côte d'Ivoire, Ethiopia, and Malawi are highly dependent on agricultural exports.<sup>13</sup> The USITC has noted that although AGOA countries produce a wide range of products with export potential to the United States—mostly agricultural products, handicrafts and woodcrafts, and leather and leather products—some are currently ineligible for AGOA preferences. Further, trade experts noted that products such as sugar, meat, dairy, and peanuts face volume limitations and higher U.S. tariffs on “over quota” amounts of exports subject to tariff-rate quotas

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According to the WTO, in both WTO disputes, the EU was found to have discriminated among WTO members in contravention of certain WTO obligations. For further information, see WTO, “European Communities—Regime for the Importation, Sale and Distribution of Bananas,” accessed February 18, 2015, [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds27\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds27_e.htm); and WTO, “European Communities—Conditions for the Granting of Tariff Preferences to Developing Countries,” accessed February 18, 2015, [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds246\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds246_e.htm).

<sup>12</sup>The EU has signed EPAs with the East African Community; the Southern African Development Community, which includes the Southern African Customs Union and South Africa; and the Economic Community of West African States, which includes its 15 members plus Mauritania.

<sup>13</sup>The World Economic Forum, the World Bank, the African Development Bank, and the Ministry of Foreign Affairs of Denmark, *The Africa Competitiveness Report 2013* (Geneva: 2013), 41.



(TRQ).<sup>14</sup> SSA countries export some of the affected products to other countries, including in the EU.

However, certain domestic commodity groups have raised concerns over possible increases in imports, and statutory constraints on adding products to AGOA's coverage exist. U.S. government officials we met with said that U.S. producers have expressed concern that removing tariffs on products would result in increased imports that might adversely affect those industries. Further, certain statutory and policy constraints have been placed on the President in designating products as eligible for tariff-free treatment. For example, the GSP statute, which provides authority for much of AGOA's enhanced coverage under GSP, precludes the President from designating certain articles as eligible for GSP duty-free treatment.<sup>15</sup> The President also must seek USITC advice on import sensitivity when making determinations on product coverage. Also by statute, agricultural products subject to tariff-rate quotas may only enjoy duty-free access up to the "in quota" amount. One U.S. trade expert recently noted that the United States has made commitments to certain trading partners in trade agreements on some agricultural products subject to TRQs, such as Australia (beef), and Argentina (peanuts).<sup>16</sup>

### Insights from the EU's Program

EU officials in Brussels told us that EU agriculture industry representatives had expressed concerns when the EU was contemplating expansion of preferences to cover previously excluded agriculture products under the Everything but Arms (EBA) program that removing tariffs on products would result in increased imports that might adversely affect their industries. However, they said that the feared increase in imports did not materialize, largely because of lack of capacity within Africa to produce or export the quantity of products that would have negatively impacted EU industries. (Some recent empirical studies also suggest that expanded preferential access would not negatively impact U.S. agricultural interests on similar grounds.)<sup>17</sup> According to trade experts, for two of the most import-sensitive products, sugar and rice, the EU phased in duty-free access under EBA and made complementary modifications to its Common Agricultural Policy to mitigate any adverse impacts.<sup>18</sup>

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<sup>14</sup>A tariff-rate quota includes a lower, "in quota" tariff that applies to a limited quantity of imports, and a higher, often prohibitive, "over quota" tariff that applies to any imports that exceed the quota. The quantity in the "in quota" level must be made available in accordance with specific allocation rules and other international commitments.

<sup>15</sup>See 19 USC 2463.

<sup>16</sup>Kimberly Ann Elliott, *AGO's Final Frontier: Removing US Farm Trade Barriers* (Center for Global Development: July 28, 2014), accessed February 18, 2015, <http://www.cgdev.org/publication/ft/agoa-final-frontier-removing-us-farm-trade-barriers>.

<sup>17</sup>Antoine Bouët, David Laborde Debucquet, Elisa Dienesch, and Kimberly Elliott, "The Costs and Benefits of Duty-Free, Quota-Free Access for Poor Countries: Who and What Matters?," *International Food Policy Research Institute Discussion Paper 00990* (June 2010); Simon Mevel, Zenia Lewis, Mwangi S. Kimenyi, Stephen Karingi, and Anne Kamau, "The African Growth and Opportunity Act: An Empirical Analysis of the Possibilities Post-2015," *Africa Growth Initiative at Brookings* (Brookings Institution: July 2013). Others note limitations to the general equilibrium models used in these studies and that greater market access in agriculture could keep LDCs from diversifying their exports into more dynamic sectors of the economy. See Massimiliano Cali and Sheila Page, "Reforming Trade Preferences for LDCs," *Opinion 145*, Overseas Development Institute (June 2010).

<sup>18</sup>Alan Matthews and Jacques Gallezot, "The role of EBA in the political economy of CAP reform," in Institute for International Integration Studies Discussion Paper Series, No. 133 (Dublin: Trinity College Dublin, April 2006), accessed February 22, 2015, <https://www.tcd.ie/iis/documents/discussion/pdfs/iisd133.pdf>.

## Easing Rules of Origin Could Address African Concerns and Increase Use of AGOA Preferences, but May Also Benefit Non-AGOA Countries

### **President's Proposed Modification and Justification**

#### *Improve Rules of Origin*

*AGOA offers some of the most flexible rules of origin of any U.S. trade arrangement. In an effort to update the rules, however, the Administration is working to identify ways to provide greater flexibility, encourage regional integration and the development of regional value chains, and incentivize more U.S.-Africa trade.*

Source: The White House, Fact Sheet: Investing in African Trade for Our Common Future, Aug. 4, 2014. | GAO-15-393R

### Trade-offs

Revising AGOA rules of origin to be more flexible could address several concerns. Although rules of origin are an integral component of any preference program, officials we met with told us that they consider AGOA rules of origin to be complex and difficult to understand. Two foreign trade experts said that AGOA rules of origin add an administrative burden because of the associated strict recordkeeping requirements. Others suggested that AGOA (and GSP) rules of origin are outdated and have not (materially) changed since they were developed in the 1970s. Since then, the nature of manufacturing production has changed, becoming a more globally networked process with inputs competitively sourced among numerous suppliers. Rules of origin that are not flexible enough to account for this change may adversely affect SSA competitiveness and result in some of the available preferences not being utilized. Some foreign trade experts have noted that allowing beneficiaries to count inputs from other countries toward meeting rules of origin requirements (known as cumulation) may address some of these problems and encourage integration into existing supplier networks.

If AGOA rules of origin become more flexible, however, the likelihood increases that non-AGOA countries will profit from AGOA benefits. Devising ways to avoid this possible outcome is important to ensure that only beneficiary countries receive preferences under the AGOA program. Cumulation has been widely recognized as helpful in principle, and presently, AGOA permits some cumulation among SSA beneficiaries. However, AGOA generally does not expressly permit cumulation with other GSP recipients or with FTA partners.<sup>19</sup>

### Insights from Other Countries' Programs

Canada and the EU have updated and revised their rules of origin in an effort to make them easier for developing countries to understand and to meet, according to a WTO document. Notably, it indicated that Canada and the EU have

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<sup>19</sup>Cumulation under GSP is limited to specified regional groups. Within sub-Saharan Africa, two regional groups are specified: members of the West African Economic and Monetary Union and SADC are potentially eligible for the cumulation benefit.

- widened the scope for cumulation of inputs from multiple countries to attain the required value-added threshold,<sup>20</sup> and
- relaxed certain product-specific rules for LDC beneficiaries.

Foreign trade experts and officials we met cited Canada's broadened scope for cumulation as helpful in increasing preference utilization. Views on the EU's change were more mixed, in part, they noted, because the EU still has a host of product-specific rules, and in part because the EU will only allow cumulation between GSP beneficiaries and FTA partners upon specific request by the beneficiary, with EU approval subject to several conditions. Preliminary evidence based on trade data indicates that Canada's and the EU's eased rules of origin for textiles and apparel have increased program utilization. The changes to product-specific rules that Canada and the EU made, however, would appear to give their programs features similar to AGOA's Third Country Fabric provision, which allows most AGOA beneficiaries to use fabric from a country other than the United States or another AGOA country.

### **Revising Eligibility Criteria Could Limit Preferences to Fewer Countries, but May Negatively Impact Regional Integration**

#### **President's Proposed Modification and Justification**

##### *Update Eligibility Criteria and Review Processes*

*AGOA's eligibility criteria and review processes have not been updated since its launch, notwithstanding changes in African and global trade practices over the last 14 years. The Administration is working to identify ways that the criteria can be updated to address current challenges and to improve effectiveness of the review processes.*

Source: The White House, Fact Sheet: Investing in African Trade for Our Common Future, Aug. 4, 2014. | GAO-15-393R

### **Trade-offs**

Updating AGOA eligibility criteria could allow the United States to address the challenge of ensuring that preferences are focused on helping those countries that have the greatest need to increase and diversify their exports. AGOA authorizes the President each year to designate an SSA country as eligible for AGOA trade preferences if the President determines that the country has met or is making continual progress toward meeting AGOA's eligibility criteria, among other requirements.<sup>21</sup> In addition, the act requires that an SSA country be eligible for GSP in order to be considered for AGOA benefits. One of the determinants of eligibility is the country's income

<sup>20</sup>In Canada's case, cumulation is allowed across GSP and GSP-LDC preference beneficiaries and, in the case of the EU, between GSP and FTA/EPA partners, as noted in a WTO document.

<sup>21</sup>See Pub. L. No. 106-200, May 18, 2000, section 104(a)(1). For a discussion of how this process operates and how U.S. officials use it to engage with SSA countries on their progress towards economic, political, and development reform objectives, see [GAO-15-300](#).



level. Countries are not eligible for AGOA (or the U.S. GSP) if they are classified by the World Bank as high-income countries.<sup>22</sup> Countries that exceed that threshold graduate out.

One concern in changing eligibility criteria such as by lowering the income threshold for graduation, as the EU and Canada have done, is that it may result in graduation of major African economies and thus have the adverse impact of disrupting trade for neighboring countries, which could in turn potentially undermine regional integration.<sup>23</sup> For example, according to a WTO official, if South Africa became ineligible for AGOA benefits, its AGOA-eligible neighbors might no longer be able to qualify their exports for AGOA treatment because product inputs imported from South Africa would no longer count toward the percentage of the final product that must be “domestic” in order to export tariff-free under AGOA. African government officials we met with also said that other countries in the region suffered when Madagascar was suspended from AGOA.

### Insights from Other Countries’ Programs

Both the EU and Canada now systematically graduate countries from their trade preference programs. Specifically, the EU recently revised its eligibility criteria to drop countries as trade preference beneficiaries if they (1) qualify for the World Bank’s Upper-Middle-Income category or (2) can access the EU market through another preferential regime. In Canada, countries lose preference benefits if they either qualify for the World Bank’s Upper-Middle-Income category or have exports that account for at least 1 percent of world exports for 2 consecutive years. As a result, numerous beneficiaries graduated from their preference programs for developing countries—72 in Canada and 87 in the EU.<sup>24</sup> African nations affected by these changes include South Africa, Kenya, and Mauritius. The EU cited a movement in the last decade toward greater differentiation among beneficiary countries in terms of development, trade, and financial needs, and noted that more advanced developing countries are now competitive on a global scale. It further noted that prior to the modification, 40 percent of the EU’s preferential imports were accounted for by the more advanced countries.

However, Canada and the EU took several preemptive steps to mitigate any disruptions caused by this change, according to information from the Canadian government and the European Commission. For example, Canada

- grandfathered inputs from prior beneficiaries for LDCs;
- will permit duty-free entry of apparel from graduated countries if they incorporate Canadian textiles; and

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<sup>22</sup>Countries that reach high-income status are ineligible, but 60 days’ advance notice must be provided to Congress and the pertinent recipient, and a transition period of one to two years is provided to the recipient.

<sup>23</sup>Equatorial Guinea was the first and only country to be excluded from potential eligibility for AGOA because it exceeded the current high-income threshold. Of the current AGOA beneficiaries, Angola, Gabon, Mauritius, Namibia, Seychelles, and South Africa were Upper-Middle-Income countries in the World Bank’s Country Income Classification table. See the World Bank, *Country and Lending Groups*, accessed February 18, 2015, <http://data.worldbank.org/about/country-and-lending-groups>.

<sup>24</sup>According to information from the Canadian government and the European Commission, the beneficiary changes were effective January 1, 2014 for the EU and January 1, 2015 for Canada.

- made sugar duty-free on a global basis to prevent disruption of supplies that had been duty-free under GSP for Brazil, which Canada graduated.

### Concluding Observations

Each of the President's proposed modifications to AGOA—enacting a long-term program extension, increasing product coverage, making rules of origin more flexible, and updating eligibility criteria and review processes—involve complex trade-offs. In reviewing other countries' modifications to their preference programs, we noted that they recognized that making changes in one area could impact performance in other areas, and therefore took proactive steps to counter or complement them. For example, the EU's and Canada's decade-long extension of their programs did not lock them into offering preferences to countries for the entire decade because they also tightened their eligibility criteria. In addition, Canada's revised rules of origin allow LDCs to use inputs from graduated countries and still qualify for preferences in recognition that graduating countries such as South Africa could disrupt regionally integrated supply chains in neighboring countries such as Lesotho or Botswana. Analyzing ways in which these program characteristics were recalibrated may prove useful in weighing which changes to AGOA are most likely to increase SSA exports and help SSA countries integrate into the global economy.

### Agency Comments

We are not making recommendations in this report. We provided a draft of this report to USTR and USDA for comment. They provided technical comments, which we incorporated as appropriate.

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We are sending copies of this report to appropriate congressional committees; the Secretaries of Agriculture, Commerce, State, and the Treasury; the Administrator of USAID; the Chairman of USITC; USTR; and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8612 or [GianopoulosK@gao.gov](mailto:GianopoulosK@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Kim Frankena (Assistant Director), Jeffrey Baldwin-Bott, Shakira O'Neil, Kenneth Bombara, Barbara El Osta, Jill Lacey, Debbie Chung, and Ernie Jackson.

A handwritten signature in black ink, reading "Kimberly Gianopoulos". The signature is fluid and cursive, with the first name "Kimberly" and last name "Gianopoulos" clearly distinguishable.

Kimberly Gianopoulos  
Director, International Affairs and Trade

## List of Requesters

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United States Senate  
The Honorable Bob Corker  
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The Honorable Robert Menendez  
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