

## **GSP: The new EU preferential market access system for developing countries. Memo – Brussels, 23 June 2005**

### **The EU Generalised System of Preferences**

The EU Generalised System of Preferences is the system of preferential trading arrangements through which the European Union extends preferential access to its markets to developing countries.

In 1968 the United Nations Conference on Trade and Development (UNCTAD) recommended the creation of a 'Generalised System of Tariff Preferences' under which developed countries would grant trade preferences to all developing countries. The EU was the first to implement a GSP scheme in 1971. The EU's GSP grants products imported from the 178 GSP beneficiary countries and territories either duty-free access or a tariff reduction.

The EU GSP is the most widely used of all developed country GSP systems. The volume of imports to the EU from developing countries under the GSP is greater than the volume of imports under the US, Canadian and Japanese GSP systems combined. In 2003 EU imports under GSP totalled €52 billion. In comparison, under the equivalent American scheme – which is the world's second most widely used GSP imports totalled €16 billion.

The new GSP will come into force on 1 January 2006, although a provisional form of the GSP plus will be fast-tracked to be in place from July 1 2005. The eligibility of countries placed in the GSP Plus incentive scheme will be confirmed by an assessment of their effective implementation of core human and labour rights, good governance and environmental conventions before the beginning of 2006.

### **The current GSP systems**

The current GSP, in place since 1995, applies to imports from developing countries that pay duty on entering the EU market, and that are not already duty-free under Most Favoured Nation agreements. Of the approximately 11000 customs lines in the EU about 2000 are already duty-free under MFN. GSP applies to about 7000 of the remaining 9000, with the exception of arms and ammunition.

There are currently five types of EU GSP scheme. The general scheme covers roughly 7000 products, of which 3300 are classified as non-sensitive and 3700 are classified as sensitive products. Non-sensitive products enjoy duty free access, while sensitive products benefit from a tariff reduction of 3.5 percentage points on the MFN tariff.

There are two schemes that tie additional preferences to recognition of labour rights and environmental standards. These schemes reduce the tariff for sensitive products by 8.5 percentage points on the MFN tariff.

There is a special GSP to combat drug production and trafficking. This scheme benefits all Central American countries, countries belonging to the Andean Community as well as Pakistan. The number of products covered by this scheme is higher than the general scheme (around 7200) and they have access to the EU market duty-free.

There is a special scheme for Least Developed Countries (LDCs): 'Everything but Arms'. For the world's 50 poorest countries this allows duty free access to the EU for all products except arms and ammunition.

### **The new system: three schemes instead of five**

The revised system is designed to be simpler, more transparent and more stable. The new GSP will remain unchanged until the end of 2008 hence providing stability and predictability

for importers and exporters. At the end of this period, the allocation of preferences will be reviewed to better meet the evolving strengths and development needs of each country.

There will be three schemes instead of five:

-General scheme: product coverage increases from about 6900 to about 7200. It will incorporate 300 additional products mostly in the agriculture and fishery sectors, of interest for developing countries

-There will be a new 'GSP Plus' scheme for especially vulnerable countries with special development needs. It will cover around 7200 products which can enter the EU duty free. The beneficiaries must meet a number of criteria (see below) including ratification and effective application of 27 key international conventions on sustainable development and good governance.

-'Everything but Arms' will remain unchanged.

### **'GSP Plus': A new deal for vulnerable countries**

To benefit from 'GSP Plus' countries need to demonstrate that their economies are poorly diversified, and therefore dependent and vulnerable. Poor diversification and dependence is defined as meaning that the five largest sections of its GSP-covered imports to the Community must represent more than 75% of its total GSP-covered imports.

GSP-covered imports from that country must also represent less than 1% of total EU imports under GSP.

They also have to have ratified and effectively implemented the 16 core conventions on human and labour rights and 7 (out of 11) of the conventions related to good governance and the protection of the environment. At the same time beneficiary countries must commit themselves to ratifying and effectively implementing the international conventions which they have not yet ratified. In any case, the 27 conventions have to be ratified by the beneficiary countries by 31 December 2008. (The list of Conventions is annexed).

### **A simpler mechanism for graduation**

Certain products from GSP beneficiaries can be graduated from the scheme if they become competitive on the EU market. This is a sign that these products no longer need the GSP to boost their exportation. Thus, graduation is not a penalty, but indicates that the GSP has successfully performed its function, at least in relation to the country and product in question. This ensures that the GSP focuses on the countries most in need and helps them play a greater role in international trade.

Changes will be made to the graduation mechanism to make it simpler in the new system. The current criteria (share of GSP imports, development index and export-specialisation index) have been replaced with a single straightforward criterion: share of the Community market expressed as a share of exports from GSP countries. This share would be 15%, with 12.5% for textiles and 12.5% for clothing.

Graduation will be assessed at the end of 2008, except in the case of textiles and clothing which will be reviewed annually to properly reflect the possibility of sharp increases in textile and clothing exports.

### **EU imports from developing countries**

Under the EU GSP between 1999-2003 developing countries share in total EU imports grew from 33% to 40%.

The EU is the largest trading partner for the world's poorest countries: 40 % of EU imports originate in developing countries, amounting to €362 billion worth of trade. The EU is the world's most open market for poor countries: in 2003 around 80% of developing countries' exports entered the EU duty free or at reduced rates of duty.

The EU has the most open regime vis-à-vis Sub-Saharan Africa and the other African, Caribbean and Pacific countries: in 2003 African Caribbean and Pacific countries paid full duty on only 3% of their imports to the EU. The remaining 97% entered at zero duty or at reduced rates of duty.

The EU is the most open market in the developed world for the world's 50 poorest countries. In 2003 the EU absorbed 63% of exports from Least Developed Countries to Japan, EU, US and Canada. In the case of agriculture, this figure is more than 70%.

The EU is the main importer of agricultural products from developing countries, absorbing more than the US, Japan and Canada put together.

### **List of Conventions to qualify for 'GSP Plus'**

#### **Core human and labour rights UN/ILO Conventions (all must be ratified and effectively implemented for GSP Plus to apply):**

International Covenant on Civil and Political Rights; International Covenant on Economic Social and Cultural Rights; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Elimination of All Forms of Discrimination Against Women; Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Prevention and Punishment of the Crime of Genocide; Minimum Age for Admission to Employment (N° 138); Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour (N° 182); Abolition of Forced Labour Convention (N° 105); Forced Compulsory Labour Convention (N° 29); Equal Remuneration of Men and Women Workers for Work of Equal Value Convention (N° 100); Discrimination in Respect of Employment and Occupation Convention (N° 111); Freedom of Association and Protection of the Right to Organise Convention (N° 87); Application of the Principles of the Right to Organise and to Bargain Collectively Convention (N°98); International Convention on the Suppression and Punishment of the Crime of Apartheid.

#### **Conventions related to environment and governance principles (7 must be ratified and effectively implemented for GSP Plus to apply, all must be ratified and implemented by 2009):**

Montreal Protocol on Substances that deplete the Ozone Layer; Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal; Stockholm Convention on persistent Organic Pollutants; Convention on International Trade in Endangered Species; Convention on Biological Diversity; Cartagena Protocol on Biosafety; Kyoto Protocol to the UN Framework Convention on Climate Change; UN Single Convention on Narcotic Drugs (1961); UN Convention on Psychotropic Substances (1971); UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988); Mexico UN Convention Against Corruption.