

## **Factsheet**

### EC Generalised Scheme of Tariff Preferences (GSP) 2009-2011

#### **The GSP scheme**

The GSP is an autonomous trade arrangement through which the EU provides non-reciprocal preferential access to the EU market to 176 developing countries and territories. It is implemented by a Council Regulation. The basic objectives and implementing instruments of the GSP during the period 2006-15 were set out in a Commission Communication in 2004<sup>1</sup>. This communication paved the way for the rationalisation and simplification of the GSP regime in the currently applicable EC Council Regulation 980/2005. This Regulation applies for the period 2006-08 and expires at the end of this year.

The primary objective of the GSP is to contribute to the reduction of poverty and the promotion of sustainable development and good governance. Tariff preferences on the EU market enable Developing Countries to participate more fully in international trade and generate additional export revenue to support implementation of their own sustainable development and poverty reduction policy strategies. The additional preferences available to vulnerable Developing Countries under the GSP+ component of the scheme act as an incentive for them to ratify and effectively implement a set of key international conventions. These represent widely recognised international standards in the fields of core human rights and labour standards, sustainable development and good governance. The tariff preferences under GSP and GSP+ – which take the form of either duty-free access or reductions in the otherwise applicable standard tariffs – cover roughly 6400 tariff lines. In respect of the more far-reaching preferences for Least-Developed Countries (LDCs), 7200 tariff lines are covered.

The period of application of the current Regulation has seen a significant increase in the value of preferential imports under the scheme. These totalled €1 billion in 2006 (an increase of 10% over 2005) and €7 billion in 2007 (a further increase of 12% over 2006). The GSP is designed to focus preferences towards those developing countries which are most in need of them, in particular the LDCs and vulnerable Developing Countries which have committed to meet the requirements of the GSP+ scheme. GSP imports from LDCs and GSP+ beneficiaries increased by 35% and 15% respectively in 2006. In 2007 they increased by 10% for the GSP+ and remained broadly stable for the LDCs.

#### **The new GSP Regulation for 2009-11**

Given that Regulation 980/2005 would expire at the end of 2008, the Commission made a proposal for a successor Regulation on 21 December 2007 (COM (2007)857). Following the opinion of the European Parliament, the EU General Affairs and External Relations Council on 22 July 2008 adopted a Council Regulation applying a new GSP scheme for the period from 1 January 2009 to 31 December 2011. This Regulation provides the legal basis for the continuation of the EC's GSP scheme after the expiry of the current GSP Regulation (980/2005) on 31 December.

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<sup>1</sup> "Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee on the function of the Community's generalised system of preferences for the ten year period from 2006-15" (COM(2004)461 – Official Journal C 242 of 29.4.04)

In order to ensure continuity in implementation of the guiding principles for the GSP during the 10-year period 2005-15, the new Regulation ensures that the substance of the scheme remains unchanged from that established under the current Regulation. This also responds to desires expressed by users of the scheme to ensure continued stability, predictability and transparency in the operation of the scheme.

The new Regulation renews for a further three years from 1 January 2009 the three separate arrangements:

(i) the standard GSP, which provides autonomous preferences to 176 Developing Countries and Territories on over 6300 tariff lines;

(ii) the Special Incentive Arrangement for Sustainable Development and Good Governance (known as the GSP+), which offers additional preferences to support vulnerable developing countries in their ratification and implementation of relevant international conventions in these fields; and

(iii) the Everything But Arms arrangement, which provides Duty-Free, Quota-Free access for the 50 Least-Developed Countries (LDCs).

At the same time, while maintaining substantive continuity, the new Regulation implements a number of technical changes in the scheme, either to simplify the language or to take account of evolutions in relevant trade data over the most recent period.

#### Graduation and De-graduation

The most important changes that will apply from 1 January 2009 result from the operation of the graduation mechanism, which triggers either a suspension of preferences or their re-establishment whenever an individual country's performance on the EU market over three years exceeds or falls below a set threshold. These calculations are made on the basis of the Product Sections established in the Harmonised System. The graduation mechanism is only relevant for GSP and GSP+ preferences: LDC access under EBA is not at all affected.

As a result of the re-calculations made on trade data for the period 2004-06, GSP preferences will be re-established for six countries and suspended for one, in the following beneficiary country and product group combinations:

#### De-graduation (re-establishment of preferences):

Algeria, Section V (*Mineral products*)

India, Section XIV (*Jewellery, pearls, precious metals and stones*)

Indonesia, Section IX (*Wood and articles of wood*)

Russia, Section VI (*Products of the chemical or allied industries*) and Section XV (*Base metals*)

South Africa, Section XVII (*Transport equipment*)

Thailand, Section XVII (*Transport equipment*)

#### Graduation (suspension of preferences):

Vietnam, Section XII (*Footwear, headgear, umbrellas, sun umbrellas, artificial flowers, etc....*)

The net effect of these adjustments represents additional preferences to Developing Countries of an approximate net value of at least €160 million in terms of nominal duty loss to the EU.

### GSP+

At present, 14 beneficiary countries have qualified to receive the additional preferences offered under the GSP+ incentive arrangement. These preferences will lapse at the end of the year. Accordingly, all current GSP+ beneficiaries, along with any other country wishing to apply, will have to submit an application before 31 October, if they wish to receive GSP+ preferences from January.

The qualifying criteria are set out in the Regulation. Any GSP+ beneficiary country must be both "vulnerable", according to a definition established in the Regulation, and have ratified and effectively implemented 27 specified international conventions in the fields of human rights, core labour standards, sustainable development and good governance. Applications received before the deadline of 31 October will be assessed by the Commission and a decision published by 15 December on whether they meet the criteria to qualify for GSP+ benefits from January 2009.

For countries which do not yet meet the GSP+ qualifying criteria, the new Regulation provides an additional opportunity for applications in mid-2010, half-way through the life of the Regulation. This is a change from the current Regulation, where unsuccessful applicants were obliged to wait three years before being able to re-apply. GSP+ applicants which are successful later this year will not be affected by this new mid-term window: their GSP+ status should normally be maintained throughout the three year duration of the new Regulation.

### EBA

A small adjustment is made in the liberalisation timetable for sugar. In order to ensure coherence with the EU marketing year (which now begins on 1 October every year rather than 1 July) and the results of recent Economic Partnership Agreements (EPA) negotiations with ACP countries (many of which are also LDCs), full liberalisation of sugar imports from LDCs will now take place on 1 October 2009 instead of 1 July as previously intended. The new Regulation also incorporates a minimum price arrangement for sugar, again so as to ensure coherence with the results of EPA negotiations. This minimum price arrangement will apply from 1 October 2009 to 30 September 2012.

### Beneficiary countries list:

Two countries (Myanmar and Belarus) remain temporarily withdrawn from GSP preferences on the basis of Council Regulations (EC) No 552/97 and No 1933/2006 respectively, as the reasons for their withdrawals still persist.

Moldova was already removed from the beneficiary list of the current GSP Regulation at the same time as the EC granted it more far-reaching autonomous preferences under a separate legal instrument in March 2008. This removal is confirmed in the listing of beneficiary countries of the new Regulation.

## Trade Volumes under GSP and Value of Preferences

On the basis of trade data for 2007, the overall volumes of EU imports under each of the three GSP regimes and the rough value of the preferences provided in terms of nominal duty loss if the same products had been imported and duties paid under the EU's standard MFN conditions of access were as follows:

<b>2007</b>	<b>GSP Preferential Imports (€millions)</b>	<b>Nominal Duty Loss (€millions)</b>
<b>standard GSP</b>	47,848	1.542
<b>GSP+</b>	4,900	0.501
<b>EBA</b>	4,302	0.505
<b>Total</b>	57,050	2.548

These figures in fact slightly under-estimate the value of GSP for developing countries, since they do not factor in all reductions in tariff preferences applied to specific duty rates.