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More benefits from preferential trade tariffs for countries most in need: Reform of the EU Generalised System of Preferences

The Generalised System of Preferences (GSP) aims at helping developing countries by making it easier for them to export their products to the European Union. This is done in the form of reduced tariffs for their goods when entering the EU market. It allows these countries to participate more fully in international trade and generate additional export revenue. It is an autonomous measure by the EU: there is no expectation or requirement that this access be reciprocated by the countries concerned.

GSP covers three separate regimes:

- The "standard" GSP; which currently provides 176 developing countries and territories with preferential access to the EU.
- The special incentive arrangement known as "GSP+". It offers additional tariff reductions to support vulnerable developing countries in the implementation of international conventions in the areas of sustainable development and good governance.
- The Everything But Arms (EBA) arrangement, under which all products from Least Developed Countries (LDCs) are not subject to *any* import duties in the EU.

The EU has applied the GSP since 1971. The latest scheme dates back to 2008 and is now due for review.

Why is the Commission proposing to reform the Generalised System of Preferences?

The objectives of the proposal are to:

- Better focus on those countries in need;
- Further promote core principles of sustainable development and good governance;
- Enhance legal certainty and stability.

Not all developing countries have the same needs: the last twenty to thirty years have seen the emergence of more advanced developing countries, which are now globally competitive. On the other hand, many poorer countries are lagging behind. They are affected by competition from more advanced emerging countries and have suffered during the global economic crisis.

Despite this, most advanced emerging economies are the biggest beneficiaries of GSP preferences, accounting for around 40% of preferential imports under GSP. There is significant competition between GSP beneficiaries. Hence the need to concentrate preferences on those that most need them: low and lower middle income countries.

What is being proposed?

In the first place, preferences are concentrated on fewer countries. The main country categories which will not longer benefit from the GSP scheme are as follows:

- Countries which have been classified by the World Bank as high or upper middle income economies for the past three years, based on Gross National Income (GNI) per capita.
- Countries which enjoy another trade arrangement with the EU which provides substantially equivalent coverage as compared to GSP. This includes countries with a Free Trade Agreement or with autonomous arrangements (such as the Market Access Regulation for countries with an Economic Partnership Agreement (EPA) or the special regime for Balkan countries).
- Overseas Countries and Territories (OCTs), ranging from the Antarctica to American Samoa, which have an alternative market access arrangement for developed markets.

Countries in the first and second category remain "eligible", but are no longer "beneficiaries" of the GSP scheme. This means that in case their situation changes (if they are no longer classified as high or middle upper income countries by the World Bank or if their trade arrangement expires) they can become beneficiaries of the scheme again.

The final list of "eligible" and "beneficiary" countries will only be established at the end of EU decision-making, based on the latest data available at that time. It is thus not yet certain which countries will lose their preferences. If the list would be composed based on the data available today, the number of beneficiaries would drop from 176 to around 80. Countries which would lose their preferences include for instance Kuwait, Saudi Arabia, Russia and Qatar.

What will change on sector and product coverage?

In terms of product coverage, the GSP already provides for very generous coverage, from around 90% for the general GSP scheme to the total absence of any duty or quota on any product for EBA. Product coverage will remain unchanged: an expansion in products or preferences would only come at the expense of EBA or GSP+ countries.

However, to ensure better targeting and more uniform treatment of products, "graduation principles" are revised.

The graduation mechanism

- Graduation means that imports of particular groups of products (referred to as "sections" in customs jargon) and originating in a given GSP beneficiary country lose GSP and GSP+ preferences. Under the 2008 scheme, graduation applies when the average imports of a section from a country exceed 15% of GSP imports of the same products from all GSP beneficiary countries during three years (the trigger is 12.5% for textiles and clothing). It concerns therefore imports from countries that are competitive on the EU market and so no longer need the GSP to boost their exports to the EU.

Under the new scheme, the graduation principles will change as follows:

1) product sections used for graduation are expanded from 21 to 32. This ensures that graduation is more objective, as the products in the categories are more homogenous;
2) graduation thresholds move from 15 % to 17.5 % (and from 12.5% to 14.5% for textiles);
3) graduation does not apply to GSP+ countries: these are vulnerable countries with a non-diversified export base. (N.B.: Graduation has never applied to EBA: all Least-developed countries are considered to be vulnerable and have a non-diversified export base.)

Product sections that are graduated will depend on the latest statistics available before entry into force of the Regulation.

What happens to GSP+?

The Commission has the objective to further promote core human and labour rights, and principles of sustainable development and good governance. To achieve these aims, the EU will provide for more incentives for countries to join the GSP+ scheme, while at the same time enhancing its leverage to ensure those rights and principles are respected.

Incentives to join GSP+ include the fact that there will be less competition from more advanced emerging economies. Moreover, GSP+ countries will no longer be graduated. The vulnerability criterion is one of two economic conditions a country needs to fulfil in order to be eligible for GSP+. Under the current proposal, it will be opened to allow more countries to benefit, and applications will be taken into consideration at any time (rather than once every 1.5 year, as was the case until now).

The opening of the "vulnerability criterion" is a key point of openness for the GSP proposal.

The vulnerability criteria

- Any GSP+ beneficiary must be considered "vulnerable" in terms of its size or the limited diversification in its exports. Under the 2008 scheme, the import-share criterion defines that a country is only eligible if its GSP-covered imports represent less than 1% of the EU's imports by all GSP beneficiaries. For the non-diversification criterion, the country's 5 largest product sections must cover at least 75% of its total exports to the EU. The vulnerability criteria ensure that only countries that are not competitive on the EU market and that do not have a diversified export base may be eligible to profit from GSP+.

Under the proposed scheme, the import-share criterion will be relaxed from 1% to 2%, while the diversification criterion will remain stable at 75% of a country's exports to the EU, but for its 7 (not 5) largest sections. The increase in the number of sections derives from the expansion in the number of product sections. As a result, the proportion of sections used for this purpose remains stable (just under 25%: 5 out of 21 is the old system and 7 out of 32 in the new system).

But meeting the vulnerability criterion is not in itself sufficient for benefiting from GSP+. Applicants will have to ratify conventions and subscribe to binding commitments to ensure implementation (in line with the incentive-based nature of the scheme). Examples of such Conventions are the International Convention on the Rights of the Child, the Freedom of Association and Protection of the Right to Organise Convention; and Convention on International Trade in Endangered Species. The Commission proposes to drop one of the 27 Conventions, on apartheid and will add the United Nations Framework Convention on Climate Change.

With the proposed new system, the EU will have more leverage to achieve GSP+ goals:

- In case binding commitments are not met, exclusion procedures will be swift;
- Monitoring procedures will be reinforced, with the publication of a report every two years;
- The Council of Ministers and the European Parliament will exert more scrutiny, and will have a say every two (and not three as things stand now) years;
- Crucially, beneficiaries have to prove they are abiding by their commitments— not as now, where the Commission has to prove they are in breach.

Withdrawal mechanisms will be more effective, taking on board the lessons of the investigation in the Sri Lanka case:

- The EU will have access to more sources of information, not limited to UN/ International Labour Organisation reporting systems;
- "Effective implementation of conventions", as a benchmark, will be much better defined;
- The Regulation elaborates on the specific roles for all contributing parties,
- And again, beneficiaries have to prove they are implementing their obligations.

This "reversal of the burden of proof" will be a particularly strong tool to ensure GSP+ beneficiaries walk the talk in terms of human, labour, environmental and governance standards.

What happens to EBA?

The Everything But Arms arrangement already is an open-ended system and will not change. Least Developed Countries continue to benefit from duty-free, quota-free access to the European market for all products – except for arms and ammunition. LDCs will also continue to benefit from the recently amended, more favourable, GSP Rules of Origin.

Under the proposal, the effectiveness of the EBA scheme will be strengthened. Reducing the GSP to fewer beneficiaries will reduce competitive pressure and make the preferences for LDCs more meaningful.

Other improvements

The proposal also introduces balanced improvements to the conditions for withdrawal from the whole GSP scheme – notably in making explicit that unfair trading practices include those affecting the supply on raw materials and in underlining that preferences may be temporarily withdrawn if beneficiaries fail to comply with international conventions on anti-terrorism. Procedures that trigger the safeguard clauses have also been improved.

What happens next?

The proposed Regulation now goes to the European Parliament and Council of Ministers, for discussion, amendment and approval.

The Regulation will apply as of 1 January 2014 at the latest. Once approved by the Council and the European Parliament, the Regulation will be published 6 months in advance to the date of its application.

The current GSP scheme comes to an end in December 2011. The Commission has put forward a "roll-over" Regulation, extending the present system until the end of 2013, to avoid GSP lapsing while the institutions discuss the new GSP proposal. The "roll-over" Regulation was approved by the European Parliament on 24 March 2011, by the Council on 14 April and should be published in May.

Facts and figures on the current GSP regime

According to estimates, and if calculations had to be made as things stand today, imports receiving GSP preferences under the new Commission proposal for a GSP system will be worth 37.7 billion. However, it is far too early to go further into speculation. The following table details GSP key figures for the current system.

	GSP (general scheme)	**GSP +**	**Everything but Arms**
Who benefits?	176 countries and territories (including GSP+ and EBA countries)	15 beneficiary countries[1] (subset of the 176 GSP countries)	49 Least Developed Countries (subset of the 176 GSP countries)
What value of EU imports? (2009)	€48 billion	€5.3 billion	€6.2 billion
What are the benefits?	Duty free access for non-sensitive products (around 2400 lines). Tariff reductions on others products (typically 3.5% reduction).	Additional, mostly duty-free preferences for vulnerable countries, which ratify and implement international standards	Duty-free, quota-free
How many product lines are covered?	6244	6336	7140
Who are the main beneficiaries? (2009)	India (€13.1bn) Bangladesh (€4.5bn) Thailand (€4.2bn) Indonesia (€3.4bn) Brazil (€3.4bn) Russia (€2.9bn)	Sri Lanka, Ecuador, Peru, Venezuela, Costa Rica	Bangladesh, Cambodia, Senegal, Malawi, Ethiopia
What are the main products imported? (2009)	Textiles and Clothing (€14.2bn), Mineral Products (€5.6bn), Chemical products (€5.1bn), Machinery (€4.8bn), Plastics and Rubber (€4.7bn).	Vegetable products, Prepared foodstuffs, Textiles, Live animals, Mineral products.	Textiles, Live animals, Prepared foodstuffs Footwear, Vegetable products.

[1] Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Mongolia, Nicaragua, Peru, Paraguay, and Panama.