

GSP Reform:

Principles, values and coherence

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The Generalised System of Preference (GSP) Scheme of the European Union (EU) is a core part of the EU's trade strategy towards developing countries. It is aimed at encouraging trade to support developing countries in their own efforts to reduce poverty, promote good governance and achieve sustainable development.

The GSP reform, to be in place by 2014, provides an opportunity to assess the current system and to see how best it can be improved to respond to the new challenges faced by developing countries in a post-crisis world. It is also an opportunity for the EU to rethink the objectives of the scheme with a view to increasing its relevance and its utilisation by beneficiary countries, as well as its coherence with its own overall trade and development strategy.

The purpose of this briefing note is to provide some elements of reflection regarding the fundamental principles and objectives of the reform of the GSP Scheme, including the coherence between the GSP and the overall trade and development objectives of the EU.

1. General background

The 2008 GSP regulation¹ covers three different initiatives, namely the Standard GSP, available to all developing countries, the GSP+, a more favourable arrangement available to "vulnerable" countries which have ratified a number of conventions aimed at encouraging sustainable development and good governance, and the Everything-But-Arms (EBA) Initiative, a duty-free and quota-free (DFQF) market access available to all least developed countries (LDCs). Annex 1 provides a synthetic overview of the main characteristics of the scheme.

The 2008 scheme was due to expire by the end of 2011. In order to engage in a thorough reform process and taking into account the new EU institutional architecture and decision-making process under the Lisbon Treaty, which notably gives new authority to the European Parliament in several domains, including trade policy, the 2008 GSP Regulation will be extended until the end of 2013.² In March 2010, the

¹ Council Regulation EC No. 732/2008 of 22 July 2008 applying a generalised system of preferences for the period 1 January 2009 to 31 December 2011 and amending Regulations (EC) 552/97, (EC) No. 1993/2006 and Commission Regulations (EC) No 1100/2006 and (EC) No 964/2007 - <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:211:0001:0039:EN:PDF>

² Proposal for a Regulation (EU) of the European Parliament and of the Council amending Council Regulation (EC) No 732/2008 applying a scheme of generalised tariff preferences for the period from 1 January 2009 to 31 December

European Commission has initiated the reform process of the GSP scheme by launching a formal public consultation. This will result in a concrete proposal for reform in a EC Communication, expected in May 2011, to be discussed over the following months, with a view to adopting a new GSP Regulation.

The reform of the GSP provides an opportunity to thoroughly review and assess the objectives, relevance and impact of the GSP scheme, drawing lessons from its successes and shortcomings in meeting the development objectives of the EU. A recent midterm evaluation conducted in 2010 by CARIS for the European Commission already provides an in-depth assessment of the current system (see Annex 2). The reform should therefore build upon this assessment and complementary strategic and practical considerations to draw the necessary lessons to maintain the relevance of the system and to improve its efficiency.

In doing so, two major systemic issues should notably be addressed. First, proper attention should be given to the rationale for the basic principles and values underlying the GSP, notably in terms of governance, social, labour and environmental standards (as captured by the set of international conventions to benefit from the GSP+). In particular, the question is whether these principles are there primarily to lead to their adoption and implementation by developing countries - which raises the question of the effectiveness of the GSP+ in that respect -, or whether they are there mainly to ascertain core European values - in which case the question of their effectiveness is less prominent. Moreover, the broader issue of coherence should also be addressed. That is, why are these values promoted in the GSP+ and not in other EU preferential trade arrangements, including those that provide for greater market access, such as EBA or some free trade agreements (FTAs)?

Second it is necessary to carefully assess the continued relevance of the GSP in the evolving EU commercial policy. The EU has been engaged or will engage in an increasing number of FTAs with developing countries. This of course leads to a reduction of the number of developing countries relying on the GSP. It also contributes to the rapid decline of the margin of preference for remaining GSP users, which will be further eroded if (or when) the WTO Doha Round would be concluded. In this context, a key strategic consideration is whether the reform should provide a 'soft landing' or a 'hard fall' for countries that are not able or willing to conclude an FTA with the EU, knowing that the characteristics of the GSP might affect the incentives of countries to sign (or not) an FTA.

This remaining of this note discusses further these issues.

2. Principles and values *versus* impact

Although essentially conceived as a development tool meant to provide market access at preferential rate to developing and least developed countries, the EU GSP has also served the purpose of promoting certain fundamental values and principles, which the EU views as important for a balanced and responsible development. In particular, in its 2004 Communication, entitled *"Developing countries, international trade and sustainable development: the function of the Community's Generalised System of Preferences for the ten-year period from 2006-2015"*³, the EU sets out clearly the objectives, principles and values of the system. By recognising that the concept of development goes beyond purely economic consideration, it particularly emphasised the promotion of sustainable development. This was implemented through the GSP+, where the EU granted more generous preferences to countries that have accepted and committed to implement a list of 27 main international conventions relating to social rights, environmental protection and governance.

2011 - COM(2010)/142 Final - <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0142:FIN:EN:PDF>
Approved by the European Council on 14 April 2011, see European Council Press release of 3084th Council meeting
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/agricult/121551.pdf

³ See Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee: "Developing countries, international trade and sustainable development: the function of the Community's Generalised System of Preferences (GSP) for the ten-year from 2006-15" - COM(2004) 461.

2.1. Promoting EU's principles and values

The primary purpose of the GSP is to contribute to the “...*eradication of poverty and the promotion of sustainable development and good governance in the developing countries*”⁴. Both the EC Communication of 2004 and the Council Regulation of 2008 applying the GSP Scheme clearly emphasise some core principles and values as a means to achieving sustainable development. It is interesting to note that these values and principles are presented as an overarching objective of the EU. If the promotion of these principles and values are truly the main objectives of the EU, one would therefore expect that these would apply equally to all EU trade preferences, irrespective of the degree of preference or whether preferences are unilateral or reciprocal.

However, as matters stand, these principles and values apply mainly to GSP+ preferences and not to other preferences. The EU justifies to some extent this “selective” policy. It argues that countries making additional efforts, notably by signing and implementing core conventions should be granted additional preferences.

However, this raises an issue of coherence with the EU's overall commercial policy, which needs to be addressed in the reform. If the issue is to reward with greater market access to the EU countries that abide by core conventions, why then does the EU provide greater market access under some FTAs or EBA to countries that do not make such endeavours? Are these core principles less relevant for countries that offer reciprocity to the EU (suggesting a variable geometry by the EU in promoting values and principles depending on the market concessions it received from its partners) or to poorer countries (which would seriously undermine the development argument, let alone the moral one, of the EU for promoting such principles)?

To address this question, there is also a need to clearly define whether the main purpose for the EU is to promote the values and principles because they have a merit of their own, as core principle of development, or because they can effectively induce potential GSP+ beneficiaries to adopt a more value-driven development path, as captured by the 27 international conventions. In any case, it would make sense to apply them to all countries, irrespective of their development levels or their commitments towards the EU.

2.2. Having an impact on development

The EU may be giving additional preferences to countries that abide by these principles and values not only because principles and values matter, but also because it believes that implementing such conventions might have a real impact on triggering economic development.

Assessment of the impact of such conventions on economic development is however unclear. The recent mid-term evaluation of the current GSP Scheme conducted by CARIS argues that it is too early to assess whether the GSP+ conditions had an impact on the willingness of countries to adopt, ratify and implement these conventions. Until and unless an in-depth assessment is carried out, it may be difficult to conclude whether or not the GSP+ had a triggering effect on the adoption and implementation of these conventions.

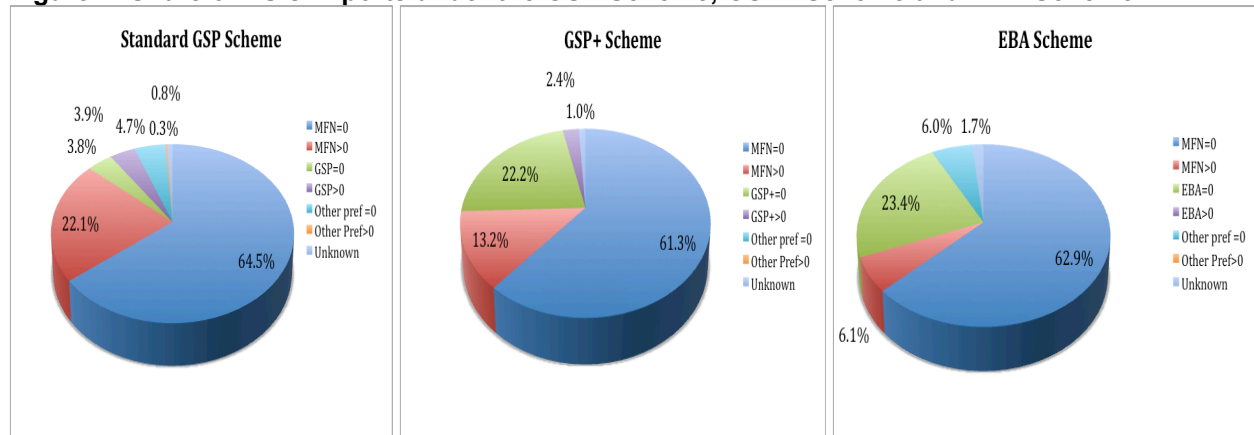
If the issue is the impact on development, the reform may also need to consider whether trade preferences are the best instruments to promote accountability, governance, labour standards or environmental standards, and in particular whether the margin of preferences granted provide sufficient incentive to abide by these 27 conventions. The EU may need to look for alternative policies as well that could best promote good governance, rights of workers and sustainable development, in which case it would have to be coherently reflected in its overall trade and development policies.

⁴ See Council Regulation (EC) No. 732/2008 of 22 July 2008 applying a scheme of generalised tariff preferences for the period 1 January 2009 to 31 December 2011 and amending Regulations (EC) No 552/97, (EC) No 1933/2006 and the Commission Regulations (EC) No 1100/2006 and (EC) No 964/2007.

2.3. What leverage for the GSP?

One important point to be considered by the reform is whether the current system has leverage in terms of share of trade and in terms of margin of preference.

Figure 1: Share of EU's imports under the GSP Scheme, GSP+ Scheme and EBA Scheme



Source: Stevens (2011), adapted from CARIS (2010).

As reflected in the three pie charts in Figure 1, on average, the GSP does not account for a substantial amount of EU's imports from the beneficiary countries. There may be at least two main explanations to that, namely:

- (1) MFN duties are already extremely low in the EU and therefore the preference margins are not significant enough for beneficiary countries. This limits the utilisation of the Scheme; and
- (2) The coverage of the GSP (in particular for the standard GSP) does not fit the needs of beneficiary countries since their export structure is either highly concentrated in those products that are either already duty free under the MFN or are not covered by the scheme (because the products are deemed to be "sensitive").

The pie charts are quite revealing when it comes to the effective utilisation of preferences. They show that under all three schemes, nearly two-thirds of EU imports enter the EU market under zero MFN rates, irrespective of preferences. Only 8% of EU imports from countries eligible for the standard GSP scheme use the preferences. Utilisation rate are much higher however for GSP+ and EBA schemes: 25% of EU's total imports from GSP+ beneficiary countries and 23% of EU's imports from EBA beneficiary countries.

For the future GSP to have a real impact on development, there is therefore a need to address the issue of utilisation and preference margin, in particular for standard GPS users. The mid-term evaluation showed that overall, the GSP has been a success and has been used to a large extent by beneficiary countries, in particular for GSP+ countries and for LDCs. However, unless the EU makes significant reforms in terms of product coverage (such as extending EBA-type to all, which is unlikely), the impact of any new GSP Scheme on standard GSP users will not be strong.

In addition, in the event of a successful conclusion of the Doha Round, the EU will further reduce its MFN duties. In that case, the margin of preferences of GSP beneficiaries will be further eroded, therefore making the Scheme less attractive. The reform would also need to consider how best to address other non-tariff concerns such as effective use of rules of origin or providing a scheme that would help deepen regional integration, to keep the efficiency of the GSP Scheme.

2.4. Promoting EU's Commercial Interests

While the GSP is essentially aimed at providing a development tool to developing countries, another fundamental issue for the EU in the reform process would be to find the right balance between its development objectives, on the one hand, and safeguarding and promoting its own commercial interests on the other. These may include addressing trade-distorting measures that may affect the competitiveness of EU industries, including under unilateral preferences. Some proposals have been made in this sense

regarding access to raw materials, where some member states have proposed that the EU defends its commercial interests to tackle export taxes. While this is currently being addressed in all FTAs, the EU may also take measures towards GSP beneficiary countries that take unnecessary and unjustified measures that could affect the competitiveness of EU industries. The measure would however have to be compatible with WTO rules, which seems to be quite of a challenge.

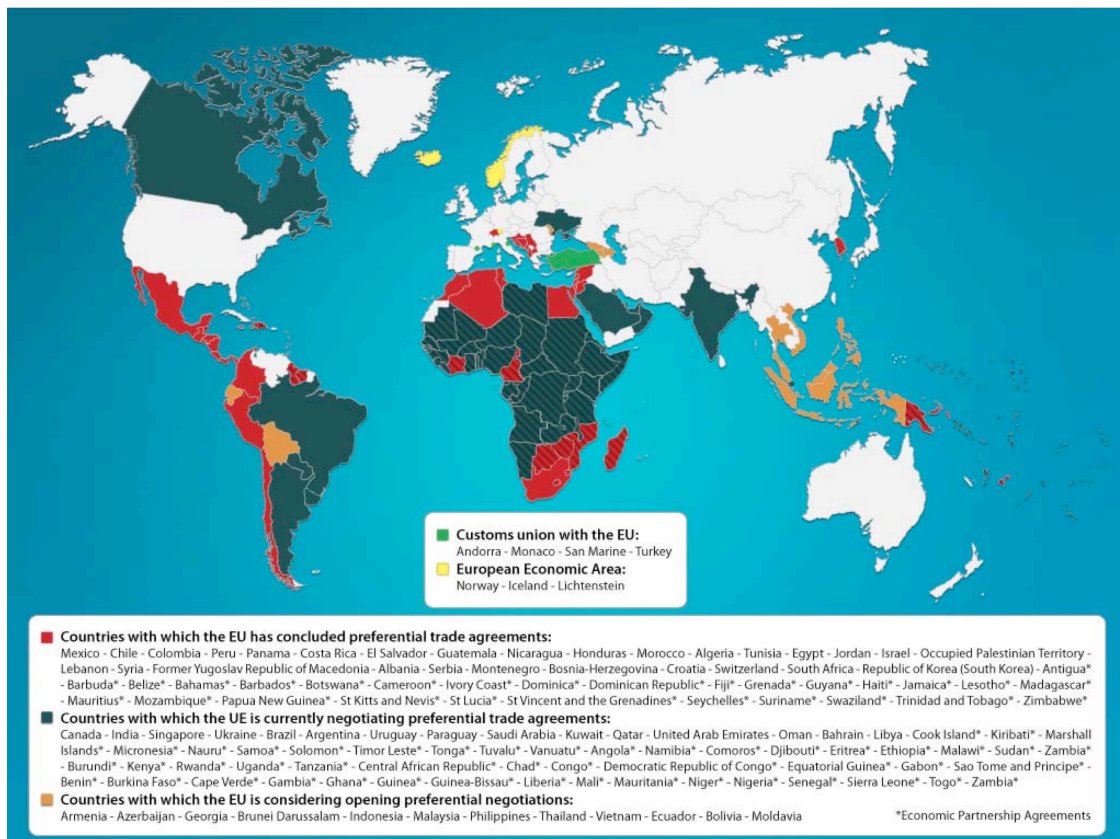
Currently, the GSP is available to all developing countries, including the large emerging economies that are also EU's main competitors when it comes to industrial products. The GSP has a "safeguard" mechanism to graduate the most competitive ones out according to their share in EU's sectoral imports for those products. China for instance, is no longer eligible to benefit from GSP for a number of products. One important element that the reform will have to take into account will be to what extent the EU is still willing to give unilateral preferential access to its largest competitors from the developing world. Should the reform review the criteria for graduation in a way that large and competitive developing economies have more incentives to sign an FTA rather than to benefit from unilateral preferences?

3. Relevance of the GSP in the current EU Trade Policy

3.1. Negotiating Free Trade Agreements

The new GSP scheme is set to enter into force on 1st January 2014. In parallel to giving unilateral preferences under the GSP scheme, the EU is currently negotiating a number of FTAs with many of its most important trading partners, as can be seen in Figure 2.

Figure 2: Countries with which the EU has concluded or is negotiating FTAs



Source: European Commission

On average, as shown in Table 1, only 4.6% of EU's total imports from GSP beneficiaries were covered by FTAs in 2008 (in addition to almost 64% of imports using MFN=0).

Table 1: Overall utilisation of the Schemes (2008)

	MFN		GSP		GSP+		EBA	FTAs
Average overall utilisation by all GSP users	85.6%		7.2%		0.8%		0.8%	4.6%
Breakdown	MFN=0	MFN>0	GSP=0	GSP>0	GSP+=0	GSP+=>0		
	64.4%	21.2%	3.59%	3.61%	0.71%	0.08%	0.8%	4.6%

Source: CARIS, 2010

One of the main objectives of the EU's commercial policy is to ensure that European business has access to foreign markets, with a view to creating jobs, boosting competitiveness and increasing economic growth in the EU. In this regard, besides ensuring a faire trade environment at the WTO, the European Commission has entered into a number of bilateral FTAs.

Currently (April 2011), the EU has concluded FTAs with 44 of its GSP beneficiaries (the latest one being FTAs with Peru and Columbia). It is currently negotiating some more 63 FTAs⁵. Furthermore, it is considering entering negotiations with 7 other countries.

Table 2 gives a rough snapshot of the implications that the conclusion of these FTAs could potentially have on the utilisation of the GSP.

Table 2: Share of EU's Imports likely to be covered by FTAs

	Under FTAs in 2008*	Under all FTAs concluded by 2011**	Under all FTAs to be concluded by 2014**	Countries not to be covered by FTAs in 2014
Share of EU's Imports	4.6%	15.4%	47.2%	52.8%

Notes: * Extracted from CARIS (2010), based on 2008 Imports;

** Simple calculation, based on 2008 import data, assuming all trade would be covered under FTAs

Column 2 in Table 2 is extracted from the CARIS report. It measures the actual share (in 2008) of EU's imports that were covered by FTAs. Columns 3 and 4 are rough extrapolations, based on 2008 data, of what the share of EU's imports could be if its FTAs were fully implemented and fully utilised (not taking into account the possible use of MFN=0).

Table 2 suggests that, as the EU concludes more and more bilateral FTAs, the corresponding use of GSP would further decline. Assuming all current FTA negotiations would be successfully concluded by 2014, some 45% - 50% of total EU imports would potentially be covered by these Agreements, an 10-fold increase from 2008, therefore de facto lowering the utilisation of the GSP Scheme.

As shown in Table 3, the GSP scheme would still however be relevant for some 26 countries, together representing 52.8% of EU's total imports.

Table 3: Countries not negotiating an FTA with the EU

	Country	Type of Scheme		Country	Type of Scheme		Country	Type of Scheme
1	China	GSP	10	Somalia	EBA	19	Macao	GSP
2	Afghanistan	EBA	11	Yemen	EBA	20	Russian Federation	GSP
3	Bangladesh	EBA	12	Azerbaijan	GSP	21	Tajikistan	GSP
4	Bhutan	EBA	13	Belarus**	GSP	22	Turkmenistan	GSP
5	Cambodia	EBA	14	Cuba	GSP	23	Uzbekistan	GSP
6	East Timor	EBA	15	Iran	GSP	24	Mongolia	GSP+
7	Laos	EBA	16	Iraq	GSP	25	Sri Lanka**	GSP+
8	Maldives	EBA	17	Kazakhstan	GSP	26	Venezuela	GSP+
9	Nepal	EBA	18	Kyrgyzstan	GSP			

Source: EU website

Note: ** Countries suspended from the Scheme

⁵ These include economic partnership agreements (EPAs) that have only been initialled and not signed yet.

At first glance, the share of the 26 countries in EU's imports is rather significant, but a closer look shows the following:

- (i) It includes China, which itself represents 30% of total EU GSP imports. Many industrial products from China have already graduated out of the GSP Scheme given their level of competitiveness. Should the EU review its graduation criteria to target the GSP to those who need it most, the Scheme would then cover only some 23% of EU's imports.
- (ii) The 26 countries also include a number of countries that are currently negotiating their accession at the WTO and hence may not be willing to conclude FTAs before completing their accession process; but some may then consider doing so with the EU⁶.
- (iii) finally, the list includes a number of hydrocarbon and mineral-rich exporting countries, which, in most cases, export largely under MFN-zero rate.

Therefore, the EU might be willing to consider the reform of its GSP in the light of the above and define the best Scheme that would fit the needs of those countries, many of which may not have an FTA in a near future. The remaining countries may have different geo-strategic interests for the EU and the new system would have to be refined to take into account these considerations.

3.2. Alternative *versus* incentive for FTAs: Soft-landing or hard-fall tool?

Despite the fact the EU is negotiating a number of FTAs, many countries, in particular LDCs, may not be able or willing to conclude comprehensive FTAs. This could well be the case for many ACP countries still engaged in negotiations on economic partnership agreements (EPAs) with the EU. In this case, one fundamental issue of the reform for the EU would be to consider whether the GSP should be conceived a possible 'soft landing' tool for these countries, or whether on the contrary, the EU wants to make FTAs more attractive and therefore make the GSP a "harder alternative".

As the EU is currently engaged in the negotiations of many FTAs, it is likely to prefer to provide strong incentives for its partners to conclude an FTA rather than consider the GSP option. To this end, the EU might chose to reform the GSP as a "hard-fall" option by limiting its use and attractiveness. For those developing countries that might not be able or willing to conclude an FTA on the terms negotiated by EU, this might have serious negative consequences. Even more so, when regional integration processes are at stake, as in the case of customs union where some (more advanced) countries may have stronger incentives than others to conclude an FTA in order to preserve their access to the EU market. In such a case, the reform of the GSP could therefore consider soft-landing options. To preserve deeper regional integration dynamics, the EU may consider for instance extending the EBA scheme to all partners of a customs union largely dominated by LDCs, hence preserving the unity of the region.⁷

The duty free quota free market access granted to LDCs under the EBA⁸ will not be put into question under the GSP reform and rules of origin have been made more flexible for LDCs in November 2010.⁹ Therefore, there is little the EU can do to grant more preferences to LDCs.

⁶ These include 12 out of the 26 countries, namely Afghanistan, Bhutan, Laos, Yemen, Azerbaijan, Belarus, Iran, Iraq, Kazakhstan, Russia, Tajikistan and Uzbekistan.

⁷ Arguably, this could be compatible with WTO rules. Indeed, under the Enabling Clause, GSP schemes have notably to be based on transparent and objectives criteria linked to development. To the extent that deeper regional integration is beneficial to development, as repeatedly argued by the EU, extending the EBA scheme to non-LDCs in a customs union dominated by LDCs would prevent the negative effects on development of a regional disintegration, should some countries need to conclude individually an FTA with the EU, in the absence of an agreement on a regional FTA with the EU. This situation is not hypothetical, but reflects the current state of affairs in West Africa for instance, with the West African Economic and Monetary Union (WAEMU/UEMOA) and the Economic Community Of West African States (ECOWAS), where Ivory Coast and Ghana have concluded an FTA (i.e. interim EPA) with the EU, whereas their regional partners have not, and continue to export under EBA to the EU (except for Nigeria which exports under the standard GSP).

⁸ Market access under the EBA is not conditioned by the GSP reform.

⁹ Commission Regulation (EC) No 1063/2010 of 18 November 2010 amending Regulation (EEC) No 2454/93 laying down provisions for the implementation of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code - <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:307:0001:0081:EN:PDF>

For developing countries that benefit from the GSP or the GSP+ schemes however, general conditions of access can be modified to make it more attractive. In addition to more favourable rules of origin recently granted, these could include a wider product coverage to include products that are of particular importance to developing countries, but currently categorised as 'sensitive' and to improve the margin of preferences of the standard GSP Scheme by providing deeper tariff cuts. As indicated in Section 2.3, however, the scope for doing remains limited.

A more flexible GSP would definitely be more development oriented. The potential trade-off is that a better GSP may lower the incentive of some developing countries to conclude an FTA with the EU. The EU may not want to lower its negotiating power, in particular *vis-à-vis* its larger developing counterparts, where it has offensive commercial interests. This is true in particular for countries purely interested in 'nominal' market access to the EU, in terms of tariffs, quotas and rules of origins. Nonetheless, for other developing countries, which also have an interest to address non-tariff issues, such as technical barriers to trade, as well as to cover services and trade-related issues, goods market access alone will not be an attractive alternative to an FTA, irrespective of the characteristics of the GSP reform.

4. Conclusion: addressing the issue of coherence

Finally, the reform would have to address the issue of coherence between the trade and development agenda of the EU. As mentioned already, there are some inherent tensions in the way the EU promotes its development agenda in developing countries, by promoting trade at the service of development. The EU has also some legitimate commercial interests that it wants to safeguard and advance. The recent debate in the EPAs regarding export taxes has highlighted the need to balance the discourse.

Similarly, the EU is negotiating FTAs in parallel with a number of developing countries that are also GSP beneficiaries. While the GSP could serve as a good soft-landing tool for those that are unable to conclude FTAs, it should not, on the other hand, lower incentives to conclude those FTAs for countries that have the capacity to do so, but might be tempted to benefit from unilateral preferences.

Annex 1: Overview of the EU current GSP

The basic objective behind the GSP is to provide certain goods originating in developing countries with preferential market access, usually in the form of lower-than-MFN tariff rates or duty free quota free access, in order to foster economic development.

Coverage of the GSP

All developing countries are automatically eligible for the standard GSP. The current GSP covers 176 developing countries, of which 35 are non-independent countries and territories of EU member states. The GSP Scheme covers three distinctive preference regimes:

Standard GSP Scheme

The standard GSP applies to all 176 developing countries and grants duty free and preferential market access to the EU in for a number of non-sensitive products. These include mostly manufactured products, with an exception for some labour intensive products, notably textile related articles (clothing, footwear, ect). Sensitive products are granted preference reductions of 3.5 percentage points from the ad valorem MFN rate. The exceptions to this are clothing and textiles products, where a 20% reduction from the MFN rate tariff rate applies.

The GSP Plus: special incentive arrangement for sustainable development and good governance

This Scheme grants the same treatment as the GSP in non-sensitive products but extends duty free access to a wider range of products considered as “sensitive” under the standard GSP. Currently, 15 countries are eligible for such treatment. The GSP + provides for additional preferences to “vulnerable” non-LDCs that have ratified and “effectively implemented” 27 international conventions in the field of human rights, core labour rights, sustainable development and good governance.

A country is considered as “vulnerable” when it is not listed as a high-income country, its five largest sections of GSP covered exports account for 75% of its total exports GSP covered exports to the EU, and the totality of its GSP covered exports account for less than 1% of total EU GSP imports.

Everything But Arms (EBA)

The EBA regime provides the most generous preferences out of the three regimes. It provides duty free, quota free access for LDCs on 99% of all tariff lines for 49 LDCs. While the GSP and the GSP plus Schemes are subject to review, the EBA is to be maintained for an unlimited period of time and is not subject to the periodic renewal of the GSP Scheme.

Depth of the GSP

Table A1 provides the details of the depth of tariff coverage of the GSP regimes in 2008. Irrespective of any preferential scheme, 22.1% of EU’s tariff lines enter duty free under the Most Favoured Nation (MFN) trade. The Standard GSP provides an additional duty free market access of 33.5%, while the GSP+ grants 68.1% of additional duty free access. The EBA Scheme grants an additional 77.5% duty free access to products originating from LDCs. In total, the standard GSP Scheme provides 55.6% of duty free market access, the GSP plus scheme gives a total of 90.4% duty free access, while the EBA gives 99.6% duty free market access.

Table A1: GSP regimes and Tariff coverage 2008

	GSP	GSP+	EBA
No. of tariff lines entering at MFN Zero Duty Rate	3152	3152	3152
- % of total tariff lines	22.1%	22.1%	22.1%
No. of tariff lines having Duty Free Preferences	4781	9717	11053
- % of total tariff lines	33.5%	68.1%	77.5%
No. of tariff lines having Positive preference tariff	5139	301	5
- % of total tariff lines	36%	2.1%	0.04%
No. of tariff lines having no preferences	1187	1089	49
- % of total tariff lines	8%	7.6%	0.3%
Total no. of tariff lines	14259	14259	14259
Share of duty free tariff lines (MFN zero + Duty free under GSP)	55.6%	90.4%	99.6%

Source: Adapted from CARIS (2010)

Country preference withdrawal and sector graduation

A country may be withdrawn preferences from the GSP Scheme preferential access when it has reached a certain level of economic development (i.e when a country is no longer classified as LDC according the UN classification or classified by the world bank as high income) during three consecutive years and when the value of imports for its five largest sections of imports covered by the GSP into the Community represents less than 75% of the total GSP-covered imports from that beneficiary country into the Community. This applies to all countries covered in the three schemes.

Specific sectors or products can graduate out of the Standard GSP or the GSP+ Scheme (not applicable to the EBA) if that particular product group reaches a certain threshold of total EU imports over three consecutive years. The threshold is set at 15% of total EU imports. The textile graduation threshold is set at 12.5%.

Rules of origin

The GSP Rules of origin (RoO) determine the conditions under which beneficiary countries' products qualify for preferential EU market.

In November 2010, the GSP RoO were reviewed and simplified. Often criticised for being overly complex and restrictive, the new rules now present some important improvements. In a nutshell:

- (1) The rules are now based on a sector-by-sector approach, as opposed to the previous product-by-product approach.
- (2) For agricultural products, the number of products to be wholly-obtained have been reduced, allowing greater use of non-originating products. In addition, a weight-tolerance replaced the former value tolerance (except in fisheries products). This is considered to be more stable as it does not suffer from price and exchange rate fluctuations;
- (3) For industrial products, the rules provide differentiated conditions of access for GSP/GSP+ users and EBA users. The latter have obtained a lower value addition threshold for a number of products, allowing them to use more non-originating materials. In the case of clothing, a single transformation rule applies.
- (4) The general tolerance rule has been increased from 10% to 15% of ex-works price of the finished goods. This does not however cover textile products of chapters 50 – 63.
- (5) Cumulation between GSP beneficiaries and countries having an FTA with the EU is now possible. In addition, extension of bilateral cumulation now includes Turkish products, in addition to products from Norway and Switzerland. This does not cover products from Ch 1 to 24.

Annex 2: Assessment of the current system

The European Commission commissioned an extensive and in depth midterm review of the GSP scheme, the “CARIS” report.¹⁰

On the positive side, the report empirically shows that the GSP has had substantial impact on exports from, and investment flows to, developing countries. The report additionally models the welfare gains that can be attributed to the GSP, showing that these have been positive – although somewhat modest. Importantly, it shows that the “rents” generated by the GSP are effectively transferred back to developing countries. It also notes that utilisation rates are on average quite high.

On the negative side however, the report also emphasizes that the effects of the EU’s GSP are constrained by “structural factors”. The most important of these being that, as the EU already has low *overall* tariffs (or MFN tariffs), there is only so much the EU can do to provide preferential access to developing countries.¹¹ The competitive edge given to GSP users by a preferential reduction of tariffs (the “preference margin”) is significant only on a quite restricted amount of goods and sectors where MFN tariffs are relatively high. If we add to this the fact that the EU is only one trade partner amongst others for these countries, then the impact of the EU’s GSP is “structurally” constrained, as is the scope for enhancing its impact through reform.

Furthermore, the CARIS report finds that while the GSP+ has had some success in pushing countries to ratify international conventions related to sustainable development, governance, labours rights, and a whole set of norms and values dear to Europeans, the causal effects of these conditionalities on implementation still has to be seen. The monitoring of implementation in signatory countries is more than likely to be a crucial factor in making sure that the GSP+’s effect will go beyond the formal ratification of international conventions.

¹⁰ CARIS. 2010. Mid-term evaluation of the EU’s GSP <http://trade.ec.europa.eu/doclib/html/146196.htm> ; <http://trade.ec.europa.eu/doclib/html/146195.htm> ; <http://trade.ec.europa.eu/doclib/html/146197.htm>

¹¹ Reflecting this observation, the researchers find that a high percentage of GSP countries’ trade already enters the EU duty free. Standard GSP countries, for example, only use the preferences they are entitled to on 7% of their exports (the rate for EBA and GSP+ countries is slightly below 25%).

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