

Scheme of generalised tariff preferences (GSP)

2011/0117(COD) - 10/05/2011 - Legislative proposal

PURPOSE: to revise, adapt and update the Regulation on applying a scheme of generalised tariff preferences (GSP).

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: the European Union (EU) has granted trade preferences to developing countries through the Generalised Scheme of Tariff Preferences (GSP scheme) since 1971. It is part of its common commercial policy, in accordance with the general provisions governing the EU's external action. It is one of the key EU trade instruments assisting developing countries in their efforts to ensure core human and labour rights, reduce poverty and promote sustainable development and good governance in developing countries.

The Generalised System of Preferences helps developing countries, and particularly Least Developed Countries (LDCs), to reduce poverty by offering them import preferences in order to generate or boost revenue from international trade. In addition, the scheme provides incentives in the form of additional tariff preferences, to countries that commit themselves to sustainable development and good government.

The scheme grants preferential access to EU markets on a generalised and non-discriminatory basis to 176 eligible countries and territories. It has three arrangements:

1. the general arrangement (often described simply as "GSP");
2. the special incentive arrangement for sustainable development and good governance (described as "GSP+") which offers additional preferences as incentives to support vulnerable developing countries in ratifying and implementing 27 international conventions on human and labour rights, environment and good governance;
3. the Everything But Arms arrangement (EBA), which provides duty-free, quota-free access to LDCs.

The present GSP scheme is implemented through successive regulations, each applying for three years. The current GSP regulation will expire on 31 December 2011. A recently completed [midterm review](#) provides the background for the planned Commission proposal for a revised regulation to replace the existing scheme upon expiry in 2013. Both the EBA arrangement and the rules of origin provisions fall outside the scope of this revision: the former, because it is not subject to periodic reviews; and the latter, because new legislation on rules of origin has entered into force in 2011.

The proposed GSP Regulation herewith revises, adapts and updates the GSP scheme in replacement of the current regulation, so as to better reflect the contemporary global economic and trade landscape which has changed significantly since the original scheme was put into place.

IMPACT ASSESSMENT: the proposal has been drawn up on the basis of a public consultation and of a detailed impact assessment which studied the effects of a number of different policy options:

- **Option A: discontinuation:** preferences are abandoned for GSP and GSP+ beneficiaries. EBA arrangement would remain. The economic and social effects for countries most in need are expected to be negative. LDCs would benefit, but the many other developing countries and economic sectors which are also most in need would suffer as preferential access disappears. This option would

however have positive economic and social impacts for certain sectors in certain Member States at a time when so much emphasis is on boosting competitiveness, growth and job creation. And last, at a time of extreme pressure on public finances, it boosts tariff revenues.

- **Option B: no policy change:** there is a natural reduction in the level of import duties (and, therefore, preferences) due to preference erosion under the impact of further bilateral and multilateral trade deals. In the long run, when all multilateral and bilateral agreements are fully implemented, duties are likely to be so low that the idea of preferences becomes largely irrelevant – and so would a generalised system of preferences. Other totally different tools may have to be designed. Until then, the question is what can be done for the countries most in need of preferences.
- **Option C: partial redesign:** this comprises two sub-options (C1 and C2). Preferences are deferred for certain eligible countries: overseas countries and territories; high and upper middle income countries; countries with a preferential trade agreement covering substantially all preferences. The main difference between C2 and C1 concern the graduation of competitive sectors and the vulnerability criteria under GSP+.
- **Option D: full redesign:** in order to simplify the analysis, D sub-options are calculated as increments to C2 only. Three sub-options are assessed. D1 is a far reaching option. It provides full product coverage expansion and elimination of all sensitive products (eg, extending the duty-free, quota-free treatment of EBA countries) to all countries most in need (whether GSP or GSP+). This implies that the remaining beneficiaries are no longer subject to graduation. D2 and D3 are less far-reaching. They take all the parameters of C2 (graduation included) and add partial de-sensitisation (D2) and partial expansion in product coverage (D3).

Drawing on the outcome of the impact assessment, the preferred policy option that determined the substance of the proposed new regulation is **Option C1**.

LEGAL BASIS: Article 207 of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the draft proposal would focus the GSP preferences on the **countries most in need**. This is achieved by enhancing GSP modalities related to the GSP eligibility criteria and the GSP graduation mechanism, which identifies competitive imports and suspends unwarranted preferences.

The main amendments to the scheme may be summarised as follows:

Modification of the GSP+ mechanism: the scheme also expands its support under the special incentive arrangement for sustainable development and good governance (GSP+) for those countries that commit to embracing core universal values on human, labour rights, environment and governance. While offering further opportunities for potential beneficiaries, the scheme will place more responsibility for countries and require stricter scrutiny of eligibility by the EU.

Vulnerability threshold of GSP+: as regards the criteria of vulnerable of the GSP+, the threshold of imports is increased from 1% to 2%.

Monitoring mechanism: there will be a more effective and transparent mechanism for monitoring and evaluating the implementation of relevant international conventions, whereby the EU seeks noticeable stability and improvement over time in countries' implementation record. **This effectively raises the requirements for beneficiary countries, as they have to provide positive and regular proof that they are indeed implementing conventions.** The current list of GSP+ conventions to be ratified remains the same as those currently applicable.

EBA beneficiary countries: the special arrangement for least developing countries known as 'Everything But Arms', which was added to the GSP scheme in 2004, is unchanged and further supported by new elements in the scheme reflecting the aim of focusing GSP benefits on countries most in need.

Improved withdrawal mechanism system: the reasons which justify the temporary withdrawal of preferences have also been clarified. In particular, it has been made explicit that unfair trading practices include those affecting the supply of raw materials. Furthermore, it has been underlined that **preferences may be temporarily withdrawn if beneficiaries fail to comply with international conventions on antiterrorism.**

Safeguard measures: to ensure a better safeguarding of the EU's financial and economic interests and to enhance legal certainty, stability and predictability, the administrative procedures for safeguard mechanisms are improved by developing clear definitions of key legal concepts.

Unlimited duration: the proposed Regulation will no longer be limited in duration, thus promoting a stable framework both for economic operators and beneficiary countries.

Delegated acts: decision-making procedures reflect the new institutional balance among the European Commission, the Council and the European Parliament in particular with respect to the application of implementing or delegated acts. The new Regulation indicates the instances where the adoption of delegated acts by the Commission is foreseen following a delegation conferred by the European Parliament and the Council, and also the instances where the Commission will be granted implementing powers.

BUDGETARY IMPLICATIONS: the proposed Regulation does not incur costs charged to the EU budget. Its application does, however, entail loss of customs revenue. Based on the 2009 figures, the annual loss of customs revenue resulting from the application of the current GSP Regulation was estimated to be EUR 2.97 billion corresponding to a net amount of EUR 2.23 billion after deduction of Member States' collection costs. As a result of the application of the proposed Regulation and on the basis of Annex I in its indicative form, the annual loss of customs revenue is estimated to be EUR 1.87 billion (net amount EUR 1.4 billion).