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Modernising the EU Generalised System of Preferences

KEY MESSAGES



- 1** BusinessEurope supports the EU's Generalised System of Preferences (GSP), as an instrument that captures best the connection between trade and development policies. Although the current GSP scheme is delivering, improvements are necessary to reflect a changing trade and economic environment in the aftermath of the COVID-19 pandemic and the need to promote more sustainable trade.
- 2** We recognise the efforts of the European Commission to make the GSP more targeted to those countries most in need as well as to improve its functioning, especially when it comes to monitoring and transparency. The involvement of stakeholders, including business, is critical in this regard.
- 3** To ensure that the GSP remains balanced – supporting poverty reduction, helping countries diversify their economies, but also safeguarding EU economic interests – BusinessEurope calls for broad product coverage and graduation that extends to GSP+ beneficiaries. We are also in favour of maintaining the possibility of withdrawal of preferences and being able to expediate the process especially in cases of serious violations of human rights, labour and environmental rights.



MODERNISING THE EU GENERALISED SYSTEM OF PREFERENCES

PROPOSALS OF BUSINESSEUROPE

The EU Generalised System of Preferences delivers

The EU's Generalised System of Preferences (GSP) unilaterally removes partially or fully import duties from products coming into the EU market from vulnerable developing countries. It offers three different types of one-way preferential schemes – the standard GSP, GSP+, which is a special incentive arrangement for sustainable development and good governance and the EBA (Everything But Arms), which is a special arrangement for least developed countries (LDCs), providing them with duty-free, quota-free access for all products except arms and ammunition.

It is a scheme that exemplifies the important contribution of trade to development, poverty eradication and diversification of concentrated and vulnerable economies, helping them scale up production and move up the value chain. In this regard, the EU scheme is delivering. According to the European Commission and as data from 2018 shows¹, from 2011 to 2017, EU imports from the beneficiary countries increased by 44%. EBA countries saw their exports to the EU increase by 125% and GSP+ beneficiaries by 82%. Overall, the increase of preferences has improved and, when it comes to GSP+ beneficiaries in particular, there is an economic incentive to make progress in ratifying and implementing international conventions.

The GSP scheme also has as an objective to protect the EU's financial and economic interests, for instance through safeguards, ensuring that imports are not endangering EU producers. A recent example is the case of safeguard investigation and measures against imports of Indica rice from Cambodia and Myanmar².

The need to reform the EU GSP

As the current EU GSP Regulation will expire on 31 December 2023, it is pertinent that the process of reforming the scheme accelerates and the new Regulation is ready to enter into force and implementation on 1 January 2024. In this process, it is important to take into account the changing global environment in terms of trade and sustainable development in order to ensure that the updated system remains targeted and effective. A lot of these elements are reflected in the European Commission's proposal. From the part of BusinessEurope, we would like to draw particular attention to the following trends, before sharing our specific concerns and concrete proposals.

¹ Midterm evaluation of the GSP Regulation:

https://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157270.pdf

² <https://trade.ec.europa.eu/doclib/press/index.cfm?id=1970>



- Changes in the global trading environment

The COVID-19 pandemic has accelerated changes in the global trading environment, such as trends towards protectionism and unilateralism, and brought disruptions to supply chains, affecting production capability and demand, as well as increasing transportation costs. All economies – larger and smaller ones – have been affected. It is key for schemes like the GSP to take into account these developments and ensure that the right balance is maintained between, on the one hand, ensuring stable access to the EU market for beneficiary countries and, on the other hand, safeguarding the EU's interests.

To this end, we welcome the proposals of the European Commission to keep the GSP Regulation focused on those countries most in need, maintaining strict eligibility criteria. At the same time, the GSP Regulation should be predictable for European companies as well, ensuring broad product coverage and carefully considering changes in the list of sensitive and non-sensitive products and preference margins. The GSP Regulation should make sure that preferences are not granted to imports that are already competitive in the EU market. This will also support economic diversification in beneficiary countries, including the GSP+ beneficiaries.

- Promoting sustainable trade and the respect of human rights

It is important that the EU's GSP scheme continues to promote sustainable trade and investments. For instance, environmentally friendly technologies, goods and services can become widely available and affordable through trade and investments. Therefore, better linking the GSP scheme with the United Nations (UN) Sustainable Development Goals (SDGs), especially in the field of climate action (Goal 13) and the development of partnerships (Goal 17), as well with the objectives of the EU's Green Deal, is a good step towards this direction. In this context, we welcome the inclusion of the Paris Climate Deal in the list of International Conventions that should be implemented by countries that qualify for the GSP+.

More generally, the role that the GSP can play in promoting sustainable trade, transparency and good governance, should be further underlined and reflected throughout the modernised EU Regulation, with improved monitoring procedures and stricter timelines, especially in cases of serious violations when it comes to the respect of human rights. GSP+ beneficiaries in particular need to show their commitment to implement the international conventions required under the scheme. We welcome the increased focus of the Commission's proposal on these aspects, although a few questions remain on how they will be implemented in practice.

BusinessEurope would like to highlight the important role of the civil society – including business – in the monitoring and implementation of the GSP overall and the GSP+ in particular. Formalising the process of engagement of stakeholders and giving sufficient time for input is critical. Using of all available instruments and platforms, such as the Single Entry Point mechanism, should be able to facilitate this process.



Focusing on particular aspects of the European Commission proposal

1. General GSP

Product coverage (Art. 6, Art. 7, Annex III): In general terms, tariffs for non-sensitive products (except for agricultural products) are entirely suspended. For sensitive products, ad valorem duties will be reduced by 3,5 percentage points. For textile and apparel there will be a 20% reduction.

Tariff suspension (Art. 8, Annex IV): preferences will be suspended when the average value of EU imports of such products over three consecutive years from that standard GSP beneficiary country exceeds certain thresholds (Annex IV), which shall be calculated as a percentage of the total value of EU imports of the same products from all GSP beneficiary countries. This list will be reviewed by the Commission every three years.

For live trees and other plants (section S-2a of Annex III), categories of animal and vegetable products (fat, margarine) (section S-3 of Annex III) and magnesium oxide, lime, cement, mineral fuels (section S-5 of Annex III) this threshold is at 17,5%. For textile and apparel (sections S-11a and S-11b of Annex III) this threshold is at 37%.

BusinessEurope comment: We generally support the approach of the Commission when it comes to the process related to the suspension of tariffs and the thresholds proposed. However, we would like this to be extended to the GSP+ beneficiaries. This is pertinent to ensure that preferences are not granted to imports that are already competitive in the EU market. This shall also reinforce the GSP being used as a means to help countries diversify their economies, and also prevent situations that can lead to overcapacity, creating additional problems for economic operators in the EU and globally. If we look at the Report on the GSP covering the period 2018-2019³, it becomes evident that 48% of GSP benefits were concentrated in two countries (India and Bangladesh) and 38% of the total GSP benefits concentrated in four countries (Indonesia, Cambodia, Pakistan and Vietnam). In total, these six countries took 86% of the total benefits. The other 65 countries are benefiting only 14% of the total share of GSP benefits. Therefore, improving the use of the GSP in general, and the GSP+ in particular, is important. We invite the European Commission to pay particular attention to the ratio of market share / country / specific sector or product, for instance taking into account the share of global exports that beneficiary countries have for a given product.

2. GSP+

Beneficiary countries: A strict set of conditions – including the ratification of a number of core international conventions and clear commitments to implement these conventions effectively – apply for countries to be interested in benefiting from the GSP+. However, it is noted that the criterion of a country not being sufficiently integrated in world trade has been dropped from the list. The process of inclusion in the list of GSP+ beneficiaries

³ Joint report on the Generalised System of Preferences covering the period 2018-2019: https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc_158619.pdf.



is not automatic, as countries need to apply. This includes current GSP+ beneficiaries, who will need to re-apply for the scheme.

International Conventions: The total number of international conventions listed in the context of the GSP+ pillar of the scheme is 33. It is important to note that the Paris Climate Deal replaces the Kyoto Protocol, while other important International Conventions from the UN system, including the International Labour Organisation (ILO) are added on the list.

Preferences: As a general rule, ad valorem duties on all products (Annexes III and VII), originating in a GSP+ beneficiary country, shall be suspended.

Withdrawal of preferences: Temporary withdrawal of preferences is possible, in respect of all or of certain products originating in a GSP+ beneficiary country, where that country does not respect its binding undertakings or has formulated reservations. Withdrawal shall come as a result of a thorough procedure by the Commission. The Commission may also adopt supplementing rules on the temporary withdrawal procedure, for instance regarding deadlines, rights of parties, confidentiality and conditions for review. The burden of proof lies with the GSP+ beneficiary country. In this regard, it is important to note that a fast withdrawal procedure has been established to allow the EU to act fast in cases of serious violations.

BusinessEurope comment: When it comes to the list of vulnerability criteria that countries need to fulfil in order to be able to benefit from GSP+, we would like to invite the European Commission to re-examine the elimination of the criterion on a country's insufficient integration in global trade as a way to ensure that the scheme is concentrated on those countries most in need and supports economic diversification.

Furthermore, maintaining the possibility of withdrawal of preferences and being able to expediate the process especially in cases of serious violations of human rights, labour and environmental rights, is critical. Having said that, and as the nature of the GSP+ is to be an incentive scheme, it is also important to ensure that the withdrawal of preferences effectively contributes to the improvement of the situation on the ground and avoids broader repercussions. In this regard, withdrawal of preferences should be targeted, allow for dialogue and diplomacy, and take place only after these efforts have clearly failed. It must also be made clear what concrete steps should the country affected take in order to have the benefits reinstated. Moreover, the EU should establish a proper warning system where all parties, and especially European companies, are informed well in advance of any changes made to the status of a GSP country that might impact their supply chain. To this end, the EU's practice regarding anti-dumping should serve as inspiration for a well-functioning warning system.

BusinessEurope welcomes that the Paris Agreement has been added to the list of conventions GSP+ countries are required to ratify. The EU should make greater use of funding, development and technical assistance under its external financing instruments to support partner countries to comply with the 33 international conventions under the GSP+.



3. Temporary withdrawal provisions common to all arrangements

Temporary withdrawal provisions apply to all three arrangements in cases for a number of reasons (Art. 19), ranging from serious and systematic violation of principles laid down in the conventions listed in Annex VI to serious and systematic unfair trading practices including those affecting the supply of raw materials.

The Commission can act on its own or upon receiving a complaint to launch the process of temporary withdrawal procedure and, if there are justified reasons, temporarily suspend preferences on all or of certain products originating in a beneficiary country.

BusinessEurope comment: We agree with the approach proposed by the European Commission. However, and as we have stated in the context of the specific discussion on the withdrawal of preferences under GSP+, it is important that the temporary withdrawal decision is based on a thorough analysis of the situation from the part of the Commission, a careful assessment of the impact this may have, as well as follow dialogue with the targeted GSP beneficiary. In addition, the requirements allowing affected Countries to a return to a situation where they can benefit from the GSP shall be clear.

4. Safeguards

There are two types of safeguards applied under the EU GSP Regulation – general safeguards and specific safeguards applied in certain sectors.

Where a product originating in a beneficiary country of any of the preferential arrangements is imported in volumes or at prices which cause, or threaten to cause, serious difficulties to EU producers of like or directly competing products, normal duties on that product may be wholly or partially reintroduced. This follows an investigation by the European Commission, which can be initiated upon request by a Member State, by any legal person or any association not having legal personality, acting on behalf of Union producers, or on the Commission's own initiative.

Specific safeguards apply in the areas of textile, agriculture and fisheries. However, EBA beneficiary countries are exempted, as well as countries with a share for these products that does not exceed 6% of total Union imports of these products.

BusinessEurope comment: We are in favour of maintaining the existing safeguards and processes foreseen in the European Commission's proposal to modernise the GSP Regulation. Having said that, we invite the European Commission, in close cooperation with the different industrial sectors, to look at how adjustments to thresholds could help safeguards be more effective and operational.

5. Rules of Origin

Rules of origin apply to goods in order to benefit from the tariff preferences outlined in the Regulation. Products shall originate in a beneficiary country, and either be wholly obtained or result from sufficient processing or working. Regional cumulation of origin is also possible.



BusinessEurope comment: We welcome the approach of the European Commission and support the better terms for regional cumulation as a means to actively support trade and integration of developing countries – LDCs in particular – into the global economy. In this regard, it is important that formal and administrative requirements are proportionate and implemented in a way that does not overburden GSP beneficiaries and encourages them to invest into regional supply chains.