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Revised EU trade scheme to help developing countries applies on 1 January 2014

The European Union's rules determining which countries pay less or no duty when exporting to the 28 country trade bloc, and for which products, will change on 1 January 2014. The changes to the EU's so-called "Generalised Scheme of Preferences" (GSP) have been agreed with the European Parliament and the Council in October 2012 and are designed to focus help on developing countries most in need. The GSP scheme is seen as a powerful tool for economic development by providing the world's poorest countries with preferential access to the EU's market of 500 million consumers.

The new scheme will be focused on fewer beneficiaries (90 countries) to ensure more impact on countries most in need. At the same time, more support will be provided to countries which are serious about implementing international human rights, labour rights and environment and good governance conventions ("GSP+").

The EU announced the new rules more than a year ago to allow companies enough time to understand the impact of the changes on their business and adapt. To make the transition even smoother for exporting companies, the Commission has prepared a practical GSP guide.

The guide explains in three steps what trade regime will apply after 1 January 2014 to a particular product shipped to the EU from any given country. It also provides information on the trade regime that will apply to goods arriving to the EU shortly after the New Year.

The changes in a nutshell:

90 countries, out of the current 177 beneficiaries, will continue to benefit from the EU's preferential tariff scheme.

67 countries will benefit from other arrangements with a privileged access to the EU market, but will not be covered by the GSP anymore.

20 countries will stop benefitting from preferential access to the EU. These countries are now high and upper-middle income countries and their exports will now enter the EU with a normal tariff applicable to all other developed countries.

In Detail:

The EU's Generalised Scheme of Preferences

The EU's Generalised Scheme of Preferences (GSP) is designed to support developing countries export to the European Union (EU) and so facilitate their integration into international markets. This is done by reducing tariffs for their goods when entering the EU market. It is a unilateral measure by the EU: there is no expectation or requirement that this access is reciprocated by the countries concerned. It is based on clearly defined rules of the World Trade Organisation (WTO).

The EU has applied a GSP scheme since 1971. The scheme has been revised several times to reflect evolutions in international trade and development patterns. The latest revision was on 31 October 2012 and will apply as of 1 January 2014. This has provided ample time for businesses and exporters to adapt smoothly to the new GSP.

The overall aim of the reformed EU GSP is to concentrate preferences on those countries most in need: the least-developed countries (LDCs) and other low and lower-middle income countries. It will apply to 90 countries and territories and it is expected to affect about €58bn of imported goods into the EU.

The GSP covers three separate regimes:

- The standard arrangement ('**GSP'**) provides for duty reductions on about 66% tariff lines. In 2012, this represented more than 70.2% of all EU imports benefiting from GSP and about €40.7bn worth of imported products;
- The specific incentive arrangement ('**GSP+**') offers deep tariff cuts for vulnerable countries that ratified and implemented international conventions relating to human and labour rights, environment and good governance. It concerns additional tariff reductions for essentially the same 66% tariff lines. In 2012, this represented 8.5% of all GSP preferences and about €4.9bn of imported products;
- **Everything but arms** arrangement ('EBA') offers full duty free, quota free access for all products except arms and ammunition for 49 LDCs on 99% of all tariff lines. It is the most generous of the three regimes. In 2012, this represented 21.3% of all GSP preferences and imports worth €12.4bn.

Why has the EU reformed the GSP?

The reformed GSP scheme is the result of an in-depth review carried out by the Commission during 2010–2012. It also included an independent study, public consultation and an Impact Assessment.

The review highlighted three key objectives for the GSP reform:

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

Firstly, the last two decades have seen the emergence of a new group of countries – advanced developing countries – which are becoming more and more competitive on the global markets. On the other hand, many poorer countries continue to lag behind. They are affected by competition from advanced developing countries and have suffered during the global economic crisis which began in 2008.

The advanced developing economies were amongst the biggest users of the GSP scheme, in competition with the poorer countries. In 2012, the high and upper middle income countries accounted for about 32% of preferences under GSP. Hence the need to concentrate preferences to the poorest countries (the LDCs and other low and lower-

middle income countries) which, in addition, do not have other preferential agreements to enter the EU market.

Secondly, it became clearer that the EU should continue to promote the respect of core human and labour rights, environment and good governance standards through the GSP+. To achieve this aim, the EU has strengthened the GSP+ monitoring mechanism to ensure that those rights are properly respected.

Finally, the reformed GSP will be in force for 10 years, improving certainty for business operators, while the previous scheme was reviewed every three years. The EBA scheme continues to be for an indefinite period.

Which partners are beneficiaries in the reformed GSP?

From 1 January 2014, 90 countries will receive preferences under the reformed GSP: 49 least developed countries ('LDC') under the Everything But Arms ('EBA') scheme and 41 other low and lower-middle income partners:

LDCs under EBA (49):

34 in Africa (Angola, Burkina Faso, Burundi, Benin, Chad, Congo (Democratic Republic of), Central African (Republic), Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Equatorial Guinea, Guinea-Bissau, Comoros Islands, Liberia, Lesotho, Madagascar, Mali, Mauritania, Malawi, Mozambique, Niger, Rwanda, Sao Tome and Principe, Sudan, South Sudan[1], Sierra Leone, Senegal, Somalia, Togo, Tanzania, Uganda, Zambia);

9 in Asia[2] (Afghanistan, Bangladesh, Bhutan, Cambodia, Lao (People's Democratic Republic), Myanmar/Burma, Nepal, Timor-Leste, Yemen);

5 in Australia and Pacific (Kiribati, Samoa, Solomon Islands, Tuvalu, Vanuatu)

1 the Caribbean (Haiti).

Other low and lower-middle income partners under GSP (41)[3]:

Armenia, Bolivia, China, Cape Verde, Colombia, Cook Islands, Costa Rica, Ecuador, Georgia, Guatemala, Honduras, India, Indonesia, Iraq, Kyrgyzstan, Maldives, Marshall (islands), Micronesia (federate States of), Mongolia, Nauru, Nicaragua, Nigeria, Niue, Pakistan, Panama, Paraguay, Peru, the Philippines, El Salvador, Sri Lanka, Syrian (Arab Republic), Tajikistan, Thailand, Congo (Republic of), Tonga, Turkmenistan, the Ukraine, Uzbekistan, Vietnam.

[1] South Sudan will benefit from the EBA status from 1 January 2014

[2] Maldives will no longer benefit from the new EBA scheme from 1 January 2014, while Myanmar/Burma is reinstated as beneficiary of the EBA scheme from 1 January 2014.

[3] Azerbaijan and the Islamic Republic of Iran will be beneficiaries of the GSP until 22 February 2013. Maldives will benefit from preferences under the general scheme as provided in Regulation 1127/2010.

Which partners will cease to be beneficiaries in the reformed GSP?

Countries for which preferences are deferred are:

- **33 overseas countries and territories (OCTs)**, as they already have alternative trade arrangements for accessing the EU market:

Anguilla, Netherlands Antilles, Antarctica, American Samoa, Aruba, Bermuda, Bouvet Island, Cocos Islands, Christmas Islands, Falkland Islands, Gibraltar, Greenland, South Georgia and South Sandwich Islands, Guam, Heard Island and McDonald Islands, British Indian Ocean Territory, Cayman Islands, Northern Mariana Islands, Montserrat, New Caledonia, Norfolk Island, French Polynesia, St Pierre and Miquelon, Pitcairn, Saint Helena, Turks and Caicos Islands, French Southern Territories, Tokelau, United States Minor Outlying Islands, Virgin Islands – British, Virgin Islands- US, Wallis and Futuna, Mayotte.

- **20 high and upper middle income** countries (as classified by the World Bank during three consecutive years, based on Gross National Income (GNI) per capita:

Seven high-income countries and one territory according to the World Bank classification: Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Brunei Darussalam, Macao (territory)

Twelve upper-middle income countries[4] according to the World Bank classification: Argentina, Brazil, Cuba, Uruguay, Venezuela, Belarus, Russia, Kazakhstan, Gabon, Libya, Malaysia, Palau

- **34** countries with **a preferential trade agreement** (FTAs – with two years of transition to allow for adjustment to the new regime) or a special autonomous trade regime (such as the Market Access Regulation, and the regimes for Western Balkans and Moldova) covering substantially all preferences for trade in goods under GSP.
- "Euromed": Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia
- Cariforum: Belize, St. Kitts and Nevis, Bahamas, Dominican Republic, Antigua and Barbuda, Dominica, Jamaica, Saint Lucia, Saint-Vincent and the Grenadines, Barbados , Trinidad and Tobago, Grenada, Guyana, Surinam
- Economic Partnership Agreement Market Access Regulation: Côte d'Ivoire, Ghana, Cameroon, Kenya, Seychelles, Mauritius, Zimbabwe, Namibia, Botswana, Swaziland, Papua New Guinea , Fiji
- Other: Mexico, South Africa

The countries will **receive preferences once again** if:

- they fall out of the high and upper middle income categories, or
- FTAs are revoked or expire, or
- the autonomous trade regime is phased out**.**

[4] In July 2012 both Azerbaijan and Iran were classified as upper-middle income countries for the third time in a row. Therefore, preferences will be deferred for these countries. This was announced in a Commission delegated regulation published on 21 February 2012. Preferences will no longer apply as of one year later, providing an ample transition period for operators to adjust.

Which products are enjoying preferences in the reformed GSP?

A larger number of products will enjoy preferences under the reformed GSP scheme:

- 15 new tariff lines are added to GSP as "non-sensitive" (enjoy duty-free access);
- 4 tariff lines which were "sensitive" become "non-sensitive" under GSP (products which benefited from a duty reduction will enjoy duty-free access);
- 4 new tariff lines are added to the GSP+ (duty-free access).

These categories have been selected to enhance the opportunities for the GSP beneficiaries without jeopardising the competitiveness of the LDCs. LDCs enjoy duty-free access to the EU market, via the EBA scheme, and would suffer from competition if duty-free treatment would be granted to a wider number of products.

The list of products which have been incorporated into the GSP from 1 January 2014.

What happens to GSP+?

GSP+ scheme is redesigned to encourage beneficiary countries to show genuine commitment in implementing core human and labour rights, principles of sustainable development and good governance. To achieve this aim, the EU will implement a strengthened monitoring mechanism to ensure that those rights are respected by the GSP+ beneficiary countries.

The vulnerability criteria:

The vulnerability criterion ensures a country can benefit from GSP+ if: i) it is not competitive on the EU market (import-share ratio) and ii) it does not have a diversified export base (diversification ratio).

The import-share ratio is 2% (relaxed from 1% under the previous scheme) and the diversification ratio is 75% of a country's exports to the EU for its seven largest sections.

The list of countries which passed the vulnerability criteria and can apply for GSP+.

What happens to EBA?

Under the new GSP, the effectiveness of the EBA scheme will be strengthened. Reducing the number of beneficiaries will ease competitive pressure on LDCs and other low and lower-middle income countries. It will make the scheme more meaningful and provide new opportunities to export.

The EBA arrangement is an open-ended scheme and that will not change. Beneficiary countries under EBA are not affected by graduation.

The EBA beneficiaries 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.

What about stability and predictability for businesses?

The stability and predictability of the scheme for businesses is reinforced by the new GSP, in several ways:

1. The new scheme will last 10 years as compared to the previous timeframe of three years. EBA has no expiry date;

2. There will be transition periods of at least one year for changes in the beneficiaries list;
3. There will be transition periods of at least two years for countries concluding a preferential market access arrangement with the EU;
4. Removals from the beneficiary lists will happen only if countries are listed as high or upper-middle income three years in a row.
5. The administrative procedures for withdrawal of GSP preferences and safeguards are clarified. The reformed GSP scheme made all these more detailed and transparent, in particular with regard to the rights of exporters and their access to information.
6. The new GSP scheme applies as of 1 January 2014 but the legal texts and has been published more than one year in advance. This provided time for economic operators to adapt.

What else has been changed?

The new GSP introduces balanced improvements to the conditions for withdrawal from the whole GSP scheme. The withdrawal mechanism can be triggered in a variety of situations ranging from fraud, irregularities, non-cooperation with the European Commission, violations of engagements under GSP+ scheme.

Procedures that trigger the general safeguard clause have also been clarified, and special safeguards have been expanded to cover all textiles and ethanol.

Institutional adaptations

The reformed GSP institutional framework reflects the enhanced role of the European Parliament in trade policy.

The European Parliament will be involved in all changes affecting the GSP list of beneficiaries. The different thresholds linked to the GSP dynamics (graduation, vulnerability), as well as the different lists of beneficiaries, will be amended via a Commission delegated act. However, such delegated act will enter into force only if no objections are expressed by the European Parliament and the Council.

With regards to the GSP+ monitoring mechanism, the European Parliament will be regularly informed of the status of progress of GSP+ beneficiary countries in implementing the 27 international conventions.

For further information about the GSP reform

The legal framework: Regulation No 978/2012 of 25 October 2012 ('GSP Regulation')

About the Generalised System of Preferences

Factsheet about the GSP reform

EU Export Helpdesk