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Foreign Trade Association

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**The revision of the currently applicable Generalized System of
Tariff Preferences from 1 January 2014 (at the latest)**

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THE REVISION OF THE CURRENTLY APPLICABLE GENERALIZED SYSTEM OF TARIFF PREFERENCES FROM 1 JANUARY 2014 (AT THE LATEST)

1. Introductory remarks

In accordance with the offer made within the United Nations Conference on Trade and Development (Unctad), the European Union has been granting Generalized Tariff Preferences for certain agricultural products and commercial goods from developing countries since 1971. Throughout the past four decades the Generalized System of Preferences (**GSP**) was revised several times and the system applicable from January 2009 until December 2013 at the latest shows the remarkable state of development it has reached. A number of improvement suggestions from the side of trade were put into practice – though often after a delay.

However, the demand of the FTA for a **sustainable improvement of the preferential advantages** has not been followed. Apart from the GSP Plus scheme which came into effect on 1 July 2005, the preferential margin has remained unchanged for almost ten years. With regard to the forthcoming revision of the current scheme of preferences, the FTA will therefore focus on achieving an **increased preferential margin, better predictability and legal certainty, simpler procedures and more objective graduation criteria**.

2. The demands for a revised System of Preferences

In the context of the observations above, some basic demands must be made on a revised Scheme of Preferences which will have to meet the requirements of a changing economic and development policy up to the year 2017. Thus a revised system has to:

- fulfil its **development policy mandate** wherever this is still possible,
- be **as easy to handle as possible**, both for the exporting developing countries and for the importers.
- ensure **transparency, predictability and legal certainty** for all participants and
- be restricted to very few **elements in line with the system** and avoid an exaggerated differentiation of preferential advantages.

3. Proposals for the revision of the System of General Customs Preferences to enter into effect on 1 January 2014 at the latest

a. Principles:

Against the background of the above requirements, both the **classification of developing countries** into normally developed and least developed as well as the **two product-sensitivity levels** – sensitive and non-sensitive – should be retained. The list of sensitive

products should be critically reviewed as to whether any products should be reclassified. Apart from this, **further differentiations should be avoided** as a matter of principle.

Moreover, the **list of goods eligible for benefits** should be considerably increased. This is especially true for **processed agricultural goods**. During the period of application of the preferential scheme any sector-specific exceptions should be avoided. **Exclusion criteria** for the following scheme should be based on the overall economic situation of the country with special regard to the sector concerned.

Which countries - apart from the least developed countries whose privileges will be left untouched - will be granted preferences should be decided upon on the basis of the **per capita Gross Domestic Product** of the country concerned. It is a well-known fact that at the moment various countries are benefiting from customs preferences although their per capita GDP is above the one of EU member states. For granting preferences the following principles apply:

- **Agricultural and commercial products imported from the least developed countries are not subject to any customs or charges having equivalent effect without regard of their level of sensitivity.**
- **Imports of sensitive agricultural and commercial products with origin in the other developing countries are subject to an import duty in the amount of 50 % of the most-favoured-nations tariff. If the duty rate is below 3 %, that duty will be entirely suspended.**
- **Non-sensitive products are exempted from any duties or charges having equivalent effect.**

In order to ensure the necessary planning security for importers and their suppliers in the developing countries the new preferential scheme should be published **at least one year** prior to its coming into force.

b. Exclusions

The existing regulation according to which countries having exceeded a certain state of development are **fully removed from the list of beneficiary countries** should be retained. These countries can often not be referred to anymore as developing countries. However, such an exclusion should not be made during the term of the scheme of preferences, even if in this period the per capita Gross Domestic Product will rise above this level.

There is no objection though to a **temporary withdrawal of preferences due to serious misconduct** of the beneficiary country. However, prior to such a withdrawal comprehensive consultations with the country concerned should be held in order to preserve the developmental approach of the system of preferences as far as possible. **The period between an exclusion of a country and the withdrawal of tariff preferences should be one year.**

During the period of application of the preferential scheme any **product- or sector-specific exclusions** should be avoided.

c. Special regulations as an incentive for sustainable development and good governance

The special regulations designed as an incentive for sustainable development and good governance should be retained. However, the revision should include an examination whether the very ambitious criteria underlying the granting of the GSP plus status should be maintained in their entirety. With all probability, only few countries will be able to consistently fulfil all these conditions in practice. Apart from this, an **increase of the vulnerability threshold to 1.5 %** would be objectively justified. Exclusions from the GSP Plus status should be published one year prior to their entering into force in order to ensure the necessary planning security.

To avoid any misunderstandings: Sustainability is of high priority to European trade. Traders are committed to the principle of corporate social responsibility and take appropriate measures in order to improve the social performance of their suppliers.

It is suggested sometimes to grant tariff preferences or exemption from duties to **goods which are especially environmentally friendly and/or were produced under environmentally friendly conditions**. Even though this suggestion does follow an approach similar to the GSP Plus approach, it must be rejected because of the inevitable problem of eligibility and the danger of abuse. Moreover, proposals aiming at granting preferences to goods which were produced in **conditions complying with the ILO conventions concerned** should be dropped. In this case too, problems with regard to determining eligibility as well as the danger of abuse cannot be avoided.

d. Rules of origin

The FTA would have liked the discussions on the rules of origin within the GSP framework to take another direction. We have always demanded that the new scheme of preferences must be flanked by **simplified rules of origin** – preferably the non-preferential rules or at least the rules applied within the framework of the European partnership agreements. Even if the final word in this matter has obviously not yet been said, it seems that it will not be possible to realise this demand in the medium term.

Furthermore, the **concept of the registered exporter** who may submit a declaration of origin without the participation of an authority of the originating country, should not be compulsory but rather be regarded as an alternative to the currently applicable modalities of origin proof. Otherwise we would face the danger that any risk resulting from false indications of origin will be shifted onto the importer. **In case of doubt he will refrain from taking advantage of preferential treatment, which, from the point of view of development policy cannot be accepted.**

4. Summary

If the GSP is to fulfil its development-policy mandate – though this should not be overestimated – the scheme should provide for rules which are easy to handle both for importers and for the exporters in the developing countries. The concept suggested by the FTA according to the motto "50% on everything" fulfils this requirement for an agreed term. Differences in treatment which may occur in some cases are regarded as acceptable.

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