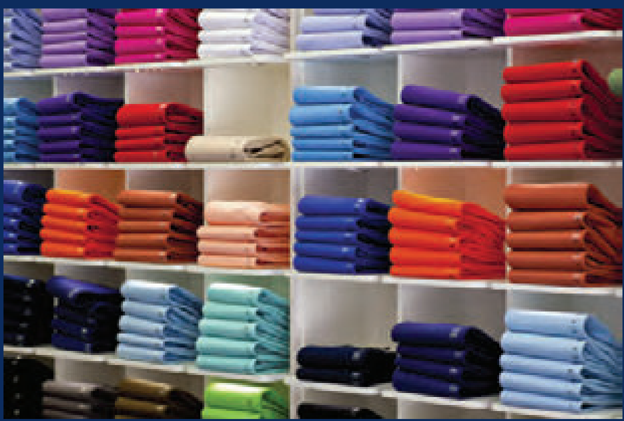
GSP+ AND PAKISTAN'S EU EXPORT OPPORTUNITIES:

A BUSINESS GUIDE

TRADE RELATED TECHNICAL ASSISTANCE PROGRAMME



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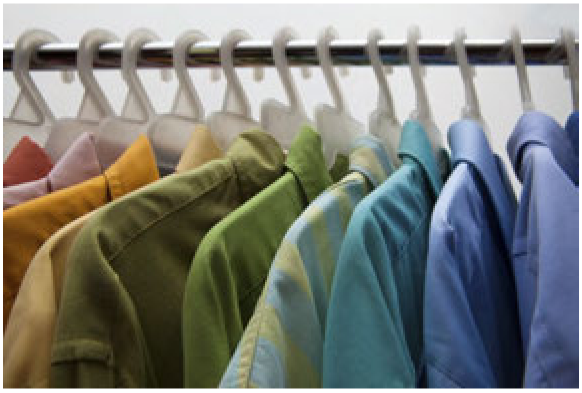

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INTRODUCTORY ISSUES

What is the GSP? What differentiates the GSP+ scheme?

The EU's Generalised Scheme of Preferences (hereinafter, GSP) is a system of unilateral trade concessions that reduces or eliminates tariffs on a range of exports from developing countries and least-developed countries.[1] The GSP is used to increase export revenue in developing countries in order to reduce poverty and promote sustainable development and good governance. The GSP preferential arrangements focus solely on granting tariff preferences for trade in goods.

The EU's GSP has been in place since 1971, although it has periodically been subject to reviews of varying depth and extent. Most changes affected, in relevant part, issues related to the GSP's product coverage, quotas, ceilings, administration, beneficiaries and depth of tariff cuts. The architecture of the scheme has also undergone significant changes over time.

The GSP is consistent with the World Trade Organization's (*i.e.* WTO) 1979 *'Enabling Clause'*, which operates as an exception to one of the pillars of the WTO system (*i.e.* the most-favoured nation obligation), allowing developed countries to grant differential and more favourable tariff treatment to imports from developing countries.

In its current form, the EU's GSP foresees three types of preferential arrangements: a general arrangement (for developing countries matching certain eligibility criteria) and two special arrangements (*i.e.* a special incentive arrangement for sustainable development and good governance or 'GSP+'; and a special arrangement for least-developed countries, known as the *'Everything But Arms'* arrangement, hereinafter *'EBA'*).

The general arrangement

Under the general arrangement (*i.e.* GSP), duty reductions apply to around 66% of the tariff lines of the EU's Combined Nomenclature (hereinafter, CN), as listed in Annex V to the GSP Regulation. The list of countries that are beneficiaries of the general arrangement is set out in Annex II to the GSP Regulation.[2]

In order to benefit from the general arrangement, an eligible country[3] must satisfy two requirements:

- The country must not have been classified by the World Bank as a high-income or upper-middle income country during the last three consecutive years; and
- The country must not benefit from a preferential market access arrangement with the EU providing equal or larger tariff preferences than the general arrangement, for substantially all trade (such as free trade agreement partners or overseas territories).

The tariff preferences operate according to a system of tariff modulation (*i.e.* the reduced rates of duty according to product sensitivity). In particular, duties are entirely suspended for products classified as non-sensitive. For sensitive products, *ad valorem* duties are reduced by 3.5%, and by 20% in the case of textile and clothing products. Specific duties (other than minimum and maximum duties) on sensitive products are reduced by 30%.

Tariff preferences are subject to sector graduation, which means that preferences will be suspended in cases where the average value of EU imports of a given product over three consecutive years exceeds 17.5% of the total EU imports of that product from all GSP beneficiaries. This threshold is set at 14.5% with respect to textile and clothing

[1] A consolidated version of the EU GSP Regulation is available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02012R0978-20140228&from=EN.

[2] Currently, 26 countries export to the EU under the terms of the general arrangement: China (People's Republic of), Colombia, Congo (Republic of), Cook Islands, Honduras, India, Indonesia, Iraq, Kirghizstan, Maldives, Marshall (Islands), Micronesia (Federate States of), Nauru, Nicaragua, Nigeria, Niue, the Philippines, Sri Lanka, Syrian (Arab Republic), Tajikistan, Thailand, Tonga, Turkmenistan, Ukraine, Uzbekistan, Vietnam.

[3] Eligible countries are all developing countries listed in Annex I to the GSP Regulation, as last amended by Commission Delegated Regulation (EU) No. 1421/2013 of 30 October 2013 amending Annexes I, II and IV to Regulation (EU) No. 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences, OJ L 355, 31/12/2013 (available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1421&from=EN).

goods. On 17 December 2012, the European Commission (hereinafter, Commission) adopted a list of graduated sectors that apply for the period 2014-2016.[4]

The special incentive arrangement for sustainable development and good governance (GSP+)

Pakistan is a beneficiary of the special incentive arrangement for sustainable development and good governance, known as *'GSP+'*. This arrangement, which provides for deeper tariff preferences, applies to GSP beneficiary countries[5] that:

- Meet the economic vulnerability criteria indicated in Article 9(1)(a) and Annex VII of the GSP Regulation;[6] and
- Have ratified and effectively implement the relevant 27 international conventions on human rights, environment and labour rights listed in Annex VIII to the GSP Regulation.

The status of beneficiary under the GSP+ is not automatic, but requires that a GSP beneficiary submits an application to that effect, and it is granted following an evaluation by the Commission of the compliance with the relevant conditions and requirements.

The GSP+ applies to substantially the same products as the GSP; however, the GSP+ arrangement makes no distinction between sensitive and non-sensitive products. Annex IX to the GSP Regulation, which concerns the product coverage of the GSP+, lists products at the two, four, six or eight-digit level, depending on the products concerned. Tariff modulation under the GSP+ entails that, where products are subject only to an *ad valorem* or a specific duty, this is entirely suspended. Where products are subject to duties with an *ad valorem* and a specific component, only the *ad valorem* duty is suspended.[7] Moreover, sector graduation does not apply under the GSP+.

When did the EU grant Pakistan beneficiary status under the GSP+?

On 28 August 2013, the Commission adopted a regulation[8] applying a scheme of generalised tariff preferences. The Annex to that regulation included a table listing the beneficiary countries of the special incentive arrangement for sustainable development and good governance (*i.e.* the GSP+), which included Pakistan. According to Article 2 of the relevant delegated regulation, GSP+ preferences entered into force on 1 January 2014.

What other countries are competing with Pakistan in this regime?