

February 2021

Position paper

The EU GSP: gains, sustainability...progress?

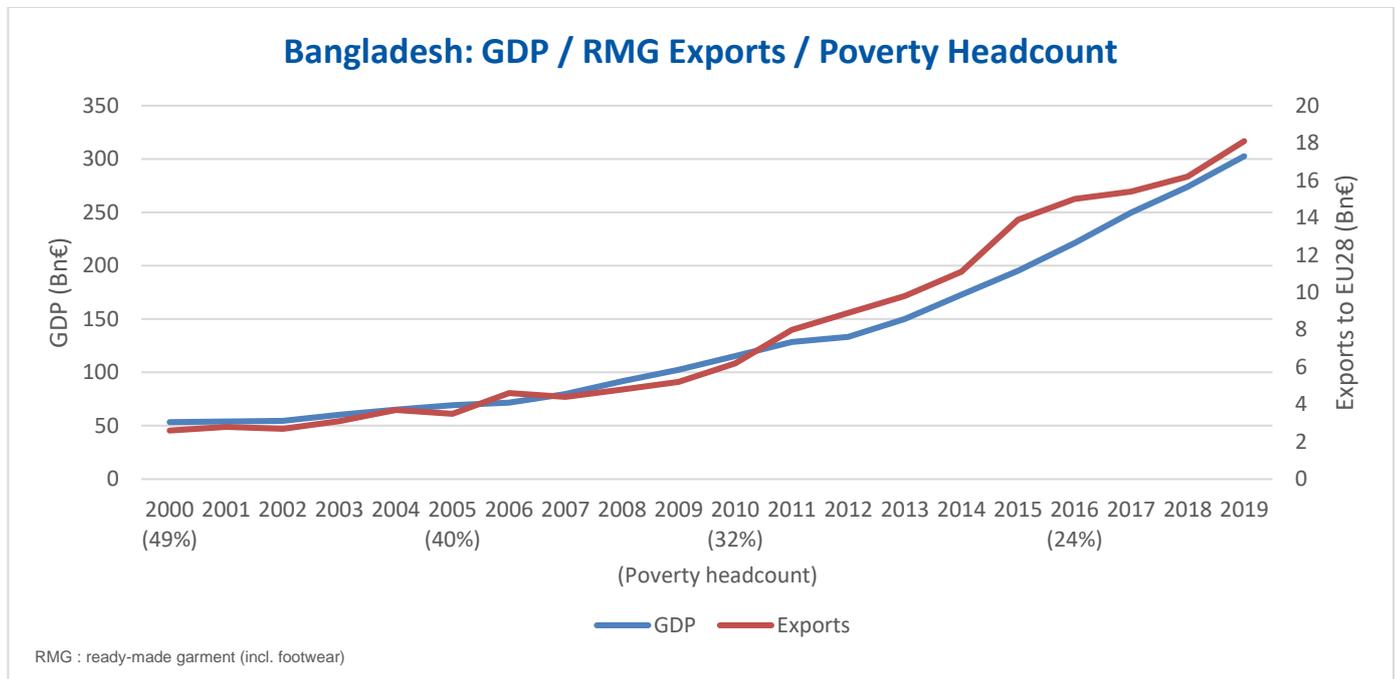
The EU's Generalised Scheme of Preferences, a unilateral scheme that sets reduced duties on imports from developing countries, expires on 31 December 2023. amfori has already contributed to the Commission's request for input toward the development of the scheme beyond that date. In this paper amfori looks at what reforms are needed.

Summary

- The primary goal of the GSP has been achieved with beneficiary countries benefiting from increased income.
- It gives significant advantages for EU companies importing from beneficiary countries.
- Improvements to the product range (e.g. by adding processed food and fish) and duty reduction to the standard GSP could be implemented.
- Monitoring is essential.
- Greater transparency is needed.
- Withdrawal of preferences should remain an option.
- Additional countries should not be included.
- Beneficiary countries should be incentivised to diversify their production and produce in a more environmentally friendly way.

A success story?

The goal of the GSP is to foster the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty. Arguably the primary aim has been achieved (at least in certain countries) where the introduction of GSP shows a rise in production, a rise in GDP, and a corresponding drop in poverty. This is particularly evident in Bangladesh:



There is also no doubt that it is advantageous to EU companies importing from GSP countries, particularly those with GSP+ and EBA status, as the reduction of duties leads to a reduction of costs (this is especially true for the ready-made garment and footwear sector where normal duty rates are up to 12% and 17% respectively).

Trade gains: more means more...

Although the preferences already cover a large range of products, this list could be expanded to include more processed food, and fish. The latter in particular is an important industry for several GSP beneficiary countries and if such products were granted reduced duty rates this would encourage greater levels of EU sourcing. In this respect, EU companies would benefit from a more cost-effective product while at the same time the beneficiary country would benefit from higher levels of income.

However, were this to occur the EU would need to pay attention that the change does not produce a negative impact; either on the environment or working conditions – an area where some countries are already at fault. The countries concerned should be encouraged to channel the increased income into improving conditions with the industry. In addition, monitoring by the EU should be stepped up.

...but less is better

Lower duty rates are needed within the standard GSP – particularly for ready-made garments. Here, the reduction is only 20% (i.e. 9.6% instead of 12%). This alone is not enough to incentivise EU importers to favour GSP countries over non-GSP countries – particularly if those countries have better sourcing conditions (e.g. quality, organisation, transport infrastructure, CSR standards). If the reduction were increased (e.g. to at least 30%) it could improve the competitiveness of those countries.

Sustainability gains?

Although the GSP is a unilateral arrangement – with duty reductions coming from the EU only – it is partly a *quid pro quo* arrangement. There is a serious condition attached to receiving those benefits. GSP+ beneficiary countries must ratify 27 ILO and UN conventions¹, give a binding undertaking to maintain those ratifications, and – importantly – ensure effective implementation of those conventions. They must also accept reporting requirements and allow regular monitoring of its implementation. ‘Standard’ GSP and EBA beneficiary countries do not have the same obligation but risk having preferences withdrawn (as do GSP+ countries) if the principles laid down in the fifteen core human and labour rights conventions within that list are not adhered to.

The increased business that will result from gaining GSP status should act as an incentive for countries to comply with the above conditions. This is important since those conventions play a critical role in protecting the human and labour rights of people – provided they are implemented properly and adhered to. However, although there is good evidence that GSP results in economic development, it is questionable whether the same can be said for social and environmental development. There is a risk that the resulting elevated production levels are achieved by a lowering of workplace standards and workers’ rights. There is also good evidence that increased production has a detrimental effect on the environment.

Effective monitoring is essential

It is therefore crucial that the EU monitors beneficiary countries’ GSP commitment to effectively implement those conventions. Apart from information gained by the Commission and EEAS, together with ILO and UN reporting, information can also be sought from civil society and NGOs. The latter often have up to date “on the ground” information directly from workers that may be missed by the former. Businesses, or organisations representing them, can also play a role – particularly those that have CSR programmes in place such as amfori².

Any failings can then be examined to see if the country requires additional assistance to meet its commitments.

Transparency would be a clear improvement

If the monitoring process is to be more inclusive, it should also be more transparent. In any event, the ILO, the UN and (particularly so) NGOs, regularly report on countries’ failings and so the Commission could also. These reports should be regular – perhaps quarterly – and could be discussed either at dedicated meetings or DAGs. It is important that these reports are detailed and include any progress that beneficiary countries have made on “roadmaps” that may have been agreed between the EU and the country concerned so that civil society can assess, and possibly assist in, the situation. The Chief Trade Enforcement Officer could play an important part in this process.

No carrot without a stick

Article 19 of the GSP Regulation permits the withdrawal of preferences for “...*serious and systematic violations of principles laid down in the [fifteen core human and labour rights] conventions...*” – also for exporting goods made by prison labour, customs failures leading to transit of drugs, anti-terrorism and money laundering failures, and others. This ability to withdraw preferences is an important element within the GSP; there must be an opportunity to remove the advantage of trade preferences if the conditions for receiving those preferences have been broken.

This is particularly true when those conditions relate to workers’ and human rights. However, particular care should be given before any action against a beneficiary country seen to be violating conventions covering the protection of the environment and for climate change. Remedial action – to correct the effects of such violations – is far more difficult than that for violations against human and labour rights. The latter can be, essentially, solved by legislation

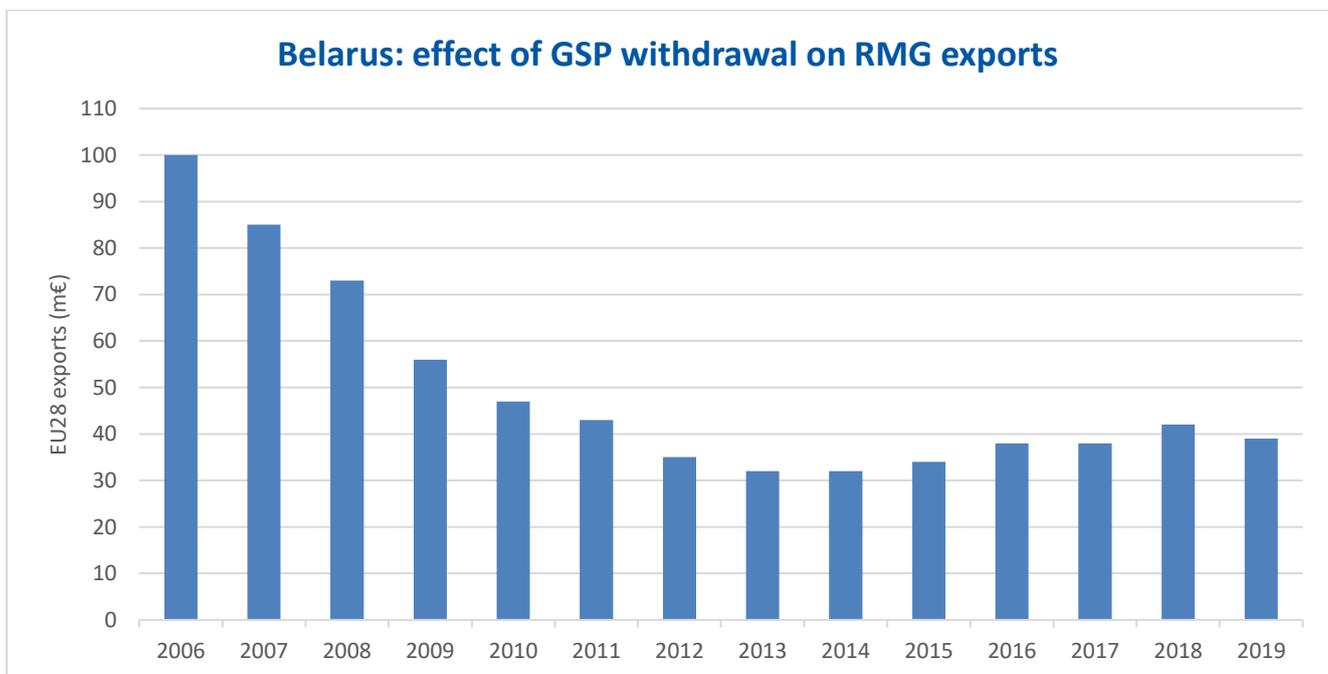
¹ See Table 1 in Annex

² c.f. the [amfori BSCI code of conduct](#)

whereas the former could require a significant change to manufacturing processes which could take several years. Therefore, the burden of proof should be high.

Providing extra incentives to encourage a country to address any failings, such as increased duty reduction, or additional eligible products, should be avoided; it would send the wrong message and could be seen as reward for failure.

There is, of course, a danger that such action will have a negative effect on the workers whose rights have been violated by the government responsible – as the effect could be a drop in EU companies sourcing from the country concerned, a corresponding drop in production, and similarly employment. However, one needs to recognise that the suspension of preferences does not, in and of itself, directly affect production levels and/or EU import levels. It is for EU importers to decide whether they continue to source from that country – without benefiting from GSP preferences. There is some evidence that the impact is negligible; for example, in 2009 and 2010 EU imports from Sri Lanka totalled 1.852€Bn (109kt) and 1.921€Bn (115kt) respectively. In 2011, the year following GSP+ removal, the volumes increased to 2.039€Bn (117kt) and continued to do so in the succeeding years. However, the effect on the RMG sector in Belarus was more dramatic where export levels fell by almost 30% from the year preceding withdrawal to the year after – and were almost half the following year³. However, overall, there was little effect on Belarusian exports since by far the largest sector (fertilisers and fuel) were not eligible for preferences⁴.



The EU has exercised this right on only four occasions: Myanmar in 1997 (reinstated in 2013), Belarus in 2007, Sri Lanka in 2010 (reinstated in 2017), and Cambodia, partially, in 2020. On each occasion, the violations were serious⁵ and the suspension of preferences only done as a last resort. amfori supports such action – provided all avenues have been explored – and did so in the most recent case⁶. It cannot be that the benefit gained from GSP is achieved at the expense of failing on basic human, civil, and labour rights.

³ The decision to remove preferences was taken in December 2006 and made effective in June 2007. This, coupled with the relatively long buying cycle for clothing, explains why the effect was not immediate.

⁴ Products eligible for GSP accounted for approx. 10% of total exports – the RMG sector approx. 2%

⁵ Myanmar for violations of the ILO Convention on Forced Labour; Belarus for violations of the ILO conventions on the Freedom of Association and Collective Bargaining; Sri Lanka for violations of the International Covenant of Civil and Political Rights, the Convention against Torture, and the Convention on the Rights of a Child (it was also criticised for lack of adherence to the ILO conventions on Freedom of Association and Collective Bargaining); Cambodia for violations of ILO Convention No. 87 (Freedom of Association and Protection of the Right to Organise) and No. 98 (Application of the Principles of the Right to Organise and to Bargain Collectively), the violation of the International Covenant of Civil and Political Rights and of the International Covenant on Economic, Social and Cultural Rights.

⁶ See [Statement - possible removal of trade preferences](#) and [amfori supports Commission decision](#)

The more the merrier?

Could, or should, other countries be included? To benefit from GSP, the current principle requirement is that a country must be classified by the World Bank as low income or lower middle-income economies (as of 2019). There are only fifteen countries that meet that requirement⁷ and twelve benefit from duty free access to the EU via EPAs, FTAs, etc. Therefore, these are ineligible for GSP under the second criterion (preferential access to the EU).

Of the remaining three countries, the interim EPA with Zimbabwe (and others) is under negotiation, the West Bank and Gaza is politically very sensitive, and the fifteenth country is North Korea.

For other developing countries (to date, 108 – as classified by the UN) to be included, the current requirement would need to change. However, the scope for allowing any of these is very limited. Of these, 23 are already GSP beneficiaries, 26 are island protectorates (etc.) of other countries, and 22 are upper-income countries (as designated by the World Bank) – amfori does not believe the latter should benefit from GSP.

This leaves 37 countries classified as upper middle-income. Turkey already has the Customs Union. Algeria has an FTA with the EU, as do Columbia, Ecuador and Peru, and Argentina, Brazil and Paraguay are part of the Mercosur FTA. Costa Rica and Guatemala are part of the Central America Association Agreement, and there are association agreements with Jordan and Lebanon. Nine other countries form the CARIFORUM EPA, Fiji is part of an EPA with Papua New Guinea and Samoa, and Botswana, Namibia and South Africa are part of the SADC EPA. The EPA with Gabon is awaiting signature,

Negotiations for an FTA with Mexico are on-going, as is the EPA with Mauritius. The FTA negotiations with Thailand ceased following the military coup – though the current government is considering whether, and to what extent, it should re-open talks. The FTA negotiations with Malaysia have been on hold for several years at the request of Malaysia – it also has the fifth highest GDP of the 37 countries concerned and is therefore a less than suitable candidate for re-introduction to the GSP.

Only seven countries remain from the list of developing countries. China is already the EU's biggest source of imports and whilst there is some argument for a trade agreement (though significant improvements are needed first) it would not be appropriate to reintroduce it to the GSP. Libya can be excluded for obvious reasons, and trade relations with Iran are very sensitive politically. Iraq is party to a PCA with the EU which, although non-preferential, does offer the possibility for the EU to allow reciprocal reductions on import duties. amfori's opinion is that the basis of this PCA provides for better development in Iraq than would be by admitting it to the GSP. Considering the economic and political situation in Venezuela (which is no longer part of Mercosur) it would not be appropriate to reintroduce it to the GSP.

At first glance, the Maldives may seem a suitable candidate. However, the most recent information would suggest it is not interested in an FTA with the EU, but rather an elimination of duties on its fisheries exports – since this accounts for most (i.e. more than 25%) of its total exports to the EU. Introducing it to the GSP could provide this – along with other products. However, there are existing concerns with the Maldives in areas such as human rights, corruption and judicial reform. With this in mind, it would be a controversial move to grant it GSP. It also has one of the highest GDPs of the 37 countries in this list.

The remaining country is Cuba and although trade between the two countries is low, the EU is a major export and import market for Cuba. However, there are significant concerns surrounding human rights such as detention of political dissidents and activists, violence against women, children's rights, and the freedom of expression and association. The PDCA is intended to cover those issues especially but progress is slow. Therefore, it would not be appropriate to re-introduce Cuba to the GSP.

Therefore, amfori does not see any other country that would be suitable for GSP.

⁷ Cameroon, Egypt, Eswatini, Moldova, Morocco, Papua New Guinea and Tunisia. Côte d'Ivoire, Ghana, El Salvador, Honduras and Nicaragua (and under provisional application).

A more diverse production...

Under Chapter VI, Section II of the GSP Regulation, the Commission may remove tariff preferences on textiles and clothing when the volume of exports from a beneficiary country increases by 13.5% or more compared to the previous year, or when the value of exports exceeds 14.5% of the total EU import from all GSP beneficiary countries during a twelve month period. However, EBA beneficiaries are exempt from this provision.

This has resulted in a concentration of production in those sectors – in some countries it can account for practically their entire exports; such as Bangladesh where ready-made garments account for 95% of exports to the EU. This concentration reduces the diversification of those countries' manufacturing which can have a negative effect on their development. Arguably it can also promote less socially sustainable working practices. Were this exemption to be removed, it could incentivise those countries to diversify their industries. It could also help to increase their resilience and lessen the impact of major crises such as covid-19⁸.

...and a cleaner one?

That industry is also an environmentally unfriendly one – particularly in chemical and water usage and pollution. Removing the exemption, and thereby encouraging a more diverse industry would reduce this.

In parallel, providing additional benefits for sustainable products would also improve the situation. The possible downside to this, assuming the country acted accordingly, could be a slightly negative effect on poverty rates whilst the beneficiary country adjusted to a more sustainable production model. However, since many EU companies, and consumers, are giving preference to sustainable sourcing, the economic benefit produced by this would compensate for higher production costs and make those products more competitive to other, less sustainable, products. Therefore, in the long term the economic benefits would be an important incentive for that country to change to such a model – which is beneficial for all.

Such a change would be environmentally beneficial to all – not just the country concerned – but it requires a production change to specific products. The benefit would be realised further if the Paris Agreement were added to the list of 27 conventions. Although all GSP beneficiaries (except Eritrea, South Sudan and Yemen) have ratified the Paris Agreement, putting its effective implementation as a condition for obtaining preferences could incentivise those countries to produce all products in a more environmentally conscious way.

Conclusion

Although planned, since the Regulation expires at the end of 2023, the review of the current GSP comes at an opportune time. EU member states and beneficiary countries alike are still in the early stages of recovery from the impact of the covid-19 crisis. The awareness of the impact of global trade has grown since 2012, when the current regulation came into force. People are more aware, and perhaps more wary, of where the products they buy come from and the conditions under which they are produced – both the effect on workers and on the environment. In addition, due diligence legislation, which amfori supports strongly, is likely to be introduced that will make EU companies even more cautious about their sourcing.

Progress in those areas can be achieved if the GSP of 2024 is both new and improved and by following the recommendations raised in this paper.

⁸ The RMG sector (in all countries) was particularly affected by cancelled orders from EU companies – although amfori urged its members not to do so.

Annex

Table 1:

Core human and labour rights UN/ILO Conventions

Convention on the Prevention and Punishment of the Crime of Genocide (1948)
International Convention on the Elimination of All Forms of Racial Discrimination (1965)
International Covenant on Civil and Political Rights (1966)
International Covenant on Economic Social and Cultural Rights (1966)
Convention on the Elimination of All Forms of Discrimination Against Women (1979)
Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (1984)
Convention on the Rights of the Child (1989)
Convention concerning Forced or Compulsory Labour, No. 29 (1930)
Convention concerning Freedom of Association and Protection of the Right to Organise, No. 87 (1948)
Convention concerning the Application of the Principles of the Right to Organise and to Bargain Collectively, No. 98 (1949)
Convention concerning Equal Remuneration of Men and Women Workers for Work of Equal Value, No. 100 (1951)
Convention concerning the Abolition of Forced Labour, No. 105 (1957)
Convention concerning Discrimination in Respect of Employment and Occupation, No. 111 (1958)
Convention concerning Minimum Age for Admission to Employment, No. 138 (1973)
Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour, No. 182 (1999)

Conventions related to the environment and to governance principles

Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973)
Montreal Protocol on Substances that Deplete the Ozone Layer (1987)
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (1989)
Convention on Biological Diversity (1992)
The United Nations Framework Convention on Climate Change (1992)
Cartagena Protocol on Biosafety (2000)
Stockholm Convention on persistent Organic Pollutants (2001)
Kyoto Protocol to the United Nations Framework Convention on Climate Change (1998)
United Nations Single Convention on Narcotic Drugs (1961)
United Nations Convention on Psychotropic Substances (1971)
United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988)
United Nations Convention against Corruption (2004)

About amfori

amfori is the leading global business association that promotes open and sustainable trade. We number over 2,400 importers, retailers and brand manufacturers, from over 40 countries and with a combined turnover of more than €1.7 trillion. Our membership includes large retailers, brands, importers and supermarket chains.

For more information please contact:

Stuart.Newman@amfori.org

Phone: +32 (0)2 741 64 04

Or visit our website: www.amfori.org

amfori 
Trade with purpose