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The European Commission's proposal for the next EU Generalised System of Preferences

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(Draft)

Abstract:

This presentation outlines the European Commission's proposal for the next EU Generalised System of Preferences (GSP), which consists of the standard GSP scheme, the GSP+ scheme and the Everything but Arms (EBA) initiative. The new proposal aims at focussing the benefits of the scheme on those countries most in need, at further supporting those countries which implement core international principles, and at enhancing stability and predictability for economic operators. For the standard scheme, changes are proposed as far as country eligibility, product coverage and the graduation mechanism are concerned. Adjustments are further proposed for the so called vulnerability criterion which is related to countries' eligibility of the GSP+ scheme and for monitoring and evaluation of implementation of GSP+ conventions. The EBA would remain unchanged. It is also proposed to move from the current 3 year system to an open-ended duration.

[*] The opinions expressed in this paper are the author's own and do not necessarily reflect any views of the European Commission.

1. Introduction

The European Union (EU) introduced its first Generalised System of Preferences (GSP) in 1971 and was followed by many other industrialised economies. As foreseen by UNCTAD in the 1960s, the objective of the scheme is to allow developing countries to expand their exports - which would contribute to their development via enhanced growth.

First permitted via a temporary waiver, it was not until the end of the 1970s that such unilateral non-reciprocal preferences for developing countries were structurally legalised through the GATT when the so called "enabling clause" (GATT 1979) was adopted under the Tokyo Round.[1]

In July 2008, the EU adopted the latest GSP scheme which runs from 1 January 2009 until the end of 2011. This has been extended to 31 December 2013 to provide for stability until a successor regulation is approved through the ordinary legislative procedure (EC 2010). The proposal for the new GSP scheme which is the subject of this paper was adopted by the European Commission in May 2011.

The following section and sub-sections describe the current GSP scheme and its various components. Section 3 presents the case for changing the scheme while Section 4 examines in detail which the proposed changes are. Section 5 provides estimates of the impact of the proposed changes in terms of main country and product groups. Section 6 concludes and lays out the procedural steps needed to have the regulation entering into force in 2014.

2. Specifics of the three current schemes[2]

The current GSP contains three different sub-arrangements, the general or standard scheme, GSP+ and the Everything but Arms (EBA) initiative, which was introduced for the first time in 2001.

The general scheme covers 176 developing countries and about 6,200 products[3]. Non-sensitive products (slightly less than half of the products covered) enjoy duty-free access, while sensitive products (mainly agricultural, fishery and textile products) benefit from tariff reductions. In general, these are 3.5 percentage points of *ad valorem* duties

[1] Article 1 of the GATT stipulates that no GATT contracting party must be treated worse than any other contracting party (also known as the Most Favoured Nation (MFN) principle). The "enabling clause" permits developed countries to discriminate between developed, developing and least developed countries (LDCs) which would otherwise violate Article I of the GATT. Note that there are no World Trade Organization (WTO) definitions of "developed" and "developing" countries. WTO members announce for themselves whether they are "developed" or "developing" countries. However, other members can challenge the decision of a member to make use of provisions available to developing countries, see http://www.wto.org/english/tratop_e/devel_e/d1who_e.htm. Least developed countries are defined by the United Nations, see http://www.unohrlls.org/en/ldc/related/62/.

2 This part draws on Nilsson (2011).

3 In terms of tariff lines.

compared to the applied MFN tariff and a 30% reduction of specific duties.[4] For textiles and clothing, the reduction is 20% of the *ad valorem* MFN duty rate.

The GSP+ scheme is designed for vulnerable countries with specific development needs. The scheme covers 15 countries and allows for duty-free entry to the EU market of the goods covered by the general GSP scheme and for some additional products. To be eligible, beneficiaries must meet a number of criteria including ratification and effective implementation of key international conventions on human and labour rights, sustainable development and good governance, and demonstrate that their economies are dependent and vulnerable. Poor diversification and dependence are defined as meaning that the five largest sections[5] of a beneficiary's GSP-covered exports to the Community must represent more than 75% of its total GSP-covered exports. GSP-covered exports from that country must also represent less than 1% of total EU imports under GSP.

Finally, the LDCs are eligible for duty free access to the EU market without any restrictions for all products except arms under the EBA initiative, which also fall under the umbrella of the EU GSP scheme.

Beneficiaries of the GSP are subject to "graduation" which is triggered when a country becomes sufficiently competitive in specific product sections and therefore no longer considered to be in need of preferential access to the EU market for those sections. The graduation mechanism consists of a single criterion; the share of the Community market expressed as a share of GSP covered imports. The share is 15 percent in general, but 12.5% for textiles and clothing, split into two sections. Countries with competitive sections which do not receive preferences are Brazil, China, India, Indonesia, Malaysia, Vietnam and Thailand (Council Regulation 2008, Annex I, Column C). Close to 98 percent of China's exports have graduated from the EU's GSP scheme in 2009.

Any GSP arrangement may be temporarily withdrawn for serious and systematic violations of core human and labour rights conventions and on other potential grounds related to e.g. customs fraud identified in the Regulation. This is currently the case for Belarus (preferences withdrawn in 2007) and Myanmar (preferences withdrawn in 1997). Similarly, GSP+ benefits may be temporarily withdrawn if national legislation no longer incorporates the relevant conventions or if that legislation is not effectively implemented. To this end, benefits under the GSP+ were withdrawn for Sri Lanka in August 2010.[6]

The safeguard clause entails restoring the Common Customs Tariff duties and is generally implemented when imports of a product cause serious difficulties to a Community producer of like or directly competing products. Serious difficulties are assessed using criteria measuring Community producers' market share, production, stocks, production capacity, bankruptcies, profitability, capacity utilisation, employment, imports and prices. Investigations may be opened at the request of a Member State or on

4 Tariffs are suspended if preferential treatment results in (ad valorem) duties of 1 percent or less, or in specific duties of 2 Euros or less.

[5] Tariff lines are grouped into 21 sections containing products of the same "family".

6 The withdrawal of preferences normally enters into force six months after the decision is announced, giving the country concerned time to address the situation.

the Community's own initiative, and must in principle be completed within six months, unless an extension decision is granted. Safeguards have never been used. This is not surprising. While preferential imports can be large when seen from the perspective of the beneficiary country, they typically are a very small proportion of EU imports.

Special, preferential rules of origin are used to determine where goods originate for the purposes of the GSP, i.e. where they are deemed to have been produced or manufactured in order to grant preference to the right beneficiary (for more information, see EC 2008). However, the rules of origin are not part of the GSP regulation(s). Instead they are governed by separate regulation(s) (Commission Regulation (EEC) 2454/93 as subsequently amended (most recently by Commission Regulation (EC) 214/2007)).

A reform of the rules of origin under the GSP has been on its way since 2005 when the Commission adopted a Communication on the future of rules of origin in preferential trade arrangements (EC 2005). The new GSP rules of origin apply as of 1 January 2011 (as regards the rules for determining origin) and as of 1 January 2017 with a transitional period until 1 January 2020 (as regards procedures). [7]

3. Why change the GSP?

The proposed GSP Regulation revises, adapts and updates the current GSP scheme so as to better reflect the contemporary global economic and trade landscape which has changed significantly since the original scheme was put into place. This update responds to the conclusions of a mid-term review, which included specialised studies and a wide public consultation.[8]

The Impact Assessment[9] accompanying the Commission's proposal for a new regulation identifies a number of problems that affects the effectiveness/efficiency of the GSP scheme. One main problem is that the preferences do not focus on the countries most in need. In fact, the bulk of exports under the GSP comes from emerging economies and sectors, which continue to receive GSP preferences for their exports to the EU market even though they have successfully integrated into the global marketplace and are no longer in need of trade preferences. Yet, they exert significant competitive pressure on exports of poorer developing economies - putting a lid on the exports of the latter.

The good performance of these countries in manufactures is indicated also by the fact that their share of exports of eligible for GSP preferences on the EU market is lower than the share of exports actually entering the EU under preferences. For example, India's share of EU imports eligible for preferences reached 7% in 2009, while its share of imports actually receiving preferences was 22%. Other main beneficiaries of the GSP scheme the

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7 For more information, see the homepage of DG Taxation and Customs Union (TAXUD) at http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_781_en.htm.

8 http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/

9 http://ec.europa.eu/governance/impact/ia_carried_out/docs/ia_2011/sec_2011_0536_en.pdf.

same similar pattern. Arguably, such exports no longer need GSP preferences to maintain their share of the EU market.[10]

Put another way, developing high-income countries (if not sufficiently diversified) and developing upper-middle income countries, which have income levels comparable to or higher than EU member states such as Bulgaria and Romania, are eligible for standard GSP preferences. At those levels, preferences are no longer an efficient or necessary tool to boost exports and income.

The GSP+ arrangement needs to be made more effective in supporting sustainable development and good governance. The vulnerability criteria (low share in GSP imports and small diversification of exports) could prevent some poor countries from applying for the GSP+ arrangement. Thus amending the vulnerability thresholds to enlarge the field of potential applicants can be an incentive for a greater number of countries to ratify and implement international rules and standards and engage in internal reforms.

In addition to ratification, the condition that the conventions have been 'effectively implemented' is difficult to monitor since there is no generally accepted definition and interpretation of what this really means. Furthermore, states that have signed up to the conventions are obliged to report only periodically to the monitoring committees established under each Convention. The reporting periods differ significantly (from one year up to five years). Thus, in certain cases monitoring reports are few and far between, and do not allow for prompt identification of a failure to observe the relevant conventions.

The "entry window" (open only once every 18 months) prevents potential beneficiaries from entering the scheme as soon as they have fulfilled all entry requirements. This again does not support the achievement of sustainable development and good governance goals. Finally, the list of conventions was drawn up in 2005 and needs to be reviewed to ensure that it is up-to-date and relevant.

The least developed countries (LDCs) benefitting from the EBA initiative enjoy significant (additional) preferences in only 7 out of 21 sectors (mainly agricultural, textile and footwear products), and in only 4 when compared to GSP+ countries (only agricultural products). In other words, for a significant amount of products, and in particular for industrial products, the EBA may not provide significant preferences to LDCs with respect to more developed GSP+ or GSP competitors.

The graduation mechanism of the scheme is supposed to remove sufficiently competitive sectors from beneficiary countries. Graduation is based on the sections of the EU's customs tariff database TARIC (Tarif Intégré Communautaire),[11] but is in fact seldom used. Out of the 19 sectors eligible for preferences (out of a total of 21 sections) from non-LDC beneficiaries which are not subject to graduation, that is in total some 2400

[10] This is linked also to an inefficient graduation system in the GSP scheme, which is mentioned below.
11 http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp.

country-sectors,[12] only 20 have been graduated out of which 13 sectors relate to Chinese exports.

The sections are large and contain in some cases quite different types of goods, for example tobacco and beverages, rubber and plastics, footwear and umbrellas etc. Hence, there is a lack of precision using this instrument. Some products may not necessarily be competitive on the EU market, but may still risk being subject to graduation if they are listed in the same category as products which are.

Finally, graduation applies to GSP+ countries but not to EBA countries even though GSP+ countries share a similar economic profile (i.e., vulnerability because of a low, non-diversified export base). This indicates a need to review the graduation rules so that those country-sectors most in need of preferences can continue to enjoy preferences while successful competitors do not.

4. What changes?

The main thrust of the draft proposal is to concentrate the GSP preferences on the countries most in need. This is achieved by enhancing GSP modalities related to the GSP eligibility criteria and the GSP graduation mechanism.

Countries which are classified by the World Bank as high-income or upper-middle income countries include economies which have successfully completed their transition from centralised to market economies and/or which have per capita income levels allowing them to attain higher levels of exports and diversification without the scheme's tariff preferences. Those countries do not share the same development, trade and financial needs as the remaining developing countries and should not benefit from the arrangement.

The tariff preferences granted under the general GSP arrangement should not be extended to developing countries which are benefiting from a preferential market access arrangement with the European Union, which provides at least the same level of tariff preferences as the scheme for substantially all trade. Furthermore, overseas territories associated with the European Union and overseas countries and territories of non-developing countries should not be considered eligible for the scheme. To provide a beneficiary country and economic operators with time for an orderly adaptation, the general arrangement should continue to be granted for two years as from the date of application of a preferential market access arrangement.

The scheme expands its support under the special incentive arrangement for sustainable development and good governance (GSP+) for vulnerable countries that commit to embrace core universal values on human, labour rights, environment and governance. As before, a country is defined as vulnerable if, in terms of value, the seven largest GSP sections of its imports into the European Union of products represent more than the threshold of 75% in value of its total imports of covered products, as an average during the last three consecutive years. But now imports of the covered products should

12 127 non-LDC beneficiaries multiplied by the 19 sectors.

represent less than 2% in value of the total imports into the European Union of covered products from beneficiary countries, as an average during the last three consecutive years.

Hence, the "vulnerability" threshold is raised from 1% under the current regulation to 2% under the current proposal, but the reference group of countries is also smaller since it is at the same time proposed to reduce the number of developing countries that will benefit from the GSP.

There will be a more effective and transparent mechanism for monitoring and evaluating the implementation of relevant international conventions, whereby the EU seeks improvement over time in countries' implementation record. This effectively raises the requirements for beneficiary countries, as they have to provide positive and regular proof that they are indeed implementing conventions.

Graduation in the new regulation is refined and rendered more efficient. The product sections on which it is based are split to make the products contained therein more homogenous. In practice, instead of 21 sections, there will be 32. This avoids that heterogeneous products are graduated - some of which are not competitive but simply happen to fall in a section were other products are highly competitive. Graduation should be applied when the section meets the criteria for graduation over three consecutive years, in order to increase the predictability and fairness of graduation by eliminating the effect of large and exceptional variations in the import statistics. Graduation should not apply to the beneficiary countries of GSP+ or the EBA.

The tariff preferences shall be suspended, in respect of products of a GSP section originating in a GSP beneficiary country, when the average value of European Union imports of such products over three consecutive years from that GSP beneficiary country exceeds 17.5% for all products except for textiles and clothing HS50-63 for which the threshold shall be 14.5%. The thresholds shall be calculated as a percentage of the total value of European Union imports of the same products from all beneficiary countries.

There have not been significant changes to the mechanism of temporary withdrawal of preferences. There has been a clarification that unfair trading practices which might justify withdrawal include those affecting the supply of raw materials. However, these practices must have an adverse effect on the Union industry and it must be clear that the beneficiary country has taken no steps to address them. For those unfair trading practices, which are prohibited or actionable under the WTO Agreements, action can only take place if there is a previous determination to that effect by the competent WTO body.

Furthermore, it has been underlined that preferences may be temporarily withdrawn if beneficiaries fail to comply with international conventions on antiterrorism. Serious and systematic infringement of the objectives adopted by Regional Fishery Organisations or any international arrangements of which the European Union is a member concerning the conservation and management of fishery resources is another potential reason for temporarily withdrawal of the preferences.

Finally, the Regulation will no longer be limited in duration, thus promoting a stable framework both for economic operators and beneficiary countries.

5. Simulations and impact of the changes

Given the complexity of the scheme and the possible changes that can be envisaged, the number of potential policy options to be analysed run in the hundreds. Based on the above, an attempt was made to assess the impact of (i) changes in the list of beneficiary countries (removal of developing high- and upper middle income countries), (ii) a more targeted graduation from the scheme resulting from a redefinition of product sections reflecting more homogeneous product categories and (iii) changes in the GSP+ entry mechanism.

The calculations for assessing the impact of different options under the GSP are based on the Single Market (SMART)[13] partial equilibrium simulation model developed by the World Bank in collaboration with various International Organizations.[14] The model can be used to estimate several key effects needed to assess the implications of changes in trade policy (see Figure 1 for partial illustration):

1. Trade creation is defined as the direct increase (decrease) in imports (Q) following a reduction of (an increase in) the tariff (t) imposed on country X and depends on the magnitude of the change in the tariff rate and the responsiveness of demand to price change as reflected by the import demand elasticity.

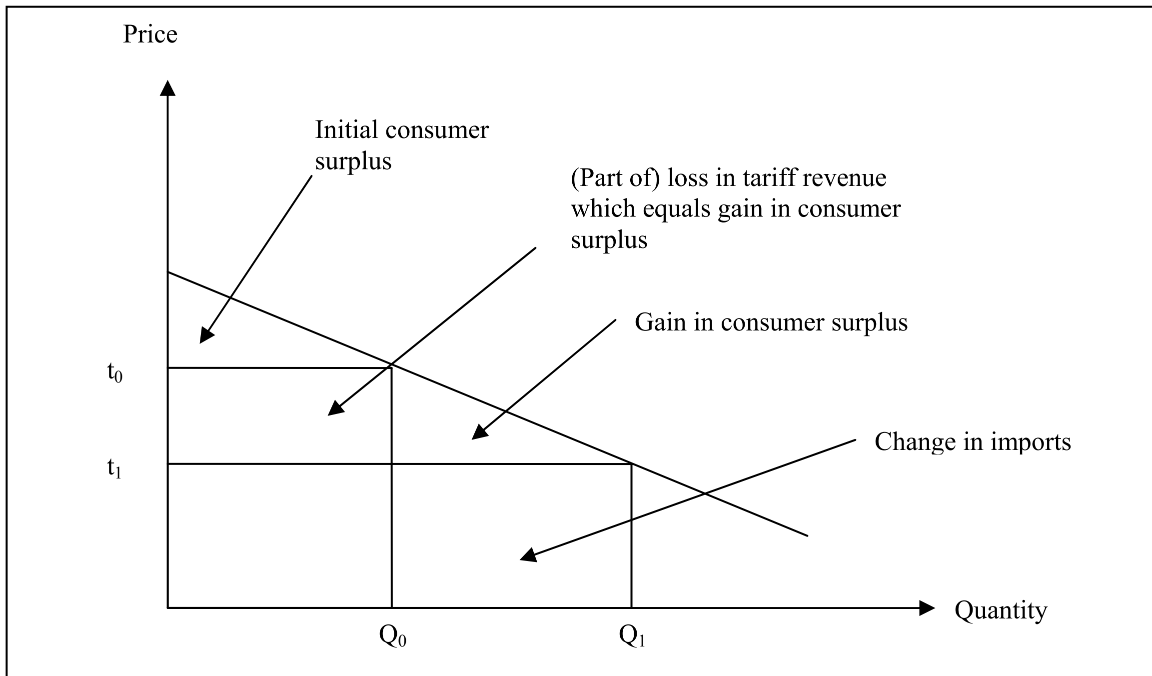
2. Trade diversion reflects that the change in imports from country X will be at the expense/benefit of imports from other countries that become relatively more/less expensive. The size of competitor countries' trade flows and the substitutability between products (elasticity of substitution) determine the degree of trade diversion, in addition to the magnitude of the change in the tariff.

3. The change in tariff revenue follows from that (i) current imports (Q_0) will face a different tariff $(Q_0*(t_0-t_1))$, (ii) new imports (Q_1-Q_0) will face the new tariff $((Q_1-Q_0)*t_1)$ and (iii) diverted trade will face the same tariff $(Q_{1'}*t_0)$. Member states' collection costs are excluded.

4. The change in consumer surplus is defined as the change in tariff revenue that is transferred to consumers from the government $(Q_0*(t_0-t_1))$, c.f. above and the change in consumers' willingness to pay compared to the amount that they actually pay $((Q_1-Q_0)*(t_0-t_1)/2)$.

13 The model is available via the World Integrated Trade Solution (WITS) software. See http://wits-old.worldbank.org/witsweb/download/docs/Explaining_SMART_and_GSIM.pdf for details of the model.
14 E.g. the United Nations Conference on Trade and Development (UNCTAD), International Trade Center (ITC), United Nations Statistical Division (UNSD) and the World Trade Organization (WTO).

Figure 1: Simple overview of some of the impacts of reducing tariff t from t_0 to t_1



The default tariffs and elasticities of the SMART model are provided at 6-digit level of the Harmonised System (HS). The simulations are therefore carried out on EU imports at this level of aggregation, even though products eligible for the GSP are identified at the 8-digit level of the Combined Nomenclature (CN).

The options simulated are summarised below but include only issues that are straightforwardly quantifiable while leaving out other non-quantifiable features that form part of some of the full policy options.

Policy Option A entails a discontinuation of the GSP scheme. Preferences would be abandoned for GSP and GSP+ beneficiaries. Their imports would be subject to standard 'most favoured nation' (MFN) tariffs. If other more favourable conditions exist via a bilateral agreement or another autonomous measure such as the EPA Regulation, these would apply.[15]

Policy Option B is the continuation of the current policy without any change and is the baseline scenario against which the other policy options will be compared. However, other elements, key to the effectiveness of the GSP but outside the remit of the GSP scheme, may change. In particular, this includes the status and likely development of multilateral and bilateral negotiations. Options A, C and D will therefore be compared against two baseline scenarios: one retaining the current status of multilateral and bilateral agreements (B1 – short run); and another where all on-going multilateral and bilateral negotiations are assumed to have been concluded and implemented, albeit for the

15 EBA arrangements, which are not subject to periodic review and thereby outside the scope of this revision, would remain.

purpose of this exercise in a much simplified way (B2 – long run). In the discussion of the results, focus will be on the impact of the options against the short-run baseline.

Policy Option C proposes a partial redesign of the scheme. The main thrust of this option would be to refine the beneficiary list, graduation rules and GSP+ related procedures and criteria.[16] In order to fully capture all the main possibilities at hand, particularly regarding graduation and GSP+ criteria, option C has been subdivided into two sub-options, C1 and C2 which nevertheless share a number of common features.

To better focus preferences on the countries most in need, the preferences for a number of beneficiaries would be deferred. These would be: (i)) high- and upper-middle income countries based on the World Bank's classification); and (ii) countries with a preferential trade agreement which covers substantially all preferences provided under the scheme. These countries would however remain eligible and receive preferences should their situation vary over time. This situation would be assessed regularly and beneficiary countries would be reclassified as appropriate.[17] However, option C1 relaxes the existing vulnerability criteria under GSP+ by increasing the import-share threshold from 1% to 2%, while option C2 removes the vulnerability criteria altogether.

The graduation mechanism would be revised in two ways. Firstly, the current 21 product sections would be split into 32 subsections. This would ensure that product categories are more homogeneous, and consequently that graduation becomes better targeted. Secondly, GSP+ beneficiaries would not be graduated, providing a powerful incentive for countries to join GSP+ (and thus to progress in the achievement of human rights, labour rights, and sustainable development).

Option C1 maintains the current procedures as described above, while option C2 reduces the thresholds by half to 7.5%[18] and eliminates the so called 'safety net' 50% threshold (if a specific group of products accounts for more than 50% of total GSP-covered exports, the group can not be graduated). The sectors which will actually be graduated are not known at this stage. They will depend on the level of EU imports on the basis of the latest available figures prior to the entering into force of the new Regulation.

Policy Option offers further redesign of the scheme by revising the GSP's product coverage. Three sub-options are simulated. D1 provides duty-free and quota-free (DFQF) treatment to all beneficiaries, that is, extending the EBA to all beneficiaries, D2 involves reclassifying certain sensitive products as non-sensitive (so-called “desensitisation”), but

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16 But other features which are not easily quantifiable are also put forward. For example, the GSP+ entry mechanism would be simplified and made more flexible. A more effective and transparent mechanism for monitoring and evaluating the implementation of GSP+ conventions is also proposed to be developed. Credible and efficient procedures for temporary withdrawal of preferences should be developed as well as procedures for renewal of the preferences. Finally, the administrative procedures for safeguard mechanisms are also suggested to be improved.

17 Also, overseas countries and territories which already have access to developed country markets and which typically thus do not use GSP are no longer eligible for preferences. The actual countries for which preferences are deferred will be on the basis of their situation at the time when the new scheme is approved.

18 7.5% emanates from the CARIS report, which highlights that graduation would become a much more powerful tool as of that level.

no expansion of products subject to the scheme19 and D3 entails an expansion of products subject to the scheme, but no reclassification of sensitive products as non-sensitive.

Results

Option A removes the GSP scheme while keeping the EBA for the LDCs. Relative to baseline B1, EU imports would decrease by about €6 billion or less than 1%. Exports would increase to a value of €130 million from the LDCs, while ex-GSP and ex-GSP+ beneficiaries would lose exports in the range of €8.5 billion imports – or around 20% of their current preferential imports. At the same time, exports from other the rest of the world (RoW) would increase by roughly €2 billion. Consumer surplus is expected to drop by about €3.5 billion or less than 0.05% of EU GDP, while tariff revenue is expected to increase by a similar amount.

Option C1 relaxes the vulnerability criterion from 1% to 2%. The actual list of countries which will meet the relaxed criterion is not known at this stage, but the additional countries that would currently meet the test (Pakistan, Philippines and Ukraine) have been used in the simulations. Under option C1, EU imports are expected suffer from a net reduction of €3.6 billion. This figure contains both is made up of both an increase and a drop. EU imports from the RoW rise by approximately €1.4 billion. At the same time, imports from countries which cease to benefit from the GSP drop by around €5 billion. This decline is significant, taking into account that their preferential imports were around €21 billion in 2009. The countries most in need are in a better position *as a whole* with an increase in EU imports of about €25 million (net effect of EBA, GSP and GSP+). This is largely explained by the entry of Pakistan into GSP+, which reduced textile exports from Bangladesh.[20]

Other notable variations within the category are the large increases in Ukrainian exports (€150 million) and Philippine exports (more than €75 million). On the other hand, significant losses accrue to Vietnam (more than €90 million) and India (more than €450 million) due to increased competition in textiles and fish products from new GSP+ beneficiaries and as a result of more stringent graduation criteria. Consumer surplus drops by less than €2 billion while tariff revenue increase by a similar amount.

The key differences between options C1 and C2 are (i) that the latter adds Namibia and Nigeria (all of them having already ratified the relevant conventions) as beneficiaries of GSP+ in the simulations and (ii) a lower graduation threshold increase the number of section graduated for certain countries, particularly for India. In addition it graduates country-sector combinations which are not known for their competitiveness (Iran, Ivory Coast and Kenya) signalling that the graduation mechanism is going beyond its intended effects to identify competitive sectors. This leads to a larger decrease in exports by GSP

19 For non-agricultural products, all sensitive products for which MFN tariffs are equal to or lower than 3.5% have been selected. This amounts to roughly 300 tariff lines or over 10% of the total. This threshold is taken as a yardstick for significance in preference levels as the current rules apply a 3.5% reduction in duties for GSP beneficiaries' imports of sensitive products.
20 Excluding Bangladesh, LDC exports would increase by about €20 million.

participants as a whole, but to an increase in LDC exports under the EBA as negative impacts on Bangladesh diminish.[21]

The option D sub-options are calculated as increments to option C2. Option D1 extends the DFQF treatment of LDCs to all countries most in need (whether GSP or GSP+). This implies that the remaining beneficiaries are no longer subject to graduation. With respect to the baseline, total imports would increase by about €14 billion, or by more than 1%. The increase in driven primarily by China (imports from which would increase by something like €16 billion), but also by other beneficiaries previously subject to significant graduation (e.g., India, Indonesia, Thailand, Vietnam). These exports would be spread amongst many sectors, the most salient of which are textiles, apparels, leather, rice, vegetables and fruit, and food products.

The aggregated impact on countries most in need would be positive. However, there would be large distributional effects, the additional space taken up by China, India, and other countries which were previously be subject to graduation would have a negative impact on many other countries most in need. LDCs particular would suffer (a drop of around €750 million of their imports), Bangladesh being the prime example – as would GSP+ countries such as Pakistan. Thus, exports of more competitive sectors, which otherwise would be graduated take up the space of competing sectors in other countries which are less advanced. Tariff revenue would decrease significantly, by about €12 billion, while consumer surplus would increase by slightly more.

Option D2 explores desensitisation while option 3 looks into product expansion. Both sub-options lead to preference erosion for the LDCs, particularly vis-à-vis GSP competitors.

21 More textile products are graduated for other beneficiaries – losing their preferences in product which compete with Bangladesh.

Table 1: Summary of simulated effects of the short-run baseline and the GSP Options (€ million*)

Baseline	Change in EU imports (including diverted trade)						Consumer Surplus	Change in EU tariff revenue
	Total	EBA	GSP+	GSP	Ex-GSP	RoW		
On-going and recently concluded FTAs	2235						1669	-1594
GSP Options								
A. Removal of the GSP	-6269	126			-8591	2197	-3612	3510
B. Status quo	n.a.							
C1. Removing high- and upper middle income countries, Graduation, sections split, threshold 15%, Pakistan, Philippines and the Ukraine to GSP+	-3649	-5	999	-970	-5027	1354	-1774	1694
C2. Removing high- and upper middle income countries, Graduation, sections split, threshold 7.5%, Nigeria, Pakistan, Philippines and the Ukraine to GSP+	-4055	17	1009	-1600	-4956	1474	-2065	1977
D1. DFQF for remaining GSP beneficiaries	14796	-757	-310	22298	-2091	-4345	12290	-11870
D2. "Desensitisation" of certain products	132	-7	32	154	-35	-12	97	-99
D3. Product scope expansion	103	-4	50	63	-42	-35	83	-102

Source: Own calculations. * Figures converted from $US into € using an exchange rate of $1.30 per €.

6. Conclusion and next steps

[to be added]

The proposal has been drawn up on the basis of a public consultation held between 27 March to 4 June 2010 and of a detailed impact assessment which studied the effects of a number of different policy options.

Decision-making procedures reflect the new institutional balance among the European Commission, the Council and the European Parliament in particular with respect to the application of implementing or delegated acts. Hence, the proposed Regulation has been submitted to the European Parliament and Council of Ministers, for discussion, amendment and approval. The Regulation will apply as of 1 January 2014 at the latest. Once approved by the Council and the European Parliament, the Regulation will be published 6 months in advance to the date of its application.

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