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# Agro-Food Preferences in the EU's GSP Scheme: An Analysis of Changes between 2004 and 2006

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## **Abstract**

In 2006 the EU revised again its Generalised System of Preferences scheme which provides preferential access to developing country exports to the EU market. This paper examines the extent to which the 2006 revisions to the scheme improved market access opportunities for developing countries for agro-food exports where most of the tariff changes were concentrated. Changes in the percentage preferential margin, in the value of preferential trade and in the value of the preferential margin on agro-food imports between 2004 and 2006 from developing countries are calculated. The results show that while the 2006 revision saw only a slight increase in the average percentage preferential margin enjoyed by exporters, there has been a significant increase in the value of preferential trade and in the value of the preferential margin enjoyed by these exporters. This was accompanied by changes in the ranking of beneficiaries, particularly under the main GSP scheme. Although the predominance of net-exporting emerging countries such as China, Brazil, Argentina, India and South Africa was maintained, some newcomers such as Thailand and Vietnam have now emerged as major GSP beneficiaries.

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## **1. Introduction**

One of the main objectives of trade preferences is to create the necessary stimulus to promote trade from developing countries. From the beginning, the effectiveness of trade preferences has been debated. Some critics have highlighted the tension between multilateralism and regionalism and have pointed to the welfare cost of such agreements. Other critics focus on the deficiencies and limitations of these programs. They underline the shallowness of the preferences granted to developing countries especially in the field of agricultural trade and argue that even the limited preferences offered are often underutilised because of administrative obstacles, restrictive rules of origin and other conditions attached to their use.

The EU has operated a generalised system of preferences (GSP) scheme open to all developing countries since 1971. The EU GSP scheme has recently been restructured, in part in response to a critical WTO Appellate Body report on foot of a complaint brought by India against the discriminatory nature of the previous scheme. The EU claims that its new GSP, which entered into force on 1 January 2006, is both simpler and more generous than its predecessors. We examine this claim in this paper by comparing the preferential margins available to agro-food exports from developing countries in the pre-2006 and post-2006 schemes. This focus on agro-food exports is justified because most of the changes in the GSP between these two years concerned tariff lines for these products.

We find that the 2006 revision did not greatly change the average percentage preferential margin enjoyed by developing country exporters on agro-food trade. However, there has been a significant increase in the value of preferential trade and in the value of the preferential margin enjoyed by these exporters. This was accompanied by changes in the ranking of beneficiaries, particularly under the main GSP scheme. Although the predominance of net-exporting emerging countries such as China, Brazil, Argentina, India and South Africa was maintained, some newcomers such as Thailand or Vietnam have now emerged as major GSP beneficiaries.

This paper is structured as follow. Section 2 describes the structure of the pre-2006 EU GSP scheme and the main changes introduced in the 2006-2015 EU GSP. Section 3 presents a statistical analysis of agro-food trade from GSP beneficiaries under the old GSP. Section 4 analyses the changes in preferential margins under the GSP 2006. Section 5 concludes and addresses some of the limitations of the analysis.

## **2. The EU Generalised System of Preferences scheme**

The Generalised System of Preferences is a set of EU unilateral tariff concessions exclusively granted to developing countries, with the exception of some former socialist and centrally planned economies. Tariff concessions are granted according to specific criteria and levels of development of the beneficiary countries. Non reciprocal preferential trade schemes are based on the presumption that the opening of a developed country market to a developing country will enhance trade and contribute to economic growth in this country. However, not all intended beneficiaries actually benefit from these programs, in part because of limitations in product and country coverage.

In 1964, the general secretary of the first United Nations Conferences on Trade and Development (UNCTAD) proposed the creation of a non reciprocal system of tariff preferences in favour of developing countries and this was adopted in 1968. Before the proposal could be implemented, it was necessary to exempt developed countries from the General Agreement on Tariff and Trade (GATT)'s non discriminatory Most Favoured Nation (MFN) obligation which requires a country to extend a tariff reduction granted to one contracting party to all contracting parties. In 1971 GATT members allowed a 10-year MFN waiver for the GSP. This was extended indefinitely by the Enabling Clause adopted as part of the Tokyo Round negotiations in the GATT in the 1980s.

The first GSP scheme was adopted by the European Union in 1971 for a period of ten years and it has been renewed periodically. The EU's scheme offers access to its market at lower or zero tariffs to imports from 112 developing countries and territories (see Annex 1 for a list of beneficiaries under the 2006 GSP scheme). The EU scheme has always made a distinction between sensitive and non-sensitive products, though the treatment of sensitive products has varied over time. Other features of previous schemes were quotas and ceilings for individual countries and products. The periodic reviews have involved changes in product coverage, quotas, ceilings, and their administration, beneficiaries and the depth of tariff cuts for agricultural products.

On 1 January 1995 a new 10-year cycle EU GSP scheme entered into force. It provided for:

1. A general arrangement covering around 7000 tariff lines where products were classified into four groups determining the depth of the tariff cuts. 3300 non sensitive products were given duty-free market access and 3700 sensitive products were divided into three groups. (i) Very sensitive products, where the duty applicable was 85% of the MFN rate; (ii) sensitive products, which had an applicable duty of 70% of

the MFN rate; (iii) semi-sensitive products, which had an applicable duty of 35% of the MFN rate;

2. A special incentive arrangement for the protection of labour rights which reduced the tariff for sensitive products by 8.5 percentage points on the MFN tariff for those beneficiaries able to meet certain conditions in relation to this policy area;

3. A special incentive arrangement for the protection of the environment which covers a certain number of tropical forest products for which additional preferences were granted;

4. A special arrangement to combat drug production and trafficking granted to Central and South American countries belonging to the Andean Community and Pakistan (7200 tariff lines at zero duty);

5. A special arrangement for the least developed countries (LDCs) known as the Everything But Arms (EBA) initiative which allowed free access for the 50 poorest countries in the world for all products except arms and ammunitions and which was introduced in 2001.

In December 2001, the Council of the European Communities adopted a proposal for revision of the GSP scheme for 2002-2004 (CEC 2001). This revision stipulated simplification and harmonisation of the previous arrangements principally by reducing the number of product categories from four to two. Duty-free access was maintained for all non-sensitive products, while all other products were now classified into one single category: sensitive products with a flat rate reduction of 3.5 percentage points from the MFN duty.<sup>2</sup>

In their desire to give developing countries broader access to their market, on June 2005 the EU member states agreed on a new GSP scheme which came into force on 1 January 2006. This new system is designed to be more generous, simpler, more transparent and more stable. The new scheme reduces the number of GSP arrangements from five to three:

- The general arrangement for standard GSP beneficiary countries is maintained but the product coverage was increased from 6900 to 7200 tariff lines mostly in the agricultural and fishery sectors. Current preferential margins are largely maintained (we examine this further in Section 4 below).
- A special incentive arrangement for sustainable development and good governance (hereafter GSP+) designed for the poorest and most vulnerable countries. It

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<sup>2</sup> This reduction only applies to *ad valorem* duties or the component of mixed tariffs. The reduction was 30% from the MFN rate in the sole presence of specific duty, 20% reduction for textiles and clothing and 15% reduction for ethyl alcohol.

guarantees tariff reductions and exemptions for about 7200 tariff lines if beneficiary countries meet a number of criteria and effective application of 27 international conventions on human and labour rights, environmental protection, fight against drugs, and good governance. To benefit from GSP+ countries must demonstrate that their economies are poorly diversified, small, lower-income economies, land-locked countries or small island nations), and therefore dependent and vulnerable. Poor diversification and dependence means that the five largest sections of a country's GSP-covered imports to the EU must represent more than 75% of its total GSP-covered imports. In addition, GSP-covered imports from that country must represent less than 1% of total EU imports under GSP;

The GSP+ arrangement was exceptionally applied before the entry into force of the whole Regulation (EC No 980/2005) to conform to the WTO ruling on special arrangements to combat drug production and trafficking.<sup>3</sup> Thus, countries which already fulfilled the criteria under the special arrangements of the old scheme were all automatically moved to the new GSP+ for a temporary period of three years. The list now closed until 2008 will then be re-opened.<sup>4</sup>

- The *Everything But Arms (EBA)* scheme remains unchanged. It provides duty-free and quota-free treatment for all products originating in the beneficiary countries for an unlimited period of time, except for arms and ammunition, and with a special regime applicable for three sensitive products bananas, sugar and rice. Duty free access was provided for bananas from January 2006, for sugar duty free access will be provided from January 2009 and for rice, duty free access will be provided from September 2009.

The GSP Regulation has always allowed for the exclusion of developing countries which have reached a level of development similar to developed countries. In the 2002-04 scheme, the exclusion criteria were based on the classification of countries by the World Bank and a development index. The development index was based on the level of a beneficiary country's industrial development and its participation in international trade. Countries which were classified for three consecutive years as high-income countries by the World Bank and had a development index over a certain threshold were excluded from the GSP. Even where a

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<sup>3</sup> WTO (2004). "European Communities – Conditions for the Granting of Tariff Preferences to the Developing Countries" Arbitration under Article 21.3 (c) of the understanding on rules and procedures governing the settlement disputes. WT/DS246/14.

<sup>4</sup> However, Pakistan which was eligible for the old GSP drugs scheme is not eligible for the GSP+ scheme.

country as a whole is not excluded, particular sectors may be excluded, or graduated, if they meet the criteria for graduation. These criteria related to the share of the imports from that country of a given product relative to all EU imports from GSP beneficiaries of that product or the degree of export specialisation by the beneficiary in that product.

The new scheme still removes countries when they become competitive in the export of a particular product or range of products. The justification is that the country no longer needs the GSP to promote this product's exports to the EU. However, the mechanism has been overhauled and simplified. The previous criteria (share of GSP imports, development index and export-specialisation index) have been replaced with a single simpler criterion: share of the community market expressed as a share of exports from GSP countries. This share would normally be 15% but is 12.5% for textiles and 12.5% for clothing, and it will be assessed at the end of 2008, except in the case of textiles and clothing which will be reviewed annually to take account of the possibility of sharp increases in textile and clothing exports.

Countries may be temporarily excluded from the GSP scheme for a number of reasons including: (i) serious and systematic violation of the principles in the conventions on sustainable development and good governance; (ii) export of goods made by prison labour; (iii) shortcomings in customs controls on export or transit of drugs or failure to comply with international conventions on money laundering; (iv) fraud, irregularities or systematic failure to comply or to ensure compliance with the rules of origin of products and the proof thereof, and to provide administrative co-operation as required; (v) unfair trading practices; (vi) infringements of the objectives of the arrangements concerning the conservation and management of fishery products.

Rules of origin are crucial in determining the effectiveness of preferences granted under a preferential trade regime. The rules of origin applicable to the GSP scheme are summarised in Annex 2. On 16 March 2005 the European Commission adopted a communication for a new approach to rules of origin in all preferential trade agreements (European Commission, 2005). Except for some sectors like agricultural, fisheries or textiles products, where moving to a new method of determination of origin represents a major change, the communication proposed that: (i) the basic origin rules should reflect both the production capacity of countries and processing operations with a real added-value in the country; and (ii) the method of evaluation of sufficient processing should be based on a value added test. Under this method a product resulting from the working or processing of imported non originating materials would be considered as originating if the value added in the country amounts at least to a certain threshold expressed as a percentage of the net production cost of the final



product. Following an impact assessment of this proposal, the Commission published a Draft Commission Regulation on the reform of GSP rules of origin in October 2007 (European Commission, 2007). This draft is now under examination by the Member States in the Customs Code Committee. It proposes a single across-the-board criterion for goods which are not wholly obtained in the beneficiary country and a simplification of the cumulation rules. These rules of origin changes will have an additional effect on the value of GSP preferences but they are not the subject matter of this paper. Instead, this paper focuses on the value of the tariff preference changes introduced in 2006.

### **3. Statistical analysis of GSP agro-food trade to the EU**

#### *Preferential agro-food trade from EU GSP beneficiaries*

To analyse the scope and depth of the preferences granted by the EU under the GSP scheme requires the utilisation of comprehensive databases on tariff and trade. The EU TARIC gives the tariffs affecting EU imports under each existing regime at the NC 10-digit level. However, computing the value of these preferences requires knowing the value of trade entering the EU under such preferential regimes. The EUROSTAT database COMEXT contains trade data for the EU at the NC 8-digit level. These data are available online via the COMEXT website. Since November 2006 COMEXT distinguishes between imports under MFN or Preferential regime, but a more disaggregated level of detail (showing trade under each preferential regime) is still not available. Another set of useful trade data is provided by UNCTAD via the COMTRADE database which gives access to trade data at the HS6 level but it suffers from the same caveats.<sup>5</sup>

We have downloaded from EUROSTAT/COMEXT data on agro-food imports for all GSP/GSP+/EBA countries from 2000 to 2006. Tables 1 through 3 summarize these data. *MFN* in columns 3 and 4 indicates that imports from GSP countries entered the EU's borders under the MFN tariff regime (*non zero* where the MFN tariff was positive, *zero* where the tariff was null). *Pref* in columns 5 and 6 indicates that trade from GSP countries entered the EU's borders under a preferential regime (all regimes taken into account, *non zero* where the preferential tariff was positive, *zero* where the tariff was null).

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<sup>5</sup> For a comprehensive review of all the main databases on tariffs and trade cf. Droque et al. (2006).

**Table 1: EU agricultural and food imports (chapters 01 to 24) from GSP countries and share by tariff regime**

Years	Agro-food trade from GSP countries (Mio euros)	MFN non zero	MFN zero	Pref non zero	Pref zero
2000	31,471	31.94%	35.98%	12.47%	19.61%
2001	34,773	28.28%	42.56%	13.07%	16.09%
2002	35,170	26.64%	42.72%	13.30%	17.34%
2003	35,293	27.04%	41.82%	14.69%	16.45%
2004	37,316	25.96%	43.43%	15.00%	15.61%
2005	40,198	25.62%	41.85%	16.26%	16.26%
2006	43,202	22.67%	40.43%	20.14%	16.76%
Memo item					
2000-2005	35,704	27.58%	41.39%	14.13%	16.89%

Source: EUROSTAT/COMEXT

**Table 2: EU agricultural and food imports (chapters 01 to 24) from GSP+ countries and share by tariff regime**

Years	Agro-food trade from GSP+ countries <sup>6</sup> (Mio euros)	MFN non zero	MFN zero	Pref non zero	Pref zero
2000	4,902	37.03%	24.68%	6.48%	31.82%
2001	4,693	34.35%	35.62%	6.44%	23.58%
2002	5,000	36.98%	30.78%	5.64%	26.59%
2003	4,986	39.59%	27.31%	6.96%	26.14%
2004	5,345	43.83%	27.05%	7.58%	21.55%
2005	6,330	33.29%	30.15%	9.22%	27.34%
2006	7,139	29.85%	30.73%	7.28%	32.14%
Memo item					
2000-2005	5,209	37.51%	29.26%	7.05%	26.17%

Source: EUROSTAT/COMEXT

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<sup>6</sup> Here and in the rest of the paper *GSP+* indicates the special arrangements for labour, environment and combating drug trafficking of the pre-2006 GSP scheme and special arrangement for poor and vulnerable countries meeting the criteria for good governance of the 2006 GSP scheme.

**Table 3: EU agricultural and food imports (chapter 01 to 24) from EBA countries and share by tariff regime**

Years	Agro-food trade from EBA countries (Mio euros)	MFN non zero	MFN zero	Pref non zero	Pref zero
2000	2,349	8.28%	24.78%	0.18%	66.76%
2001	2,258	4.95%	28.08%	0.21%	66.76%
2002	2,303	4.75%	26.74%	0.22%	68.29%
2003	2,217	11.19%	26.30%	0.20%	62.30%
2004	2,133	3.51%	34.22%	0.28%	61.99%
2005	2,475	4.18%	37.83%	0.25%	57.74%
2006	2,510	2.37%	35.50%	0.23%	61.90%
Memo item					
2000-2005	2,289	6.14%	29.66%	0.22%	63.97%

Source: EUROSTAT/COMEXT

From 2000 to 2006 EU imports of agro-food products (Chapters 01 to 24) from GSP countries increased from 31.4 to 43.2 billion euros and from 4.9 to 7.1 billion euros for GSP+ countries. Imports from EBA countries hardly changed. During the same period there was a small change in the “tariff status” of these imports with a small shift from MFN to Preference. On average between 2000 and 2005, around 69% of GSP beneficiaries’ imports crossed the borders under MFN; 67% for GSP+ beneficiaries and 36% for EBA beneficiaries. But the major part of those imports faced a zero MFN tariff. Only 28% of GSP beneficiaries’ imports, 38% of GSP+ beneficiaries’ imports and 6% of EBA beneficiaries’ imports faced a positive MFN tariff. Some of these positive tariffs could be quite low and are not worth the cost exporting countries would face to request the preferences for which their exports to the EU would be eligible.

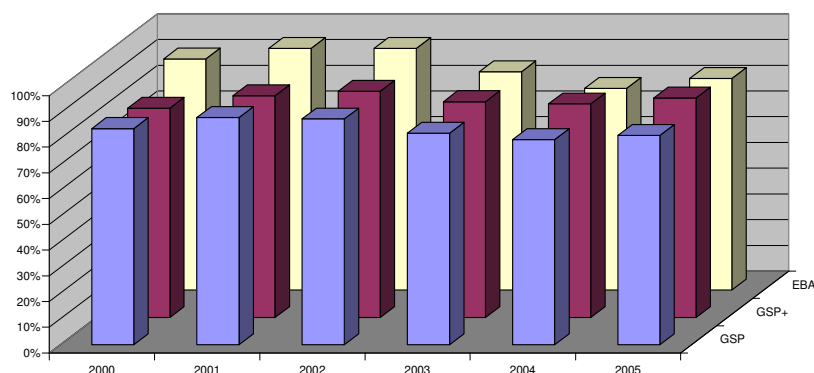
Comparing the 2006 figures, the only year to date under the new scheme, with the 2000-2005 average highlights some interesting trends. The value of agro-food imports from beneficiaries in 2006 continues the steady increase in the earlier period. For the main GSP scheme, the increase concerns particularly trade facing zero MFN tariffs (an increase of 6 percentage points in 2006 compared to the 2000-2005 average) and to a smaller extent trade benefiting from a zero preferential tariff rate (increase of 2 percentage points). However, these figures cannot shed light on whether these increases are due to higher unit values of these trade flows or to a greater volume of imports.

We next compute the rate of utilisation of preferences as the ratio of imports using a preference to imports eligible for any preference. This includes preferences other than the

GSP, for example, the Cotonou preferences for ACP countries. The results show that – all regimes taken into account - it is overall rather high.

Figure 1 shows the utilisation rate between 2000 and 2005. This rate is more than 80% on average during the period. This confirms the conclusions of earlier studies, that the EU's preferential schemes are well utilised taken together (Candau and Jean, 2005; Manchin, 2005; Stevens and Kennan, 2004).

**Figure 1 Utilisation rate of preferences of GSP/GSP+/EBA-benefiting countries  
(All regimes taken together)**



Source: EUROSTAT/COMEXT

Unfortunately, no conclusions can be drawn about the effectiveness of individual schemes from these data as many countries are eligible for more than one preferential scheme (GSP, ACP...). Until the recent work of Jacques Gallezot (INRA), no database existed breaking down preferential trade by the preferential regime actually used. Gallezot built a database (TRADEPREF) which gives for the first time the value of trade, the preferential regime adopted, the ad valorem equivalent (AVE) of the applied duty and the MFN AVE at the NC 10-digit level for countries benefiting from all EU tariff preferences. However, these data are only available for the year 2002. His work uses the information contained in the Single Administrative Document which is requested by the EU customs for every import (Gallezot, 2006).

Table 4 shows for 2002 the ten biggest users of the GSP preferences. The top three countries (Argentina, China and India) accounted for 43% of total imports using the GSP. The

utilisation rate is greater than or equal to 50% for most countries except for those that are also eligible for other preferences (e.g. Morocco 18% also eligible for EUROMED agreement or Madagascar 11% also eligible for ACP preferences).

**Table 4: Top 10 users of GSP preferences (value of imports and utilisation rate), 2002**

GSP countries	Utilisation rate	GSP-covered imports (in Mio euros)	GSP+ countries	Utilisation Rate	GSP+-covered imports (in Mio euros)	EBA countries	Utilisation rate	EBA-covered imports (in Mio euros)
<i>Argentina</i>	53%	770.37	<i>Ecuador</i>	64%	399.57	<i>Bangladesh</i>	75%	200.62
<i>China</i>	47%	592.90	<i>Costa Rica</i>	59%	380.36	<i>Yemen</i>	96%	20.02
<i>India</i>	50%	500.89	<i>Colombia</i>	54%	295.39	<i>Maldives</i>	97%	14.75
<i>South Africa</i>	34%	388.90	<i>Peru</i>	60%	274.58	<i>Zambia</i>	34%	13.72
<i>Morocco</i>	18%	372.06	<i>Guatemala</i>	67%	110.95	<i>Malawi</i>	14%	11.19
<i>Indonesia</i>	49%	256.31	<i>Honduras</i>	69%	65.50	<i>Tanzania</i>	38%	11.01
<i>Brazil</i>	48%	246.07	<i>Venezuela</i>	57%	61.87	<i>Ethiopia</i>	41%	7.85
<i>Iran</i>	52%	213.85	<i>Pakistan</i>	43%	57.99	<i>Uganda</i>	3%	4.42
<i>Cuba</i>	66%	177.76	<i>Panama</i>	49%	30.85	<i>Madagascar</i>	11%	2.92
<i>Chile</i>	59%	136.22	<i>Nicaragua</i>	81%	24.44	<i>Senegal</i>	34%	2.28

Source: Authors' calculations based on TRADEPREF.

#### 4. Comparison of GSP preferences 2004 and 2006

##### *The EU GSP level of protection*

The objective of this section is to compare the extent of the improvement in preferences in the 2006 GSP compared to the previous GSP scheme. Using the DBTAR database<sup>7</sup> we extracted and computed the ad valorem equivalents of the EU MFN and GSP tariffs for agro-food products in 2004. We then computed the 2006 AVEs using the 2006 GSP preferential tariffs combined with the 2004 unit value from DBTAR to make the comparison with the 2004 AVEs. This ensures that any differences in the preference margin between the two years are due to changes in the GSP tariff, and not to differences in the world price.

Average tariffs faced by the beneficiaries of the GSP have been computed at the HS2 level and overall using a simple average of the AVEs calculated at the NC10 level. When the tariff evolved during the year (because of seasonality, for example) a simple average over the year was used. While trade-weighted averages are often preferred when measuring the overall level of protection, a change in the trade-weighted tariff between two years can be the result either of a change in the level of tariff (under the control of the preference-giving country) or

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<sup>7</sup> DBTAR is a tariff database developed under the TRADEAG project by J. Gallezot. It focuses on the EU's applied tariffs at the 10 digit level. Particular attention is paid to the various tariffs under preferential regimes, and to the calculation of representative tariffs for some complex cases, such as the tariff lines for which there is an entry price (fruits and vegetables). All tariffs in DBTAR are converted into ad valorem equivalents with a convention slightly different from the one agreed upon under the WTO. DBTAR is available from 2001 to 2004 (Gallezot, 2006).

a change in the composition of trade (which reflects price developments and structural changes in exporting countries and the world market). Thus, the simple tariff average is used here to measure the *intentions* of the EU with respect to the level of preference granted. The trade-weighted tariff is used later when computing the value of the benefit of these preferences to the recipient countries. The results are summarised in Table 5 and Table 6 and detailed at the HS2 level in Annex 3. The average MFN tariff (in AVE terms) on agro-food commodities, according to our calculations, is around 19-20% for 2004 and 2006. This is consistent with previous studies (e.g. Brenton and Ikezuki, 2005). GSP beneficiaries, however, enjoy a lower tariff (14-18%) and even an almost zero tariff in the case of LDCs.

**Table 5: Comparison of some indicators under MFN and GSP regimes for year 2006**

Regime	No. of lines	No. of preferred lines	No. of zero lines	Average tariff faced by the beneficiaries	Preferential Margin (% points)
MFN	3,447	0	388	19.04%	0
GSP	3,453	1,998	553	16.95%	2.10
GSP+	3,453	2,178	2,161	13.97%	5.07
EBA	3,453	3,390	3,389	0.38%	18.66

Source: DBTAR, TARIC and authors' calculations.

**Table 6: Comparison of some indicators under MFN and GSP regimes for year 2004**

Regime	No. of lines	No. of preferred lines	No. of zero lines	Average tariff faced by the beneficiaries	Preferential Margin (% points)
MFN	3,677	0	405	19.61%	0
GSP	3,683	1,658	522	17.68%	1.93
GSP+	3,683	2,489	2,236	14.58%	5.03
EBA	3,683	3,631	3,629	1.36%	18.25

Source: DBTAR, TARIC and authors' calculations.

As a first indicator of a change in the value of the 2006 GSP scheme compared to its predecessor, we computed the number of preferred tariff lines at the NC10 level to see whether this had changed between the old and the new GSP scheme (some lines have been recoded). Concerning the mainstream GSP the number of 'preferred' lines increased from 1658 to 1998 (at NC10 for chapters 01 to 24) and the proportion of preferred lines shifted from 45% to 58% of total lines. At the same time, the number of 0-lines (products bearing a 0% tariff) increased from 522 to 553 and from 14% to 16% (of total lines). The main increases took place in chapters 03, 10, 13, 15, 16, 19, 20, 22 and 23. For the other chapters the proportion did not change or even decreased.

Concerning the GSP+ the number of preferred lines dropped from 2489 to 2178. The number of 0-lines decreased in absolute number from 2236 to 2161 but increased relatively from 61% to 63%. The proportion of all preferred lines decreased from 67% to 63%. This concerns mainly chapters 05 and 12. But most of the GSP+ lines which ‘disappeared’ already showed a 0-MFN tariff. Concerning EBA the figures are 3631 to 3390 (from 98.5% to 98.2%) and for 0-lines 3629 to 3389 (98.5 to 98.1%). This is due to the fact that the total number of lines in chapter 10 shifted from 78 to 90 and the number of 0-lines in that chapter from 35 to 36. At the same time the overall number of lines decreased from 3683 to 3453.

A second indicator of the change in the value of the GSP scheme is to examine what has happened to the average preference margin. Globally, the average tariff faced by the GSP general scheme beneficiaries has not changed much as a result of the introduction of the new GSP scheme (less than one percentage point between 2004 and 2006), nor have all chapters benefited from reductions. Three chapters (04, 07 and 23) experienced increases in the GSP and GSP+ AVEs between 2004 and 2006. One chapter experienced a drastic decrease of its average tariff. Chapter 10 (cereals) dropped by 17 percentage points from 36% on average in 2004 to 19% in 2006. Overall, the percentage preference margin increased slightly between 2004 and 2006. It shifted from 1.92 percentage point (on average) in 2004 for GSP countries to 2.10 percentage points in 2006, from 5.03 to 5.07 percentage points for GSP+ and from 18.25 to 18.66 percentage points for EBA countries (see Table 5 and Table 6).

#### *The level of trade between the EU and GSP beneficiaries*

To further analyse the impact of the changes in moving from the old to the new scheme we have computed the change in the value of preferential trade. For that, we needed the value of trade disaggregated by preferential regime. First, we retrieved data for preferential trade from COMEXT. We computed from the TRADEPREF database the share of each regime in each trade flow in 2002 by NC8 tariff line and country. Then, we inferred the share of each regime for 2004 and 2006 by applying the 2002 share computed from the COMEXT data. When the information was lacking (no preferential trade in 2002) or ambiguous (two schemes applying to the same product), we made the following hypotheses: we choose the most utilised scheme (in 2002) or the more preferential scheme (the lowest tariff rate). Results are contained in Table 7 to Table 12 for the top 10 users and for all beneficiaries. GSP-covered exports in these tables refer to exports entering the EU under the GSP regime while GSP-eligible exports are the value of exports which potentially could have used the GSP regime. In some cases, these exports may have been eligible for another preferential regime, while in other cases exporters may not have felt it worth their while to incur the additional costs to claim the preferences or they may not have been able to meet the rules of origin.



**Table 7: Level of agro-food trade (chapters 01 to 24) between the EU and top 10 GSP beneficiaries (2006)**

<b>2006</b>	<b>GSP-covered exports (Mio €)</b>	<b>Eligible exports to the EU (Mio €)</b>	<b>Total exports to the EU (Mio €)</b>	<b>Share of GSP trade in total trade</b>
<i>China</i>	1,252.33	2,267.23	3,488.80	36%
<i>Argentina</i>	1,065.39	1,289.74	5,317.15	20%
<i>India</i>	732.04	926.50	1,705.79	43%
<i>Brazil</i>	596.69	761.50	8,780.07	7%
<i>Thailand</i>	588.23	961.85	1,706.27	34%
<i>South Africa</i>	564.88	1,254.93	1,823.16	31%
<i>Vietnam</i>	479.37	586.46	1,312.09	37%
<i>Ukraine</i>	404.79	423.64	879.37	46%
<i>Indonesia</i>	277.48	405.25	1,697.74	16%
<i>Russian Federation</i>	263.75	606.98	943.49	28%
<i>Total 10</i>	6,224.97	9,484.08	27,653.92	23%
<i>Total all</i>	7,580.40	19,616.63	43,201.59	18%

Source: EUROSTAT/COMEXT and author's own calculations

**Table 8: Level of agro-food trade (chapters 01 to 24) between the EU and top 10 GSP beneficiaries (2004)**

<b>2004</b>	<b>GSP-covered exports (Mio €)</b>	<b>Eligible exports to the EU (Mio €)</b>	<b>Total exports to the EU (Mio €)</b>	<b>Share of GSP trade in total trade</b>
<i>China</i>	678.12	941.01	2,203.61	31%
<i>Argentina</i>	603.82	709.79	4,557.42	13%
<i>India</i>	529.05	683.56	1,354.12	39%
<i>South Africa</i>	448.02	1,129.24	1,837.58	24%
<i>Brazil</i>	299.53	347.90	8,576.04	3%
<i>Indonesia</i>	265.73	409.14	1,520.71	17%
<i>Iran</i>	226.24	241.59	337.30	67%
<i>Malaysia</i>	153.78	185.76	888.76	17%
<i>Ukraine</i>	149.56	165.94	489.02	31%
<i>Cuba</i>	137.72	146.95	244.05	56%
<i>total 10</i>	3,491.57	4,960.88	22,008.61	16%
<i>Total all</i>	4,276.83	13,687.08	37,315.83	11%

Source: EUROSTAT/COMEXT and author's own calculations

**Table 9: Level of agro-food trade (chapters 01 to 24) between the EU and top 10 GSP+ beneficiaries (2006)**

<b>2006</b>	<b>GSP+-covered exports (Mio €)</b>	<b>Eligible exports to the EU (Mio €)</b>	<b>Total exports to the EU (Mio €)</b>	<b>Share of GSP+ trade in total trade</b>
<i>Ecuador</i>	755.43	804.64	1,471.85	51%
<i>Peru</i>	461.70	484.74	1,129.80	41%
<i>Costa Rica</i>	380.31	546.14	1,131.86	34%
<i>Colombia</i>	375.04	397.05	1,479.92	25%
<i>Guatemala</i>	130.88	148.16	317.29	41%
<i>Sri Lanka</i>	104.66	131.85	220.51	47%
<i>Panama</i>	92.13	100.62	314.96	29%
<i>Honduras</i>	88.24	107.38	362.99	24%
<i>Venezuela</i>	68.05	68.98	185.11	37%
<i>Georgia</i>	58.13	72.08	79.78	73%
<i>Total 10</i>	2,514.57	2,861.65	6,694.07	38%
<i>Total all</i>	2,643.89	3,052.24	7,138.85	37%

Source: EUROSTAT/COMEXT and author's own calculations

**Table 10: Level of agro-food trade (chapters 01 to 24) between the EU and top 10 GSP+ beneficiaries (2004)**

<b>2004</b>	<b>GSP+-covered exports (Mio €)</b>	<b>Eligible exports to the EU (Mio €)</b>	<b>Total exports to the EU (Mio €)</b>	<b>Share of GSP+ trade in total trade</b>
<i>Ecuador</i>	473.40	520.70	1,133.55	42%
<i>Peru</i>	316.95	333.19	684.76	46%
<i>Colombia</i>	198.24	245.14	1,115.03	18%
<i>Guatemala</i>	118.57	125.60	283.03	42%
<i>Costa Rica</i>	91.42	214.63	1,027.84	9%
<i>Pakistan</i>	73.42	107.37	236.97	31%
<i>Honduras</i>	71.40	89.17	241.16	30%
<i>Venezuela</i>	69.90	70.45	178.13	39%
<i>Panama</i>	45.71	49.48	281.89	16%
<i>El Salvador</i>	31.72	32.92	84.77	37%
<i>Total 10</i>	1,490.72	1,788.67	5,267.13	28%
<i>Total all</i>	1,517.70	1,817.34	5,345.25	28%

Source: EUROSTAT/COMEXT and author's own calculations

**Table 11: Level of agro-food trade (chapters 01 to 24) between the EU and top 10 EBA beneficiaries (2006)**

2006	EBA-covered exports (Mio €)	Eligible exports to the EU (Mio €)	Total exports to the EU (Mio €)	Share of EBA trade in total trade
<i>Bangladesh</i>	133.12	213.09	214.84	62%
<i>Senegal</i>	87.14	207.24	236.28	37%
<i>Tanzania</i>	81.25	206.86	272.17	30%
<i>Mauritania</i>	49.02	94.06	98.12	50%
<i>Maldives</i>	44.28	44.78	44.80	99%
<i>Uganda</i>	43.07	162.02	265.87	16%
<i>Ethiopia</i>	33.01	58.28	223.20	15%
<i>Yemen</i>	32.01	35.39	35.84	89%
<i>Zambia</i>	26.56	70.27	79.28	34%
<i>Madagascar</i>	22.49	186.64	236.17	10%
<i>total 10</i>	551.94	1,278.63	1,706.57	32%
<i>total all</i>	603.65	1,669.43	2,510.12	24%

Source: EUROSTAT/COMEXT and author's own calculations

**Table 12: Level of agro-food trade (chapters 01 to 24) between the EU and top 10 EBA beneficiaries (2004)**

2004	EBA-covered exports (Mio €)	Eligible exports to the EU (Mio €)	Total exports to the EU (Mio €)	Share of EBA trade in total trade
<i>Bangladesh</i>	120.31	179.93	180.70	67%
<i>Tanzania</i>	91.72	186.85	223.85	41%
<i>Senegal</i>	90.74	228.50	245.94	37%
<i>Uganda</i>	37.39	129.32	222.91	17%
<i>Mauritania</i>	36.44	88.01	91.67	40%
<i>Madagascar</i>	29.67	211.26	292.51	10%
<i>Malawi</i>	29.10	118.45	140.21	21%
<i>Maldives</i>	25.94	27.63	27.78	93%
<i>Yemen</i>	23.46	27.52	28.00	84%
<i>Ethiopia</i>	16.16	22.50	135.70	12%
<i>Total 10</i>	500.94	1,219.98	1,453.57	34%
<i>Total all</i>	542.10	1,471.37	2,132.57	25%

Source: EUROSTAT/COMEXT and authors' own calculations

Trade from GSP countries has evolved considerably from 2004 to 2006. In 2006 (based on COMEXT data and our own calculations) agro-food trade from GSP countries increased from 37 billion euros to 43 billion euros, while the share of preferential trade increased to 27% (against 19% in 2004). This is also the case for GSP+ countries: total agro-food trade increased from 5 to 7 billion euro between 2004 and 2006, while the share of this trade benefiting from preferences increased from 28% to 38%. Only EBA countries did not see much increase in their agro-food exports.

The ranking of the beneficiaries has also changed. The most impressive change is seen for Thailand which was in fifth position in 2006 although not even in the top ten in 2004, but also Vietnam (seventh in 2006) and Russia (at the 10<sup>th</sup> position) now make much more use of GSP preferences. Trade from GSP+ benefiting countries has also increased but the rank of countries did not change much. Sri Lanka replaced Pakistan at the sixth position after the latter lost its privileged status. EBA-covered imports did not change much nor the rank of EBA countries.

#### *The value of preferences*

Finally, we compute the value of the preferential margin in 2004 and 2006. The preferential margin is computed by multiplying the value of trade by the difference between the MFN tariff and the preferential tariff at the NC 8-digit level. The effective preferential margin is the value of the preference effectively used; the potential preferential margin is the value of trade eligible for a GSP preference. The results are displayed in Table 13 and 14. The preferential margin is computed only for trade estimated to enter under GSP preferences.

**Table 13: Effective (MPE) and potential (MPP) GSP preferential margin by countries  
(top 10 users) 2006 in Mio€**

<b>GSP countries</b>	<b>MPE</b>	<b>MPP</b>	<b>GSP+ countries</b>	<b>MPE</b>	<b>MPP</b>	<b>EBA countries</b>	<b>MPE</b>	<b>MPP</b>
<i>China</i>	55.45	96.21	<i>Ecuador</i>	109.48	114.84	<i>Bangladesh</i>	16.29	25.95
<i>Argentina</i>	48.71	55.49	<i>Peru</i>	53.30	55.15	<i>Senegal</i>	12.18	26.96
<i>India</i>	39.87	46.41	<i>Colombia</i>	40.20	42.99	<i>Maldives</i>	8.68	8.78
<i>Thailand</i>	29.49	44.11	<i>Costa Rica</i>	30.42	42.96	<i>Ethiopia</i>	6.59	9.59
<i>Brazil</i>	26.76	32.80	<i>Sri Lanka</i>	15.38	16.78	<i>Tanzania</i>	6.54	19.06
<i>Vietnam</i>	24.98	30.39	<i>Guatemala</i>	14.67	20.66	<i>Mauritania</i>	5.09	9.90
<i>Cuba</i>	18.39	18.90	<i>Panama</i>	11.64	12.29	<i>Yemen</i>	4.75	5.33
<i>Indonesia</i>	16.78	24.61	<i>El Salvador</i>	9.60	9.65	<i>Uganda</i>	4.07	14.72
<i>South Africa</i>	15.91	23.33	<i>Honduras</i>	8.37	9.50	<i>Zambia</i>	2.25	5.63
<i>Ukraine</i>	13.66	14.35	<i>Venezuela</i>	6.43	6.54	<i>Madagascar</i>	1.31	24.68
<i>Total for top 10</i>	290.00	386.59	<i>Total for top 10</i>	299.50	331.35	<i>Total for top 10</i>	67.74	150.59
<i>Total for all</i>	353.00	732.51	<i>Total for all</i>	313.81	354.91	<i>Total for all</i>	69.82	191.85
<i>Share of 10 in total</i>	82%	53%	<i>Share of 10 in total</i>	95%	93%	<i>Share of 10 in total</i>	97%	78%

Source: Authors' calculations based on EUROSTAT/COMEXT, TRADEPREF, DBTAR, TARIC

**Table 144: Effective (MPE) and potential (MPP) GSP preferential margin by countries  
(top 10 users) 2004 in Mio€**

<b>GSP countries</b>	<b>MPE</b>	<b>MPP</b>	<b>GSP+ countries</b>	<b>MPE</b>	<b>MPP</b>	<b>EBA countries</b>	<b>MPE</b>	<b>MPP</b>
<i>Argentina</i>	29.93	32.78	<i>Ecuador</i>	69.03	73.62	<i>Bangladesh</i>	14.09	21.33
<i>China</i>	28.15	40.00	<i>Peru</i>	35.64	37.66	<i>Senegal</i>	13.56	30.31
<i>India</i>	26.85	32.43	<i>Colombia</i>	24.78	30.02	<i>Tanzania</i>	7.44	16.86
<i>Cuba</i>	21.50	22.59	<i>Pakistan</i>	16.38	17.39	<i>Maldives</i>	5.38	5.74
<i>Brazil</i>	17.01	18.94	<i>Guatemala</i>	12.97	13.36	<i>Mauritania</i>	4.17	9.81
<i>Indonesia</i>	16.15	23.16	<i>Costa Rica</i>	12.26	21.07	<i>Yemen</i>	3.99	4.65
<i>South Africa</i>	10.93	18.16	<i>Venezuela</i>	8.25	8.29	<i>Uganda</i>	3.81	12.02
<i>Malaysia</i>	9.82	11.64	<i>Honduras</i>	7.79	8.83	<i>Ethiopia</i>	2.88	3.63
<i>Chile</i>	8.12	22.92	<i>El Salvador</i>	6.62	6.80	<i>Madagascar</i>	1.80	27.27
<i>Vietnam</i>	7.46	9.76	<i>Panama</i>	5.06	5.35	<i>Zambia</i>	1.56	4.26
<i>Total for top 10</i>	175.91	232.39	<i>Total for top 10</i>	198.79	222.39	<i>Total for top 10</i>	58.67	135.87
<i>Total for all</i>	210.96	443.55	<i>Total for all</i>	202.71	226.82	<i>Total for all</i>	62.78	165.95
<i>Share of 10 in total</i>	83%	52%	<i>Share of 10 in total</i>	98%	98%	<i>Share of 10 in total</i>	93%	82%

Source: Authors' calculations based on EUROSTAT/COMEXT, TRADEPREF, DBTAR, TARIC

Significant changes are evident between 2004 and 2006. Corresponding to the 77% increase in the value of trade under the GSP scheme from GSP beneficiaries, the value of the utilised preference margin has increased by 67% (from 210 to 353 million euros) between the two dates. For GSP+ countries these figures are respectively of 74% and 54% and for EBA 11% in both cases.

Some countries have taken great advantage of the preferences offered by the EU. For instance, Thailand appears in 2006 as the fifth exporter of GSP-covered products and the fourth beneficiary of GSP preferences while it was 18<sup>th</sup> and 17<sup>th</sup> in 2004. This country increased its total agro-food trade to the EU from 1389 million euro in 2004 to 1706 million euro in 2006. At the same time its agro-food exports eligible for some preference (all schemes taken into account) rose from 74 million euros to 962 million euros and its agro-food trade entering the EU under a preferential tariff went from 45 million euros to 588 million euros. This shows how some countries have modified the composition of their trade in order to benefit more from the EU's preferences.

One question in the analysis of trade preferences is the distribution of preference benefits across trade partners. We noted earlier that there was evidence that the beneficiaries of the EU GSP scheme were highly concentrated. The Herfindahl-Hirshman Index (HHI) is a widely used measure of concentration. We computed this concentration index in order to see if the introduction of the new EU GSP scheme has led to any change in the concentration of the

preference benefits. The index is based on the size of a country's GSP trade in relation to total GSP trade, and is defined as the sum of squares of the market share of each country. A HHI greater than 0.18 is generally taken as an indication of a high level of concentration and vice-versa. The results suggest that the GSP trade is not very concentrated (Table 15). The HHI is smaller than or equal to 0.18 in all periods showing a moderate concentration.

**Table 55: Concentration index for GSP scheme**

<b>Regime</b>	<b>HHI 2004</b>	<b>HHI 2006</b>
GSP	0.09	0.09
GSP+	0.18	0.16
EBA	0.13	0.11

Sources: Authors' calculations based on TRADEPREF, TARIC, and EUROSTAT/COMEXT.

## **5. Conclusions**

The objective of this paper was to investigate whether the EU's revised GSP scheme introduced in 2006 led to improved preferential access for developing country agro-food exports to the EU market. The literature on the pre-2006 GSP scheme agrees that it was rather generous on paper. Compared to similar schemes granted by other developed countries (Japan, United States...) it seemed to offer greater opportunities to developing countries and, when other preferences schemes are taken into account (e.g. ACP, Euromed), the utilisation rate was high. However, the numerous exceptions, exemptions, graduations and specific requirements lowered the impact of the GSP.

The analysis of the trade of beneficiary countries under the pre-2006 scheme showed that whereas agro-food imports entering the EU under MFN-0 or tariff preferences evolved positively, one quarter of GSP countries' imports, and one third of GSP+ countries' imports, crossed the EU's borders under positive MFN tariffs between 2000 and 2005. The utilisation rate of the pre-2006 scheme also left room for improvement for a number of countries particularly where these countries were amongst the biggest exporters.

Has the 2006 GSP scheme led to any improvements? The year 2006 is the only available year to date on which to base an analysis but some conclusions can be drawn. Although the average GSP tariff has not changed much between the two schemes, the number of preferred lines has evolved positively. Trade from GSP-benefiting countries has also evolved positively particularly for countries in the mainstream GSP. Consequently, although the percentage preferential margin increased only slightly, the value of the preference margin has increased substantially. The increase can be imputed both to the evolution of the volume of preferential

trade and to the evolution in the composition of this trade. The new GSP has confirmed the presence in the top of the list of GSP beneficiaries of the emerging economies such as China, Argentina, India, Brazil and South Africa, but it has also seen the emergence of new beneficiaries such as Thailand, Vietnam and Russia which now manage to take advantage of the preferences offered by the EU

Our calculations on the relative benefits of the GSP scheme in 2004 and 2006 to beneficiary countries only examined tariff changes. The value of GSP preferences is also influenced by the eligibility rules. The EU is in the process of introducing new rules of origin to govern preferential trade. The new rules will make a particular difference for agro-food trade, but the impact of these changes has not been discussed here. Nor has the impact of changes in the graduation rules which determine the circumstances in which preferences can be withdrawn for products in which an exporting country is deemed too successful. Finally, the analysis here is conducted on the basis of existing trade flows, and does not consider the implications of possible market changes in the future. For example, the 2004 GSP scheme provided a 15% reduction for ethanol relative to the MFN tariff for most GSP beneficiaries (though not Brazil which was already 'graduated' from this preference). However, this preference was withdrawn in the 2006 scheme, although it remains available to GSP+ beneficiaries.<sup>8</sup> Given the potential for growth in bio-ethanol imports into the EU, the potential loss arising from this elimination of the ethanol preference will offset some of the expected gains from the 2006 GSP reform in other areas.

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<sup>8</sup> This had a particular impact on Pakistan which was the second largest ethanol exporter to the EU. When it lost its privileged status as a GSP+ beneficiary, it also lost its preferential market access for ethanol exports.

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## **Annex 1**

### **Beneficiary countries and territories of the post 2005 Community's scheme of generalised tariff preferences:**

**GSP:** United Arab Emirates (AE), Antigua and Barbuda (AG), Anguilla (AI), Armenia (AM), Netherlands Antilles (AN), Antarctica (AQ), Argentina (AR), American Samoa (AS), Aruba (AW), Azerbaijan (AZ), Barbados (BB), Bahrain (BH), Bermuda (BM), Brunei Darussalam (BN), Brazil (BR), Bahamas (BS), Bouvet Island (BV), Botswana (BW), Belarus (BY), Belize (BZ), Cocos Islands or Keeling Islands (CC), Congo (CG), Côte d'Ivoire (CI), Cook Islands (CK), Chile (CL), Cameroon (CM), China, People's Republic of (CN), Cuba (CU), Christmas Island (CX), Dominica (DM), Dominican Republic (DO), Algeria (DZ), Egypt (EG), Fiji (FJ), Falklands Islands (FK), Micronesia, Federated States of (FM), Gabon (GA), Grenada (GD), Ghana (GH), Gibraltar (GI), Greenland (GL), South Georgia and South Sandwich Islands (GS), Guam (GU), Guyana (GY), Heard Island and McDonald Islands (HM), Indonesia (ID), India (IN), British Indian Territory (IO), Iraq (IQ), Iran, Islamic Republic of (IR), Jamaica (JM), Jordan (JO), Kenya (KE), Kirghizstan (KG), St Kitts and Nevis (KN), Kuwait (KW), Cayman Islands (KY), Kazakhstan (KZ), Lebanon (LB), St Lucia (LC), Libyan Arab Jamahiriya (LY), Morocco (MA), Marshall Islands (MH), Macao (MO), Northern Mariana Islands (MP), Montserrat (MS), Mauritius (MU), Mexico (MX), Malaysia (MY), Namibia (NA), New-Caledonia (NC), Norfolk Island (NF), Nigeria (NG), Nauru (NR), Niue Island (NU), Oman (OM), French Polynesia (PF), Papua New Guinea (PG), Philippines (PH), Pakistan (PK), St Pierre and Miquelon (PM), Pitcairn (PN), Palau (PW), Paraguay (PY), Qatar (QA), Russian Federation (RU), Saudi Arabia (SA), Seychelles (SC), Santa Helena (SH), Suriname (SR), Syrian Arab Republic (SY), Swaziland (SZ), Turks and Caicos Islands (TC), French Southern territories (TF), Thailand (TH), Tajikistan (TJ), Tokelau (TK), Turkmenistan (TM), Tunisia (TN), Tonga (TO), Trinidad and Tobago (TT), Ukraine (UA), United States Minor outlying Islands (UM), Uruguay (UY), Uzbekistan (UZ), St Vincent and the Grenadines (VC), Virgin Islands (British) (VG), Virgin Islands (USA) (VI), Vietnam (VN), Wallis and Futuna (WF), Mayotte (YT), South Africa (ZA), Zimbabwe (ZW).

**GSP+<sup>9</sup>:** Bolivia (BO), Colombia (CO), Costa Rica (CR), Ecuador (EC), Georgia (GE), Guatemala (GT), Honduras (HN), Sri Lanka (LK), Moldova, Republic of (MD), Mongolia (MN), Nicaragua (NI), Panama (PA), Peru (PE), El Salvador (SV), Venezuela (VE).

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<sup>9</sup> COMMISSION DECISION of 21 December 2005 on the list of the beneficiary countries which qualify for the special incentive arrangement for sustainable development and good governance, provided for by Article 26(e) of Council Regulation (EC) No 980/2005 applying a scheme of generalised tariff preferences (2005/924/EC). Moldova and Sri Lanka were added to the list while Pakistan was removed.

**EBA:** Afghanistan (AF), Angola (AO), Bangladesh (BD), Burkina Faso (BF), Burundi (BI), Benin (BJ), Bhutan (BT), Congo, Democratic Republic of (CD), Central African Republic (CF), Cape Verde (CV), Djibouti (DJ), Eritrea (ER), Ethiopia (ET), Gambia (GM), Guinea (GN), Equatorial Guinea (GQ), Guinea-Bissau (GW), Haiti (HT), Cambodia (KH), Kiribati (KI), Comoros (KM), Laos People's Democratic Republic (LA), Liberia (LR), Lesotho (LS), Madagascar (MG), Mali (ML), Myanmar (MM), Mauritania (MR), Maldives (MV), Malawi (MW), Mozambique (MZ), Niger (NE), Nepal (NP), Rwanda (RW), Solomon Islands (SB), Sudan (SD), Sierra Leone (SL), Senegal (SN), Somalia (SO), São Tomé and Príncipe (ST), Chad (TD), Togo (TG), Timor-Leste (TL), Tuvalu (TV), Tanzania, United Republic of (TZ), Uganda (UG), Vanuatu (VU), Samoa (WS), Yemen (YE), Zambia (ZM).

## **Annex 2 Rules of Origin**

Non-reciprocal preference schemes confer preferential or duty-free market access to products originating in the beneficiary countries. This reduction or elimination of the MFN tariffs allows the exports of beneficiaries to be more competitive in terms of price compared to similar products entering under MFN duties. The rules of origin include the origin criteria, consignment conditions and documentary evidence.

The origin requirement ensures that only the goods produced in a beneficiary country benefit from the preferences, and not those which are simply transhipped or have undergone minimal industrial processing. According to the Kyoto Convention, a good can be considered as originated in a given country if it has been wholly produced and manufactured, or if it has been sufficiently worked, processed and transformed into a new and different article, there.

Products are wholly obtained in a particular country if that country has been involved in the good's production. The Article 68 of the Commission regulation (EEC) No 2454/93 of 2 July 1993 contains the list of what can be considered as wholly obtained in a given country.

There is no situation in which only a single country is involved in the manufacture of a good with the exception of natural and related products. Then non originating materials may have undergone enough working or processing. Conditions to establish what amount of working or processing can be considered as enough are contained in Appendix III Annex 15 of the Commission regulation (EEC) No 2454/93. Three criteria are used to determine how a non originating input can be used to comply with the origin criterion:

- The change of tariff heading: the non originating inputs must be classified in a different HS4 code from the final product.
- The process criterion: when specific manufacturing process has to be carried on.
- The value-added criterion: the value of the non-originating inputs may not exceed a given percentage of the ex-works price of a product.

The EU's system combines all three criteria but the most frequently used is the "Change of tariff heading". The articles 66 and 98 to 123 of the Commission regulation (EEC) No 2454/93 contain the RoOs.

There are several others features of the RoOs which can influence whether or not origin is conferred on a product and determine whether the preferential scheme can be considered. They are the cumulation, tolerance and absorption rules.

The *cumulation principle* allows a country to use non-originating materials from another (member) country without losing the preferential status of its final product.

The most basic form is the *Bilateral Cumulation (donor country content)*: materials originating in the EC and further worked or processed in a beneficiary country are considered to originate in the beneficiary country.

The *Regional Cumulation* operates between the countries of one of the regional groups recognized by the European GSP. In the current scheme, the EU agreed to "regional cumulation" within the Southeast Asian, South Asian and African, Caribbean and Pacific blocs (ACP countries). In this case materials originating in one country of the group and which are worked or processed in another beneficiary country of the same group are considered to originate in the latter country if: i) the value added there is greater than the highest customs value of materials used originating in any one of the other countries of the regional group; ii) the working or processing carried out there is more than insufficient working or processing. If these two conditions are not both fulfilled the goods are considered to originate in the country of the regional group which accounts for the highest customs value of the originating products coming from other countries or the regional group.

The *Diagonal cumulation* is allowed when several countries take part of an agreement or are linked by several similar agreements permitting the utilisation of materials originating in member countries as if they were originating inputs. Effects of diagonal cumulation are: i) trade reorientation; ii) trade expansion arising from lower import costs.

*Full cumulation*: any processing activities carried out in any participating country inside a regional group can be counted as qualifying content regardless of whether the processing is sufficient to confer originating status to the materials themselves.

*Tolerance or de minimis* rules allow a certain percentage of non originating materials to be used without affecting the origin of the final product.

The *Absorption Principle* provides that parts or materials which have acquired originating status by satisfying the relevant rules of origin for that product can be treated as being of domestic origin in any further processing and transformation, that is the non originating materials are not taken into account in calculating value added. The *roll-up or Absorption Principle*, is used in EU GSP and Cotonou agreement.



### Annex 3. HS2 level analysis of GSP changes between 2004 and 2006

**Table 16: Number of lines (NC10) by chapters (HS2) under GSP (2006)<sup>10</sup>**

<b>Chapters (HS2)</b>	<b>Nb of pref. lines</b>	<b>NB of 0 lines</b>	<b>Nb of lines</b>
01- Live animals	8	20	86
02- Meat	11	31	335
03- Fisheries	575	99	621
04- Dairies	18	4	214
05- Other animal products	1	20	21
06- Live trees and plants	44	11	50
07- Vegetables	117	27	158
08- Fruits	123	45	189
09- Coffee, tea, spices	17	30	42
10- Cereals	1	15	90
11- Products of the milling ind.	6	0	83
12- Oilseeds	20	68	85
13- Lac, gums, resins	17	15	27
14- Other vegetable products	0	8	8
15- Oils and fats	118	49	142
16- Preparations of meat, fish	133	2	176
17- Sugar	20	0	52
18- Cocoa	32	2	34
19- Preparations of cereals	60	1	60
20- Preparations of fruits and veg.	523	8	571
21- Miscellaneous edible preparations	65	10	76
22- Beverages	37	57	218
23- Waste from food industry	12	31	75
24- Tobacco	40	0	40

Source: Authors' calculations based on TARIC and DBTAR

<sup>10</sup> The number of preferred line is the number of lines enjoying a GSP preference at the 10 digit level, the number of 0 lines is the number of lines enjoying a 0 tariff (all regimes taken into account), the number of lines is the total number of lines at the NC10 level.

**Table 67: Number of lines (NC10) by chapters (HS2) under GSP (2004)**

<b>Chapters (HS2)</b>	<b>Nb of pref. lines</b>	<b>NB of 0 lines</b>	<b>Nb of lines</b>
01- Live animals	8	20	86
02- Meat	26	32	346
03- Fisheries	215	47	633
04- Dairies	31	4	247
05- Other animal products	1	20	21
06- Live trees and plants	50	13	52
07- Vegetables	130	28	173
08- Fruits	146	54	223
09- Coffee, tea, spices	17	30	42
10- Cereals	0	13	78
11- Products of the milling ind.	7	0	87
12- Oilseeds	28	69	86
13- Lac, gums, resins	20	17	34
14- Other vegetable products	0	8	8
15- Oils and fats	117	47	142
16- Preparations of meat, fish	86	2	186
17- Sugar	20	0	52
18- Cocoa	36	2	38
19- Preparations of cereals	87	2	90
20- Preparations of fruits and veg.	482	6	640
21- Miscellaneous edible preparations	68	9	77
22- Beverages	32	67	228
23- Waste from food industry	11	32	74
24- Tobacco	40	0	40

Source: Authors' calculations based on TARIC and DBTAR

**Table 18: Number of lines (NC10) by chapters (HS2) under GSP+ (2006)**

<b>Chapters (HS2)</b>	<b>Nb of pref. lines</b>	<b>NB of 0 lines</b>	<b>Nb of lines</b>
01- Live animals	8	22	86
02- Meat	24	52	335
03- Fisheries	621	615	621
04- Dairies	19	7	214
05- Other animal products	1	21	21
06- Live trees and plants	48	50	50
07- Vegetables	132	131	158
08- Fruits	133	140	189
09- Coffee, tea, spices	16	42	42
10- Cereals	1	16	90
11- Products of the milling ind.	6	5	83
12- Oilseeds	43	82	85
13- Lac, gums, resins	27	27	27
14- Other vegetable products	0	8	8
15- Oils and fats	119	131	142
16- Preparations of meat, fish	138	139	176
17- Sugar	20	3	52
18- Cocoa	32	7	34
19- Preparations of cereals	60	4	60
20- Preparations of fruits and veg.	571	456	571
21- Miscellaneous edible preparations	66	42	76
22- Beverages	41	83	218
23- Waste from food industry	12	38	75
24- Tobacco	40	40	40

Source: Authors' calculations based on TARIC and DBTAR

**Table 197: Number of lines (NC10) by chapters (HS2) under GSP+ (2004)**

<b>Chapters (HS2)</b>	<b>Nb of pref. lines</b>	<b>NB of 0 lines</b>	<b>Nb of lines</b>
01- Live animals	8	22	86
02- Meat	26	46	346
03- Fisheries	633	627	633
04- Dairies	32	8	247
05- Other animal products	21	21	21
06- Live trees and plants	52	52	52
07- Vegetables	147	110	173
08- Fruits	157	151	223
09- Coffee, tea, spices	16	40	42
10- Cereals	1	14	78
11- Products of the milling ind.	7	6	87
12- Oilseeds	83	83	86
13- Lac, gums, resins	34	34	34
14- Other vegetable products	0	8	8
15- Oils and fats	121	130	142
16- Preparations of meat, fish	146	145	186
17- Sugar	20	2	52
18- Cocoa	38	7	38
19- Preparations of cereals	90	5	90
20- Preparations of fruits and veg.	640	513	640
21- Miscellaneous edible preparations	73	45	77
22- Beverages	93	89	228
23- Waste from food industry	11	38	74
24- Tobacco	40	40	40

Source: Authors' calculations based on TARIC and DBTAR

**Table 20: Number of lines (NC10) by chapters (HS2) under EBA (2006)**

<b>Chapters (HS2)</b>	<b>Nb of pref. lines</b>	<b>NB of 0 lines</b>	<b>Nb of lines</b>
01- Live animals	86	86	86
02- Meat	335	335	335
03- Fisheries	621	621	621
04- Dairies	214	214	214
05- Other animal products	21	21	21
06- Live trees and plants	50	50	50
07- Vegetables	158	158	158
08- Fruits	189	189	189
09- Coffee, tea, spices	42	42	42
10- Cereals	35	36	90
11- Products of the milling ind.	83	83	83
12- Oilseeds	85	85	85
13- Lac, gums, resins	27	27	27
14- Other vegetable products	8	8	8
15- Oils and fats	142	142	142
16- Preparations of meat, fish	176	176	176
17- Sugar	44	42	52
18- Cocoa	34	34	34
19- Preparations of cereals	60	60	60
20- Preparations of fruits and veg.	571	571	571
21- Miscellaneous edible preparations	76	76	76
22- Beverages	218	218	218
23- Waste from food industry	75	75	75
24- Tobacco	40	40	40

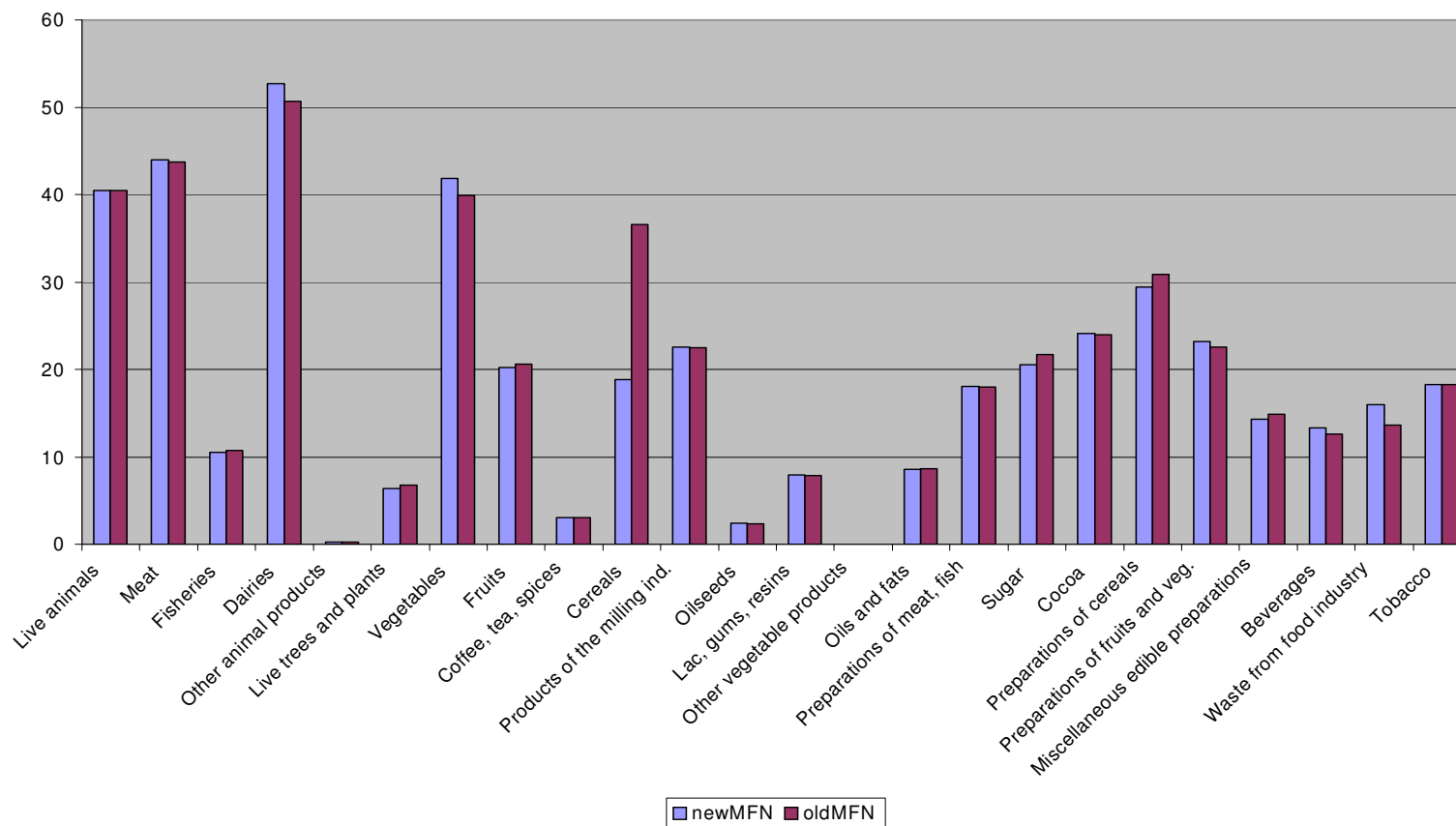
Source: Authors' calculations based on TARIC and DBTAR

**Table 21: Number of lines (NC10) by chapters (HS2) under EBA (2004)**

<b>Chapters (HS2)</b>	<b>Nb of pref. lines</b>	<b>NB of 0 lines</b>	<b>Nb of lines</b>
01- Live animals	86	86	86
02- Meat	346	346	346
03- Fisheries	633	633	633
04- Dairies	247	247	247
05- Other animal products	21	21	21
06- Live trees and plants	52	52	52
07- Vegetables	173	173	173
08- Fruits	222	222	223
09- Coffee, tea, spices	42	42	42
10- Cereals	35	35	78
11- Products of the milling ind.	87	87	87
12- Oilseeds	86	86	86
13- Lac, gums, resins	34	34	34
14- Other vegetable products	8	8	8
15- Oils and fats	142	142	142
16- Preparations of meat, fish	186	186	186
17- Sugar	44	42	52
18- Cocoa	38	38	38
19- Preparations of cereals	90	90	90
20- Preparations of fruits and veg.	640	640	640
21- Miscellaneous edible preparations	77	77	77
22- Beverages	228	228	228
23- Waste from food industry	74	74	74
24- Tobacco	40	40	40

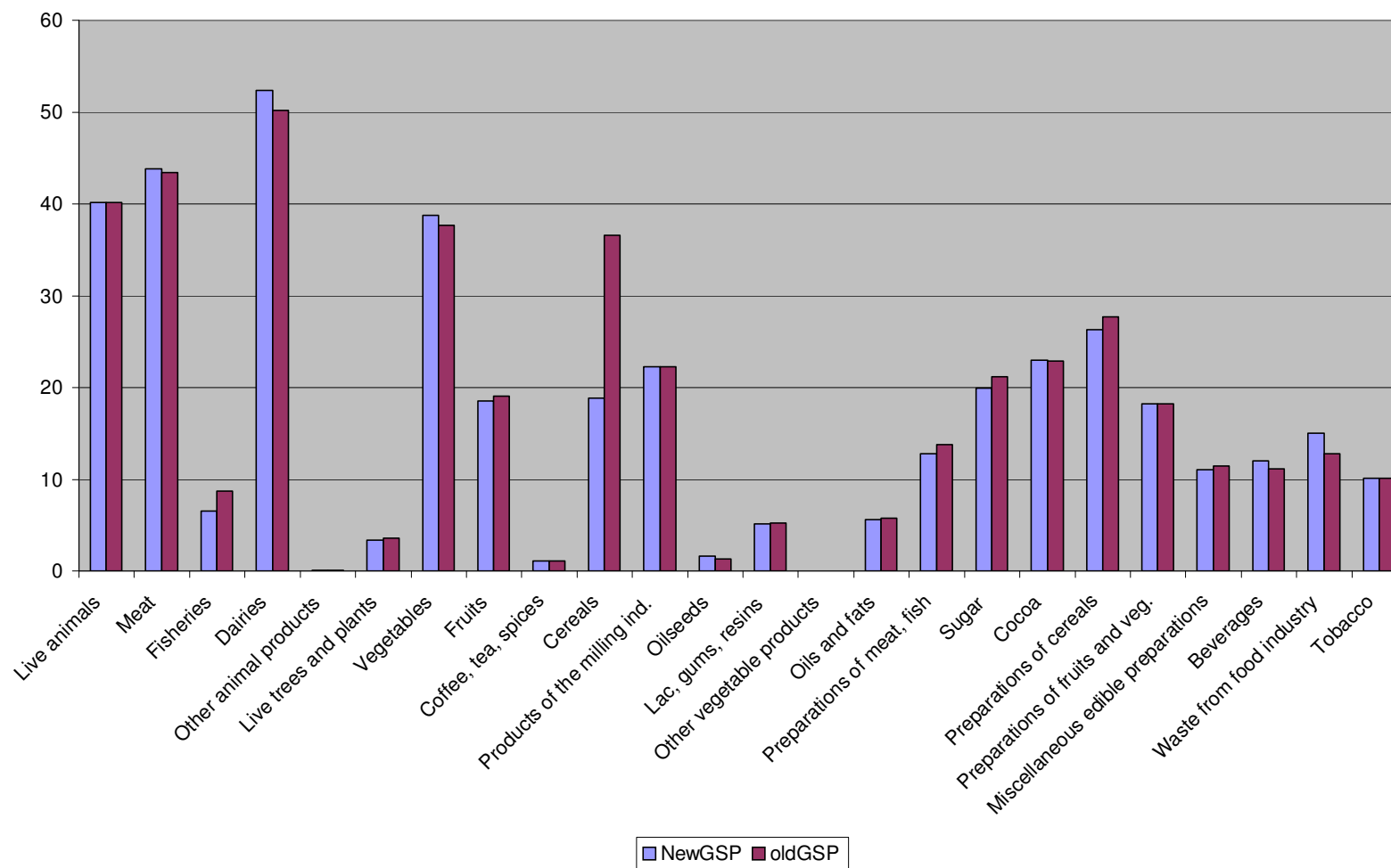
Source: Authors' calculations based on TARIC and DBTAR

**Figure 2: Comparison of tariff level under the 2004 (old) and 2006 (new) MFN regime by chapter.**



Source: Authors' calculations based on TARIC and DBTAR

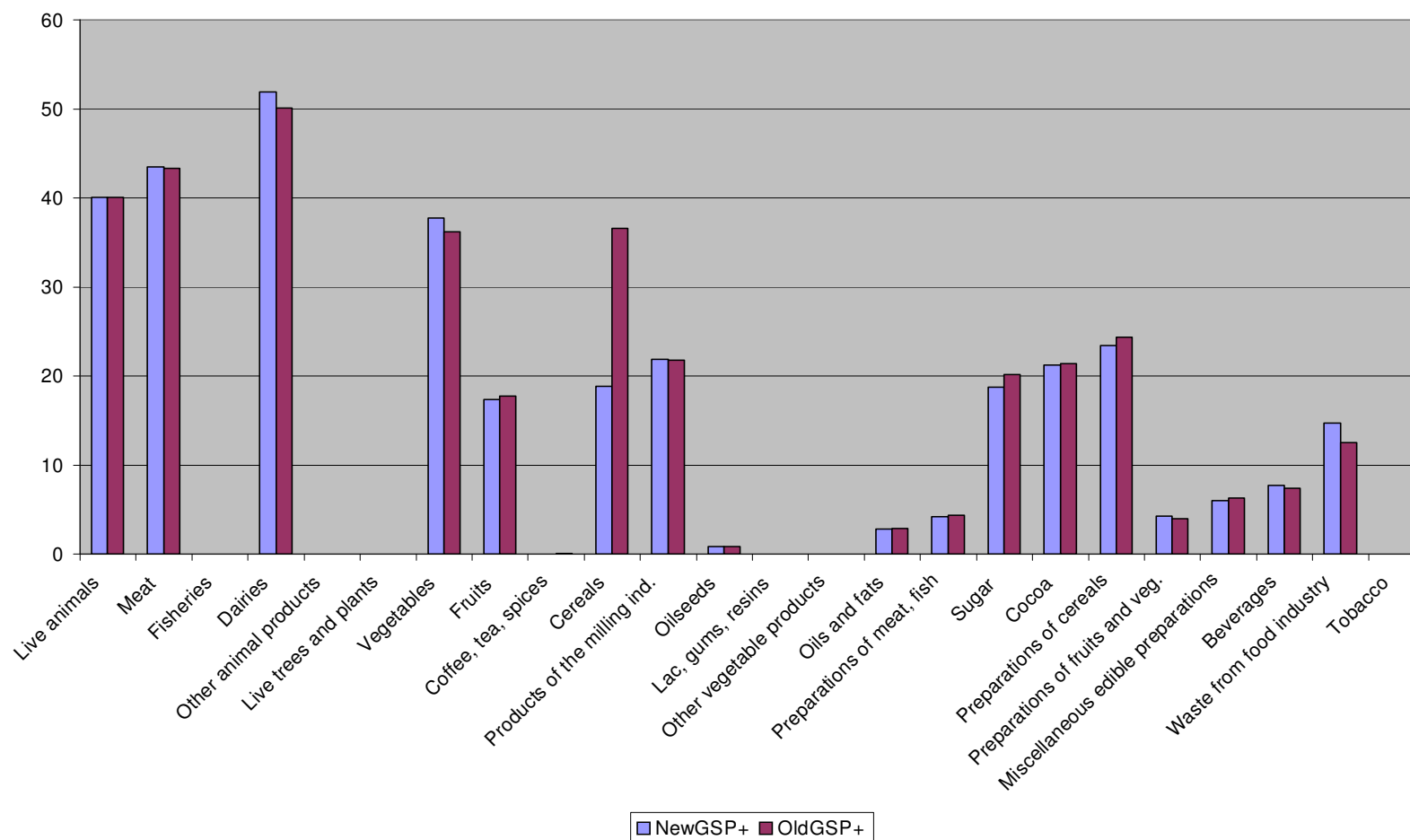
Figure 3: Comparison of tariff level under the 2004 (old) and 2006 (new) GSP regime by chapter.



Source: Authors' calculations based on TARIC and DBTAR



**Figure 4: Comparison of tariff level under the 2004 (old) and 2006 (new) GSP+ regime by chapter.**



**Source: Authors' calculations based on TARIC and DBTAR**