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REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND
UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES,
RULES OF ORIGIN AND TECHNICAL ASSISTANCE

POLICY REVIEW: TOWARDS REVITALIZATION OF THE GSP

Chairman's summary

1. The twenty-second session of the Special Committee on Preferences held intensive discussions on the GSP schemes of preference-giving countries, on the policy review of the GSP with the aim of revitalizing it and on the future role and work priorities of the Committee in the context of the preparations for UNCTAD IX. Bilateral consultations were held at the same time which provided a useful opportunity to discuss country-specific concerns.

2. The Special Committee expressed its appreciation for the preparatory work of the expert groups on GSP convened by the secretariat, the Intergovernmental Group of Experts on Rules of Origin, as well as for the secretariat documentation.

3. The Committee agreed that the GSP is fulfilling an important role as a multilateral tool for development. It retains its full validity in the new international trading context as it enables beneficiary countries to achieve a fuller integration into the world economy. The original objectives and principles of the GSP remain valid. Their full attainment, however, requires strengthening and revitalization of the GSP. Beneficiary countries expressed their appreciation to preference-giving countries for granting GSP benefits which have made a major contribution to export development and diversification of their economies.

4. The Committee fully recognized the autonomous character of the GSP. The preference-receiving countries also stated that the Uruguay Round Agreements brought about important changes, including the erosion of preferences, that should be taken into account in major revisions of GSP schemes. Certain preference-receiving countries underlined that some of the new changes in GSP schemes preceded changes induced by the Uruguay Round.

5. Preference-receiving countries called upon preference-giving countries to expand product coverage for those sectors that are being fully integrated into the multilateral trading system. Extension of GSP to agricultural products, processed food, textiles, clothing, leather and footwear products would substantially improve the match between GSP benefits and the export capacities of developing countries, in particular the least developed countries. In this connection, preference-receiving countries welcomed the important expansion of coverage of agricultural products by Norway and similar plans of other preference-giving countries for agricultural, textiles and clothing products or for wider product coverage in favour of least developed countries. Furthermore, in the light of the results of the Uruguay Round, preference-receiving countries urged preference-giving countries to adjust and deepen GSP tariff margins, where GSP rates are above zero.

6. Delegations furthermore underlined the importance of transparency, stability and predictability of the GSP schemes for attaining the investment and industrialisation objective. In that connection, the Committee welcomed the efforts of various preference-giving countries to put their schemes on a longer-term basis.

7. Delegations recognized that the original objective of the GSP was to promote export expansion, industrial development and economic growth and to lead preference-receiving countries to compete in the world market. However, these objectives had not yet been fully achieved by many countries. Preference-receiving countries insisted that graduation measures by individual schemes should be based on objective and transparent criteria. Such criteria should be multilaterally agreed and take account of the overall level of economic and social development of the countries concerned, the share of manufactures in exports, as well as the degree of export diversification achieved. Import shares should relate to imports from all sources, not only from preference-receiving countries. Preference-receiving countries proposed that the criteria suggested in the secretariat documentation should therefore be considered, as and when graduation measures of any kind are subject to review or newly introduced.

8. Preference-giving countries considered, that it would be difficult to arrive at multilaterally agreed criteria for all of them in view of the basic differences in their GSP schemes. One preference-giving country indicated that the intention of the graduation measures was not to measure international competitiveness of a product but the level of industrial development achieved: this could only be done at the sectoral level, even if this implied the exclusion from GSP benefits of products which were not competitive. This delegation confirmed, that no further country/sector graduation would be introduced during the four years of validity of the present scheme. Several delegations were of the view that consideration needed to be given to issues involved in defining specific criteria and the level of their application.

9. Some preference-receiving countries underlined that GSP benefits should not be withdrawn abruptly but phased out over time to allow exporters to adjust to the new conditions and that preference-giving countries should also consider possibilities to reverse graduation measures, where such measures lead to a substantial reduction of a country's exports.

10. The Committee discussed the relationship between the GSP and various non-trade objectives, including environmental objectives, social standards, workers' rights, conditionalities related to the protection of intellectual property rights, and others. Certain preference-giving countries maintained that such conditions were fully legitimate, as they were conducive to improving the conditions of workers, children and the population of the beneficiary countries. Another preference-giving country may put into effect in 1998 incentive schemes providing additional GSP advantages for improvements of environmental and social standards with the intention to compensate beneficiaries for the cost of

complying with higher standards. Preference-receiving countries, however, raised serious objections, as in their view the GSP was a trade promotion tool, and such non-trade objectives were contradictory to its original multilaterally agreed principles and introduced a certain degree of reciprocity. In their view, such linkages also implied a risk that they could be used for protectionist purposes. The preference-giving country concerned explained that incentives, social or environmental clauses, could not be considered as protectionist as they provided purely additional preferences.

11. Preference-receiving countries considered that predictability of GSP would be enhanced, if tariff ceilings and quotas could be replaced by modulated GSP tariff rates and traditional safeguards along the relevant WTO provisions. Certain delegations welcomed that the European Union had removed ceilings and quotas and replaced them by modulated GSP tariff rates, in accordance with the sensitivity of the respective products, but emphasized that tariff modulation should provide for commercially meaningful preference margins. One preference-giving country stressed that in order to assess the effects of the preferential modulation system, it was necessary to measure the relative real advantages thereof and not only the apparent benefits. Least developed countries expressed the desire that safeguard measures should not be applied against their exports. Preference-giving countries pointed to the linkage existing between providing the widest possible product coverage of GSP and having the possibility of applying safeguards in unforeseen circumstances.

12. In the debate on the report of the Intergovernmental Group of Experts on Rules of Origin, several preference-receiving countries proposed further the introduction of global cumulation among all recipients and donor country content by those schemes which do not yet apply these concepts. Least developed countries asked for flexibility and further relaxation of stringent origin requirements and complex administrative procedures in their favour. However, preference-giving countries argued that the potential to provide wider product coverage and avoid safeguard action depended on rules of origin which ensured that benefiting products effectively originated in least developed countries.

13. Preference-receiving countries indicated their interest in further pursuing the concept of enlarging the scope of GSP to embrace trade in services and investment, in line with the extension of the multilateral trading system to such new areas, the process of globalization and liberalization, the rising importance of the services sectors for developing countries' economies and the promotion of investment. These new areas offered substantial interesting potential for revitalizing the GSP and adjusting it to the new economic realities. Some preference-giving countries expressed strong doubts that GSP could be applied to these areas and raised the question of possible duplication with WTO. It was not clear at present, in which direction the enlargement of the GSP concept could evolve, so that substantial additional resources risked to be engaged in areas without clear prospects of success. These delegations proposed that no further studies be undertaken by the secretariat in these areas. Other delegations proposed, that even if there was no agreement at the present time, these new issues should be kept on the agenda for future discussions.

14. There was broad agreement that special measures for least developed countries needed to be strengthened. Preference-giving countries should, to the maximum extent possible, extend the product coverage of GSP benefits to least developed countries, and provide access free of duties, ceilings and quotas. Rules of origin should be improved on the lines of existing arrangements provided by certain preference-giving countries in their favour. Technical cooperation should be particularly focused on least developed countries to enable them to make full use of GSP benefits. It should be accompanied by complementary measures, such as strengthening of national export promotion measures and supported by trade promotion agencies of preference-giving countries.

15. Certain delegations restated the need for burden-sharing. In that respect, it was proposed that other countries in a position to do so should also introduce GSP schemes at least in favour of least developed countries. However, it was pointed out that the decision on whether a country is in such a position should be made by the country itself.

16. The Committee expressed its appreciation for UNCTAD's Technical Cooperation Programme on GSP and Other Trade Laws and to donor countries for bilateral assistance and financial contributions to the Programme. They underlined the importance of the UNCTAD Programme for enabling developing countries, in particular the least developed countries, to make full use of GSP benefits; called upon the secretariat to strengthen its capacities for effective backstopping of that Programme, and to adjust its activities to the new international trading rules and to revisions of GSP schemes, as well as to

intensify cooperation with other competent organizations as well as preference-giving countries. Preference-receiving countries invited preference-giving countries and UNDP to provide financial and substantive support to the Programme.

17. Regarding the future role and work of the Committee, there was general agreement about the crucial importance of GSP for beneficiary countries. GSP will therefore continue to be an important activity of UNCTAD. The Committee provided an important forum for consultations and dialogue between preference-giving and preference-receiving countries in the future on the evolution of preference schemes and on policy issues involved.

18. Some delegations raised questions about the frequency and duration of the Committee's meetings and the use of budgetary resources for GSP activities. In this regard, the secretariat provided explanations, as requested.

19. The Committee also discussed priorities for the further work of UNCTAD in the area of the GSP, and, in this regard, some delegations have emphasized that the Trade and Development Board should be made aware of these priorities. There was a broad consensus of views that such priorities should include (i) effective utilization of existing preferences, (ii) further special measures in favour of least developed countries, (iii) strengthening technical cooperation in coordination with other institutions, particularly in favour of LDCs and (iv) improvement of the information base on GSP and of channels for dissemination to the enterprises concerned, including the use of information technologies, stronger involvement of GSP focal points and of the trade point system. As far as the secretariat work is concerned, the Committee called for the most efficient use of resources.

RECOMMENDATIONS OF THE SPECIAL COMMITTEE

The Committee endorsed the recommendations contained in the Report of the Intergovernmental Group of Experts on Rules of Origin and recommends to the Trade and Development Board to adopt them and arrange for the follow-up.