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This UNCTAD GSP Newsletter provides government authorities and exporters in developing countries with information on current developments in the generalized system of preferences (GSP) and related issues. Up to three Newsletters per year are planned, but special issues will be published when relevant new information becomes available.

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➤ NEW MARKET ACCESS INITIATIVES IN FAVOUR OF LDCs BY THE EUROPEAN UNION, CANADA AND JAPAN

With the entry into force on 5 March 2001 of the "Everything but Arms" (EBA) initiative, the current GSP scheme of the **European Union** was amended to provide, for an unlimited period of time, duty-free and quota-free treatment for all products originating in LDC beneficiaries, except for arms and ammunitions (products of HS Chapter 93) and for special provisions applicable to three very sensitive products, namely rice, sugar and fresh bananas (see Regulation 416/2001, *Official Journal* L60 of 1.3.2001). The EBA coverage includes all sensitive agricultural products which were heretofore either completely excluded from coverage or only granted a small preferential margin (beef and other meat; dairy products; fruit and vegetables; processed fruit and vegetables; maize and other cereals; starch; oils; processed sugar products; cocoa products; pasta; and alcoholic beverages). On most of such products, the pre-EBA GSP used to provide a percentage reduction of MFN rates, which would apply only to the *ad valorem* duties, thus leaving the *specific* duties still entirely applicable. The relevant provision, contained in article 29.4 of Regulation 2820/98, has been amended to allow the EBA exemption from customs duties to apply also to the *specific* duties. Only rice, sugar and fresh bananas are not subject to immediate liberalization. For fresh bananas, the EBA provides for full liberalization between 1 January 2002 and 1 January 2006 by reducing the applicable MFN tariff by 20 per cent every year. For rice and sugar, customs duties will be gradually eliminated between 2006 and 2009. During the interim period, in order to provide effective market access, LDC rice and sugar will be allowed to enter the EC market duty-free within the limits of tariff quotas. These tariff quotas are initially based on the best figures for LDC exports during the 1990s, plus 15 per cent. These will then increase by 15 per cent each year during the interim period.

The Commission will monitor imports of bananas, rice and sugar, and strengthened safeguard measures will be applied if necessary to prevent surges. Finally, the EBA adds another reason for possible temporary withdrawal of the preferences in order to protect the Community market from massive increases in imports from LDC beneficiaries, in relation to their usual levels of production and export capacity.

In September 2000, **Canada** extended the product coverage of its GSP scheme in favour of LDC exports by including an additional list of 570 products which were previously excluded from coverage. The new list of products does not include sensitive products such as textiles and clothing articles, which thus continue to be excluded from preferences in the Canadian market. Also in September 2000, Canada relaxed the rules of origin requirements applicable to LDC exports, permitting cumulation with other developing beneficiary countries up to half of the required 40 per cent maximum import content.

Following a revision of the Japanese GSP scheme in late 2000, **Japan** decided to extend its scheme for the next ten years, until 31 March 2011. In the context of this review, Japan introduced as of 1 April 2001 a new list of industrial products originating in LDCs that are granted duty- and quota-free entry. Furthermore, four LDCs, namely the Democratic Republic of the Congo, Kiribati, Tuvalu and Zambia, have been added to the list of beneficiary countries for duty and quota-free treatment. Concerning the transitional arrangement for refined copper imported from Zambia and the Democratic Republic of the Congo, the GSP tariff rate (40 per cent tariff cut) is being applied during the current fiscal year and the ceiling will not be removed until the end of the fiscal year 2005.

➤ THE UNITED STATES' AFRICAN GROWTH AND OPPORTUNITY ACT

In May 2000, the President of the United States signed into law the long-awaited African Growth and Opportunity Act (AGOA) whereby the basic United States GSP programme was amended in favour of designated sub-Saharan African countries. While the current "normal" GSP programme of the United States expires on 30 September 2001 and contains several limitations in terms of product coverage, the AGOA provides duty-free treatment for a much wider range of products. This includes, upon fulfilment of specific origin and visa requirements, certain textiles and apparel articles that were heretofore considered import-sensitive and thus statutorily excluded from the programme.

In addition, the "AGOA-enhanced" GSP benefits will be in place for a period of eight years, thus providing additional security for investors and traders in designated sub-Saharan African countries. Such an element of security of the AGOA preferences is further strengthened by the decision of the Office of the United States Trade Representative responsible for GSP matters not to undertake the usual annual reviews of product coverage for AGOA products. In addition, AGOA eliminates the GSP competitive need limitations. On October 2000, 34 sub-Saharan African countries were declared eligible under AGOA; on January 2001, Swaziland was added to the list of AGOA-eligible countries.

As far as product coverage is concerned, AGOA-designated countries are granted duty-free treatment on all products currently eligible under the GSP programme, including those on which, so far, only least developed beneficiaries have been enjoying GSP treatment (some 1,620 products). This implies that special GSP preferences previously reserved for LDCs have been somewhat diluted since other designated sub-Saharan African countries which are not LDCs can now benefit from similar preferential product

coverage. In addition, AGOA grants duty-free access to 215 products which were previously statutorily excluded from the GSP programme even for the LDCs (watches, electronic articles, steel articles, footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel, and semi-manufactured and manufactured glass products).

In order to qualify for duty-free treatment, AGOA products must comply with the basic origin requirement under the United States GSP programme (35 per cent minimum local content). Cumulation is granted to designated AGOA countries, and donor country content may be counted towards the 35 per cent requirement up to a maximum amount not to exceed 15 per cent of the article's appraised value.

AGOA preferences for apparel articles are not automatic. Eligibility under the apparel provisions requires implementation of an effective visa system and an enforcement mechanism to prevent illegal transshipment. To date (August 2001), only six AGOA countries, namely Kenya, Lesotho, Madagascar, Mauritius, Malawi and South Africa, have been declared eligible for the apparel provisions. Apparel products eligible for AGOA benefits must fall within one of nine specific preferential groupings and meet the related origin requirements. The granting of duty and quota-free treatment depends on the origin of the fabric and yarns used. Apparel articles assembled in one or more AGOA beneficiaries are granted duty-free and quota-free entry only if the fabric or yarns used are wholly formed and cut in the United States. Duty-free treatment within cap is granted to apparel articles assembled in one or more AGOA beneficiaries when the fabric used is wholly formed in one or more AGOA beneficiaries from yarn originating in either in the United States or one or more AGOA beneficiaries. Under the Special Rule for Lesser Developed Countries, duty-

free access within cap is granted to apparel articles wholly assembled in one or more lesser developed AGOA countries, regardless of the origin of the fabric, until 30 September 2004. It is important to note that the United States classification of lesser developed countries does not correspond to the UN LDC classification. For instance, countries such as Cameroon, Congo, Kenya, Nigeria and Swaziland, which are not included in the list of UN

LDCs, are considered as lesser developed countries under the AGOA special rule. Further details on the AGOA visa requirements, cap limitations, cumulation and other customs procedures can be found in the latest version of the UNCTAD Handbook on the GSP Scheme of the United States, which contains a whole new section on AGOA.

➤ THE PROPOSAL BY THE COMMISSION OF THE EUROPEAN UNION ON THE NEW GSP SCHEME FOR 2002-2004

The EU GSP scheme is implemented over a ten-year cycle. The present cycle began in 1995 and will expire in 2004. On 12 June 2001, the European Commission adopted a proposal for revision of the GSP scheme for the period 2002-2004. The proposed regulation will simplify the structure and rules of the scheme, as well as harmonize procedures applicable to the different arrangements available under it. The different GSP arrangements and the main proposed changes to the current scheme are summarized below.

The general arrangements apply to Asian and Latin American countries, the only countries for which the GSP is the only preferential instrument available to access the EU market. The tariff modulation mechanism will be simplified: the proposal maintains duty-free access for all non-sensitive products, while all other products will be classified in one single category of sensitive products, replacing the previous three categories (very sensitive, sensitive and semi-sensitive). A flat rate reduction of 3.5 percentage points will apply to all sensitive products in the event of *ad valorem* duties. When only specific duties

are present, a 30 per cent reduction will apply. When the customs duties include both *ad valorem* and specific duties, only the *ad valorem* part will be reduced. The proposal enhances the predictability of the graduation mechanism, whereby countries and sectors will be deemed eligible only if they meet the criteria for three consecutive years. The Commission's screening will be made public so as to provide beneficiary countries with some early warning. Provision is made for the re-inclusion of countries and sectors which, conversely, for three consecutive years, no longer meet the graduation criteria. This proposal fully incorporates the EBA initiative in favour of LDC beneficiaries. The labour and environmental incentives will be more attractive, since the proposal provides for the doubling of the current additional tariff reductions. Finally, the drug arrangements for the Andean Pact and Central America have been maintained and extended up to 2004. All in all, the proposed new regulation is designed to make the EU GSP more user-friendly and attractive.

➤ UNCTAD STUDIES ON NEW MARKET ACCESS OPPORTUNITIES FOR LDCs

In the context of the preparations for the Third United Nations Conference on the Least Developed Countries, held in Brussels from 14 to 20 May 2001, the UNCTAD secretariat prepared two studies analysing different aspects of the recent initiatives to improve market access conditions for LDC exports by the Quad countries, namely Canada, the EU, Japan and the United States. Both studies are available on the UNCTAD website.

“Improving market access for least developed countries” (UNCTAD/DITC/TNCD/4)

Almost 30 years of experience with trade preferences, and particularly with the GSP schemes, has largely demonstrated that the mere granting of duty-free market access to LDC exports does not automatically ensure that the trade preferences are effectively utilized by beneficiary countries. Indeed, the analysis carried out in this study shows that the average utilization rate of the Quad GSP schemes by LDCs does not, in many cases, reach 50 per cent of the value of their exports eligible for preferential access. The study argues that the effective value of any new initiative directed at improving market access for LDCs should be measured against the factors determining the under utilization of current trade preferences. The low or scarce utilization of trade preferences by LDCs is mainly due to a combination of factors linked to the lack of stability of preferences, excessively stringent rules of origin with respect to the industrial capacity of LDCs, insufficient product coverage, and lack of awareness of the preferences available and the conditions attached thereto, leading to application of MFN tariff rates rather than preferential ones. The study contends that four basic conditions should be fulfilled by any initiative to improve market access for

LDCs: (i) ensuring security of the preferential treatment granted, e.g. to establish a commitment that imparts stability of market access to the initiative; (ii) provision of full product coverage at duty-free rate (limited product exceptions may be granted duty-free tariff quotas with a scheduled phase down); (iii) harmonizing and devising origin requirements matched with the industrial capacity of LDCs; and (iv) strengthening technical cooperation to maximize utilization of trade preferences. Options to achieve these objectives are envisaged in the study. Finally, the study is limited to market access constraints, in particular tariffs and issues related to rules of origin. Supply-side constraints, determining LDC export capacity, are not addressed, but should be taken into consideration in the context of any initiative aimed at improving LDCs' participation in global trade flows.

“Duty and quota free market access for LDCs: An analysis of Quad initiatives” (UNCTAD/DITC/TAB/Misc. 7)

The aim of this study is to assess through computable general equilibrium modelling the effects of trade policy initiatives aimed at improving market access for LDCs in Quad countries. The study simulates the effects of two policy scenarios: (i) elimination of all tariff and non-tariff barriers against LDCs in the EU (this experiment is aimed at simulating the effects of the already approved EBA initiative); and (ii) elimination of tariff and non-tariff barriers faced by LDCs in all Quad markets (this experiment analyses the effects of a hypothetical coordinated action where the other Quad countries follow the lead of the EU). The database employed in such simulations is GTAP version 5 (pre-release 2), where 1997 is the base year. Since LDCs benefit from

existing non-reciprocal preferential trade arrangements, the data available in GTAP5 was modified with original data from the UNCTAD TRAINS database in order to account for effective preference margins. Results show that non-reciprocal preferential trade liberalization targeted to LDCs is likely to entail non-negligible gains for beneficiary countries, coupled with negligible losses for donor and third countries. When the only donor country is the EU (EBA initiative), the gains accrue mainly to sub-Saharan African countries and are mostly explained by improved terms of trade for beneficiaries. In this case, the key sectors are paddy and processed rice and sugar. Increased exports from LDCs are directed almost only to the EU. When liberalization occurs in all Quad countries, the benefits from duty-free and quota-free market access

increase substantially. Overall, welfare gains are ten times higher compared with those under the EBA, all beneficiary countries gain notably more, and countries such as Bangladesh and the rest of sub-Saharan Africa enjoy disproportionately higher gains. In this case, in addition to rice and sugar, new key sectors can be identified: wearing apparel, processed fish and dairy products. Increased export flows from some LDCs are still mainly directed to the EU under this scenario. For other beneficiary countries, however, the rise in exports is basically targeted to the United States market (Bangladesh), and for others (rest of sub-Saharan Africa) to Japan.

Case studies based on Bangladesh and Mauritius analyse the issue of rules of origin.

➤ UNCTAD TECHNICAL COOPERATION ACTIVITIES IN 2000-2001

In an effort to disseminate information on GSP schemes with a view to increasing developing countries' use of individual GSP schemes, UNCTAD has launched a website on GSP and related issues (www.unctad.org/gsp). Available on this website are updated handbooks on the GSP schemes of the United States, the European Community, Japan, Australia, Canada, New Zealand, Norway, Slovakia, Poland and Switzerland, as well as the digest on GSP rules of origin and the handbook on special provisions for LDCs. Publications are updated regularly. UNCTAD has been assisting developing countries in making the best use of trade opportunities and preferences available under the GSP and other preferential schemes, as well as in increasing the

understanding of those relating to trade laws and regulations, such as rules of origin and anti-dumping. During the course of 2000-2001, national seminars on GSP and rules of origin were held in the following countries: **Mozambique** (Maputo and Beira, 7-8 and 12-13 December 2000); **Cuba** (Havana, 29 January – 2 February 2001); **Paraguay** (Asunción, 5-6 February 2001); and **Maldives**, (Male, 8-9 April 2001) These seminars were aimed at advising local government authorities and exporters on individual GSP schemes, recent developments, preferential and non-preferential rules of origin, anti-dumping, specific difficulties encountered by developing countries in GSP utilization or questions regarding market access.

➤ PUBLICATIONS

- Handbook on the Scheme of **Australia** (UNCTAD/ITCD/TSB/Misc.56)
- Handbook on the Scheme of **Bulgaria** (UNCTAD/ITCD/TSB/Misc.67)
- Handbook on the Scheme of **Canada** (UNCTAD/ITCD/TSB/Misc.66)
- Handbook on the Scheme of the **Czech Republic** (UNCTAD/ITCD/TSB/Misc.63)
- Handbook on the Scheme of the **European Community** (UNCTAD/ITCD/TSB/Misc.25/Rev.1)
- Handbook on the Scheme of **Hungary** (UNCTAD/ITCD/TSB/Misc.64)
- Handbook on the Scheme of **Japan** (UNCTAD/ITCD/TSB/Misc.42/Rev.2)
- Handbook on the Scheme of **New Zealand** (UNCTAD/ITCD/TSB/Misc.48)
- Handbook on the Scheme of **Norway** (UNCTAD/ITCD/TSB/Misc.29)
- Handbook on the Scheme of **Poland** (UNCTAD/ITCD/TSB/Misc.51)
- Handbook on the Scheme of the **Slovak Republic** (UNCTAD/ITCD/Misc.50)
- Handbook on the Scheme of **Switzerland** (UNCTAD/ITCD/TSB/Misc.28/Rev.1)
- Handbook on the Scheme of the **United States** (UNCTAD/ITCD/TSB/Misc.58)
- Digest of Schemes (UNCTAD/TAP/136/Rev.7)
- Digest of Rules of Origin (UNCTAD/TAP/133/Rev.7)
- Improving Market Access for Least Developed Countries (UNCTAD/DITC/TNCD/4)
- Quantifying the Benefits Obtained by Developing Countries from the GSP (UNCTAD/ITCD/TSB/Misc.52)
- Globalization and the International Trading System – Issues relating to rules of origin (UNCTAD/ITCD/TSB/2)
- Compendium on Rules of Origin, Part I (UNCTAD/ITD/GSP/31)