

## UNCTAD GSP NEWSLETTER

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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. Following a period of reorganization, a few issues of Newsletters are expected each year while special issues will be published when relevant new information becomes available.

### *Contents*

- **RECENT DEVELOPMENTS IN THE GSP OF THE EUROPEAN UNION, THE UNITED STATES AND CANADA - TEXTILES AND CLOTHING**
- **UNCTAD TECHNICAL COOPERATION ACTIVITIES IN BRIEF AND LIST OF PUBLICATIONS ON GSP**

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## ➤ RECENT DEVELOPMENTS IN THE GSP SCHEME OF THE EUROPEAN UNION, THE UNITED STATES AND CANADA REGARDING TEXTILES AND CLOTHING

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With the expiry of the Agreement on Textiles and Clothing (ATC) on 1 January 2005, trade in textiles and clothing were fully integrated in WTO rules. This allows for trade in textiles and clothing to be conducted in a more competitive market environment. The end of the ATC marked a significant milestone in international efforts to uphold and safeguard an open, non-discriminatory, predictable, rule-based, and equitable multilateral trading system.

However, countries whose exports of textiles and clothing were dependent upon quota protection are now concerned about possible adverse effects that could arise from this quota elimination. LDCs and other small supplier countries feel particularly vulnerable in the post-ATC competitive environment. Furthermore, the multilateral tariff reduction that is being negotiated in the non-agricultural market access under the Doha round would lead to the erosion of preference margins which they currently enjoy.

Against this backdrop, the guidelines of the EU GSP scheme for the period 2006-2015, which were adopted in July 2005, address some of the concerns that LDCs and other vulnerable countries had with respect to their textiles and clothing exports in the post-ATC era. The new graduation mechanism was introduced in this EU GSP scheme to simplify the current graduation mechanism and focus the GSP benefits on those developing countries that are most in need. The new criteria for graduation of textiles and clothing are defined as follows:

- Graduation would take place when a 'group of products' from a particular country exceeds 12.5 per cent on average of total EU imports of the same products under GSP over the last three consecutive years. Groups of products are defined by reference to the 'sections' in the EU Customs Code, which are identical with Sections of the HS

Classification. Section 11 of the HS Classification (HS Chapters 50 to 63) covers textiles and clothing. Within Section 11, textiles (HS chapters 50 to 60) and clothing (HS chapters 61 to 63) are treated separately for graduation.

- Graduation does not apply to those beneficiary countries in respect of any section that represents more than 50 per cent in value of all GSP imports of these countries to the EU.

For textiles and clothing, review on graduation will take place annually to reflect the possibility of sharp increases in beneficiary country exports; for other products the assessment on graduation will be undertaken at the end of 2008. Under the new graduation mechanism, Chinese textiles, which currently benefit from the EU GSP, will be graduated.<sup>1</sup>

Also, textiles and clothing exports from certain 'vulnerable' developing countries will benefit from the GSP-Plus provision under certain conditions. GSP-Plus benefits cover duty-free access for around 7,200 products, including textiles and clothing. To qualify under the GSP-Plus provision, the following conditions must be met: Firstly, a country has to demonstrate that they are 'vulnerable'. A country is deemed to be vulnerable if its: (i) five largest GSP-covered imports to the EU represent more than 75 per cent of its total GSP-covered imports, and if (ii) GSP-covered imports from that country represent less than 1 per cent of total EU imports under GSP. They also need to ratify 27 international conventions on sustainable development and good governance. GSP-Plus preferences are immediately granted to developing countries that have ratified and implemented the 16 core conventions on human and labour rights and 7 (out of 11) of the international conventions related to good

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<sup>1</sup> Chinese clothing has been already graduated.

governance and the protection of the environment. In addition, they must engage in ratifying and implementing those international conventions which they have not signed up to by 31 December 2008.

The EU is also currently in the process of reforming the rules of origin that govern the eligibility of products liable for preferential treatment under GSP. The stated objective of reform is to simplify and, where appropriate, relax rules to increase the effectiveness of the EU GSP scheme. As regards textiles and clothing, the reform is reportedly facing difficulties owing to the sensitivity of the sector.

The United States is also considering improving its GSP scheme for textiles and clothing for vulnerable countries under the 'Tariff Relief Assistance for Developing Economies Act of 2005' (TRADE Act of 2005). This Act proposes to extend the benefits received by 14 Asian LDCs and Sri Lanka under the AGOA.<sup>2</sup> The proposal also includes extending the special rules of origin for textiles and clothing, namely the so-called 'third-country' fabric rule, which permits beneficiary countries to export clothing to the US market duty-and-quota free under GSP regardless of origin of fabric and yarn used in the production of the clothing. The Trade Act of 2005 is effective until 31 December 2014.

Also, the United States has initiated actions aimed at improving the effectiveness of its GSP scheme given that the current scheme expires on 31 December 2006. The USTR held a public hearing in early November 2005 on this question. The questions as to whether some beneficiary countries should be graduated or whether modifications can be made to help beneficiary countries increase their participation in the scheme and, lastly the length of time for which the programme should be re-authorized, are still open.

Canada extended duty-free access to imports from 48 LDCs, with the exception of some agricultural products from 1 January 2003 onwards. The most important addition under this initiative has been the granting of duty-free access to textiles and clothing articles. The initiative also included the introduction of flexible rules of origin, which allow inputs from all Canadian GSP beneficiary countries

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<sup>2</sup> The LDCs concerned are: Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao PDR, Maldives, Nepal, Samoa, Solomon Islands, East Timor, Tuvalu, Vanuatu and Yemen. For Sri Lanka, the benefits would be extended for economic emergency support in the aftermath of the Tsunami disaster.

## ➤ UNCTAD PUBLICATIONS ON GSP

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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)

**All publications are freely available** at:

<http://www.unctad.org/Templates/Page.asp?intItemID=1418&lang=1>