

Generalized System of Preferences (GSP)

In 1968 the second United Nations Conference on Trade and Development (UNCTAD¹) held in Delhi, India adopted the recommendation on creating the *Generalized System of Tariff Preferences* that provided for granting trade preferences to developing countries.

The essence of the Generalized² System of Preferences (GSP) is that developed countries assist developing countries through supporting their export. For that reason developed countries unilaterally (without receiving countervailing preferences) grant certain foreign trade preferences to beneficiaries of the GSP. Specifically, they impose lower import duties on goods exported from the beneficiary countries, which makes it easier for the goods produced in developing countries to enter the markets of developed countries. Actually this is a trade policy through which developed countries support developing countries so that they are able to develop their export and expand the pool of trade partner countries.

The resolution adopted at the Delhi Conference noted that the generalized, beneficial, non-discriminatory preference system aims at fostering developing and less developed countries in order to increase their export potential, national production and accelerate their economic growth.

The European Union was the first to implement a GSP scheme in 1971. The USA adopted the scheme for developing countries in 1974. As a result more than 4,600 products from 140 developing countries were imported into the USA without paying customs duties. USD 24.5 million worth of goods flowed in the USA during 2005 under the system. These were mainly fuel, spare parts of cars, jewelry, and furniture. 10 main GSP beneficiaries of the USA are the following: India, Angola, Brazil, Thailand, Indonesia, Ecuador Guinea, Turkey, South Africa, Philippines and Venezuela.

The proponents of the GSP scheme believe that supporting trade is a far stronger stimulus for economic development than providing support to governments; hence developing countries can benefit from GSP since it increases beneficiary countries' export into preference-granting developed countries.

It should be noted that the GSP scheme has opponents as well. They think that the reduction of tariffs under GSP encourages incompetent producers of beneficiary countries to actively engage in trade and they are in significant competition with stronger and more competitive producers of other countries who are not beneficiaries of the scheme. In fact the non-beneficiary countries are disadvantaged as it is hard for them to maintain their

¹ UNCTAD was created in 1963 as a standing intergovernmental body, which represents main body of the UN Assembly on trade and investment issues. It has more than 190 member countries.

² Some sources call it 'General' System of Preferences

position on the market of a country granting the preferences, which by itself is damaging for consumers in the preference-granting country.

Apart from this the system might negatively affect the productivity of the beneficiary country as it might promote the export of such products in which this country does not have a competitive advantage, which subsequently might translate into exacerbating the mobilization and allocation of domestic resources in the beneficiary country. There are 13 GSP granting schemes operating in the world – Austria, Byelorussia, Bulgaria, Canada, Estonia, European Union, Japan, New Zealand, Norway, Russian Federation, Switzerland, Turkey and USA.

EU GSP Scheme

The European Union was the first to implement a GSP scheme in 1971. The first scheme was functioning from 1971-1980 mainly applying to agricultural products and finished products. The second GSP scheme was operational from 1980-90 and incorporated manufacturing and sensitive industrial products. The third GSP scheme was implemented from 1995-2004 covering a broader range of products. The EU GSP is the most widely used of all GSP systems. The volume of imports to the EU from developing countries under the GSP is greater than the volume of imports under the US, Canadian and Japanese GSP systems combined. In 2003 EU imports under GSP totaled €52 billion when under the equivalent American scheme the same number was €16 billion. The share of imports from developing countries in total EU imports increased from 33% to 40% during 1999-2000. Main EU GSP beneficiary countries were India, China and Brazil by 2004.

There were five types of EU GSP scheme by 2005. The general scheme covered roughly 7,000 products, out of which 3,300 are classified as non-sensitive and 3,700 are classified as sensitive products. Non-sensitive products are completely exempt from customs duties, while sensitive products benefit from a tariff reduction of 3.5 percentage points on the Most Favored Nations (MFN)³ tariff. The next two schemes granted additional preferences for recognizing labor rights and environment protection standards. The fourth special GSP scheme was directed at combating the drugs and trafficking. Central and Latin American countries, as well as Pakistan benefited from the scheme. It covered more products (more than 7,200) than the general GSP scheme. The scheme envisaged exemption from customs duties.

The fifth scheme (Everything But Arms) was designed for the least developed countries. It supported 50 of the poorest countries of the world and granted duty-free access to imports of any product except arms and ammunition.

³ Most favoured nation (MFN) is also called normal trade relations in the USA. This is a status given by one nation to another in international trade and means preferential tariff policy. Namely, a country will not charge worse customs duties to another country in comparison to other countries. For example, MFN is a leading factor for WTO members as it considers different, lower customs tariffs for WTO member countries.

New GSP Scheme of EU

On October 20, 2004 European Union prepared a revised Generalized System of Preferences (GSP+) scheme for the period of 2006-2008. This system replaced the prior system of 2005. Currently the EU grants a much more simple, transparent and stable system. The new GSP will not change until 2008, which creates stable and predictable environment for importers and exporters alike. The allocation of preferences will be revised considering development needs of each country at the end of the period.

At present three schemes are in place:

- General scheme: product coverage increases from about 6,900 to about 7,200. It will incorporate 300 additional products (mostly in the agricultural and fishery sectors);
- The new Generalized System of Preferences (GSP Plus) was established for vulnerable countries allowing them to export 7,200 types of products to EU duty free. The beneficiaries are to meet a number of criteria (see below) including ratification and effective application of 27 key international conventions on sustainable development and good governance;
- The scheme 'Everything but Arms' remained unchanged.

The scheme GSP+ was designed for vulnerable countries that need special support for development. To benefit from 'GSP Plus' countries need to demonstrate that their economies are poorly diversified, dependent and vulnerable. Poor diversification and dependence means that the five largest sections of its GSP-covered imports must represent more than 75% of its total GSP-covered imports. There are two more conditions in addition to this: First, GSP-covered imports from that country must also represent less than 1% of total EU imports under GSP; second, as it was mentioned they also shall ratify and effectively implement the 16 core conventions on human and labor rights and 7 (out of 11) of the conventions related to good governance and the protection of the environment. At the same time beneficiary countries must commit themselves to ratify and effectively implement the international conventions which they have not ratified yet. In any case, the 27 conventions have to be ratified by the beneficiary countries by 31 December 2008. As was already mentioned the GSP+ scheme granted duty free access to EU markets to more than 7,200 types of products.

Certain products from GSP beneficiaries can graduate from the scheme if they become competitive on the EU markets. This means that these products no longer need the GSP support to be exported. The removal from the scheme does not mean that it is a form of penalty, but it indicates that the GSP has successfully performed its function in relation to the country and the product in question. This represents still another proof that the GSP supports weaker countries and helps them integrate into the international trade.

GSP for Georgia

Georgia has been a beneficiary of EU GSP since 1995. We became a beneficiary of Switzerland, Canada and Japan the same year. As for the US, Georgia became the US

GSP beneficiary in 2001 after the USA abolished Jackson-Venik⁴ amendment and confirmed that the Georgian economy was a market economy. Turkey granted to Georgia preferences under the GSP in 2002.

On June 27, 2005 the Council of the EU adopted the decision #980/2005, which put into action as of July 1 2005 the GSP+ system of additional preferences under the EU GSP Scheme and extended it to Georgia among other countries. Georgia along with the other beneficiary countries met the above mentioned three criteria. This is very important as Georgia was allowed to export to EU market about 3,300 types of products and 6,900 commodities, but after receiving the GSP+ beneficiary status Georgia is enabled to export 7,200 types of products to the EU without paying customs duties.

Besides Georgia the following countries are GSP+ beneficiaries: Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Sri Lanka, Moldova, Mongolia, Nicaragua, Panama, Peru, Salvador and Venezuela. It should be noted that aside from Georgia the UE GSP+ applies only to Moldova out of the CIS countries. It is only natural that all this will positively influence the attraction of foreign direct investments to Georgia. Georgia can export to the EU markets such products as nuts, walnuts, vinegar, natural honey, some non-alcoholic beverages as well as various types of manufacturing products, eg. ammonium nitrate. The list of agricultural products under the new scheme is significantly larger and assortment of such products as fish products, various vegetables, fruits, spices, is increased.

As for the specific list of products, the GSP+ scheme covers such prospective products as: various types of nuts and vegetables, natural honey, vegetables, nuts and walnuts, watermelons, quinces, glass vessels (pitchers, jugs, pots, bottles etc), textile, footwear, cement, bay-leaf, vinegar etc.) Though the list of the products is extensive, the scheme does not cover such an important product for Georgia as wine.

It is noteworthy that Turkey also extended the new scheme to Georgia after January 1, 2006 (considering that the Turkish legislature is in compliance with the EU legislature to the maximum extent possible) although the system does not cover agricultural products.

⁴ Jackson-Venik Amendment, adopted in 1974, setting restrictions on trade with former Soviet countries.