4 Changes in conditions for eligibility for new Generalised System of Preferences of the European Union – country and product coverage

Introduction

A concept of unilateral, non-reciprocal tariff preferences in the form of reduced or zero tariff rates (Generalised System of Preferences, GSP) determined for developing countries (beneficiary countries) was framed at the second session of UNCTAD conference held in New Delhi in 1968 as a manifestation of putting into practice a slogan “development through trade”. The main objective of the said concept was to increase export revenues and accelerate the economic growth rate of these countries, and thus to combat poverty and promote sustainable development (Gasiorek et al., 2010, p. 12). The GSP is based on several fundamental rules:

- countries are autonomous as regards an extent to which the GSP is used, i.e. it is countries themselves that decide on a geographical reach, commodity range and preference margin,
- preferences are unilateral in nature, which means that countries which have received them, do not have to repay for that,
- they are of a non-discriminatory nature with regard to countries that benefit from preferences, however, for the Least Developed Countries (LDCs), an exception to this rule is possible,
- since 1995, preferences are given for several years.

The European Community introduced the Generalised System of Preferences in July 1971.[1] It aimed predominantly to provide developing countries with easier access to the EU market by lowering or completely

[1] The major countries which grant GSP preferences to developing countries are Australia, Canada, European Union, Japan, New Zealand, Norway, Russia, Switzerland, Turkey and the United States.

reducing customs rates applied to goods imported from these countries. The GSP is implemented unilaterally by means of a Council regulation, which is revised periodically (Portlila, Orbie, 2014, p. 65). Until 1990s, customs rates decreased as preferences were being granted, and they were determined for a period of one year. This left foreign suppliers and community importers with a feeling of uncertainty. Over time, the period for giving GSP preferences was extended up to several years, and subsequently, in order to adapt to the conditions of a multilateral GATT/WTO trading system,[2] since 1 January 1995, they have been granted at ten-year intervals. Also, preferential customs rates were diversified depending on the product sensitivity. Currently, the legal framework of the GSP is set by the Regulation of 31 October 2012, which established a new, substantially changed system of tariff preferences (Regulation (EU) No 978/2012). In a changing world, the EU's scheme has had to adapt. The last decade saw a move towards greater differentiation amongst beneficiary countries in terms of development, trade and financial needs. To reflect that, given their different circumstances, they require also different patterns of preferences. A new framework GSP regulation entered into force on 20 November 2012 and will continue to apply until 31 December 2023, however, only for the Least Developed Countries (LDCs) no time limits for preferences have been determined. The current GSP offers three different preference arrangements: a general arrangement (Standard GSP); a Special Incentive Arrangement for

[2] The European Union grants tariff preferences to third countries either on a reciprocal basis (free trade agreements or agreements on establishing customs unions) or unilaterally. Free trade or customs union agreements are treated as an instrument of regional economic integration, thus they are concluded according to Article XXIV of General Agreement on Tariffs and Trade (GATT). Whereas, unilateral preferences given to developing countries such as GSP, mean more beneficial treatment and are an exception to MFN (Most Favoured Nation), and they have been introduced under a so-called enabling clause. In 1979, as part of the Tokyo Round of the (GATT), the enabling clause was adopted in order to permit trading preferences targeted at developing and least developed countries. This clause is an exception to the general GATT/WTO rule, that is, MFN – entailing non-discrimination and equal treatment of all Member States.

Sustainable Development and Good Governance (GSP+);[3] and for the Least Developed Countries (LDCs).[4]

This paper aims to present new rules for being eligible for the GSP, both from a country-oriented (beneficiaries) and an product-oriented (goods) perspective and to demonstrate changes in the graduation mechanism at a country and product level. Further, the article attempts to determine how significant the changes for beneficiaries of the old and the new system are. For the purpose of the analysis, an analytic and descriptive method was employed, various sources were used, such as domestic and foreign literature, legal acts of the EU secondary legislation in the form of regulations, as well as the report of the European Commission on the system of tariff preferences for the period of 2014–2016.

1. Key features of EU new Generalised System of Preferences

The world economy has changed throughout the past decades; China, India, Brazil and other emerging economies are becoming the leaders of international growth and are considered to be the main political and economic players in the international arena (European Commission, 2012). Many least developed countries are becoming more and more dependent on a small number of export goods, particularly raw materials. Furthermore, they are exposed to competition from more developed countries that often export very similar products.[5] Global financial crisis and the recession in the late 2000s non only affected large developed countries, including the United States and the countries of the EU, but also less

[3] GSP+ was introduced on 1 July 2005 instead of previous systems related to countering drugs, environmental protection (European Commission Memo, 2005).

[4] The system was introduced for LDCs into GSP in 2001 under Council Regulation (EC) No 416/2001.

[5] Previously, EU GSP preferences gave more developed countries greater competitive advantage over exports from the least developed countries. As a matter of fact, preferential exports of more developed countries (under the previous GSP) accounted for 40%. Therefore, it was necessary to concentrate preferences on those which were the most in need: low- and lower-middle-income countries (European Commission, 2015, p. 6).

developed countries due to an increase in commodity prices and relying on EU exports (Naumann, 2012, p. 4).

Table 1

Key changes in the new GSP of the European Union

Area	Old GSP	New GSP
1	2	3
GSP Scheme	Standard GSP, GSP+, EBA	Standard GSP, GSP+, EBA
Country coverage	All developing and the least developed countries, including 35 Overseas Countries and Territories (the OCTs)	A beneficiary status depends on the national income *per capita* (it may change over time), and on the customs status in the EU; excluded countries receiving preferential treatment under preferential trade agreements and the OCTs
Product coverage	21 groups of goods	Slightly expanded – thirty-two groups of goods (more homogeneous), less stringent criteria for eligibility at level of goods for the standard GSP; GSP+ – no graduation
	EBA (almost all goods, except for Chapter 93 of CN)	EBA (no changes, almost all goods, except for Chapter 93 of CN)
Graduation at the country level	1. A vulnerable country – export accounted for less than 1% of the total EU's import from GSP countries.	1. A vulnerable country – export accounted for less than 2% of the total EU's import from GSP countries, and from 1 January 2015 – 6.5%*
	2. Export to the EU is not diversified, that is, concentration is on a few commodities – 5 largest items of imported goods account for more than 75% of the total import to the EU from that country	2. Export to the EU is not diversified, that is, concentration is on a few commodities – 7 largest sections of GSP covered exports represent more than 75% of its total GSP covered exports to the EU as an average during the last three consecutive years – a minor change
Graduation at the product level	1. Threshold for removing preferences – import of a given commodity to the EU exceeded 15% of the total import with respect to a similar commodity under GSP; 12.5% for textiles*	1. Threshold for removing preferences have increased to 17.5% (and to 14.5% for textiles; 57% from 1 January 2015*); 47.2% from 1 January 2015;* 13.5% for ethanol
	2. Exclusions of goods were imposed for the Standard GSP and GSP+	2. Exclusions of goods are imposed only for the Standard GSP; graduation no longer applies to GSP+ countries

1	2	3
Predictability and transparency of system	GSP was reviewed every 3 years	Expiration period – extended from 3 to 10 years for the GSP and GSP+ schemes, a transitional period for countries which cease to be system beneficiaries (one or two years, depending on the case)
Adapt to Lisbon procedures		Enhanced role for the European Parliament

* On 1 January 2015 (after a one-year transitional period expired), China, Ecuador, the Maldives and Thailand were excluded from the list of GSP beneficiary countries, which raised the vulnerability threshold. The reason for such a change in the threshold is to allow for the better identification of competitive sectors and neutralise the effect of the lower number of system beneficiaries.

Source: own elaboration based on Regulation (EU) No 978/2012; Commission Delegated Regulation (EU) 2015/602.

Recent revision of the EU GSP scheme, which came into effect on 1 January 2014, has introduced important changes to the scheme. Considerable changes implemented to the new system concern the following areas (Table 1):

1. Country coverage: Concentration on countries that are the most in need, that is to say, which do not benefit from preferential access to the EU market and are not considered by the World Bank to be countries with a high or upper-middle national income *per capita*, which means that the main target group are low- and lower-middle-income countries; consequently, a list of system beneficiaries is considerably shorter.
2. Enhanced GSP+, GSP countries benefit from further reduced duty rates; the procedure for countries to apply for GSP+ and the criteria for this scheme are changed. Furthermore, graduation at the product level no longer applies to GSP+ countries.
3. Product coverage has been slightly changed: product sections used for graduation are expanded from 21 to 32. This ensures that graduation is more objective, as the products are more homogenous.[6]

[6] Sections of the EU customs tariff are not uniform, and thus products which are not competitive may be excluded, as they are classified under a group of goods in which products representing a completely different, competitive industry sector prevail. For comparison, one group of goods encompasses, e.g. footwear, umbrellas,

4. Product graduation: tariff preferences may be revoked for certain products from specific countries if the import of such products from that country is higher than a percentage of the total imports of the same product from all beneficiary countries. With the new system, these thresholds have been changed for the better: generally, graduation thresholds have increased from 15 to 17.5% (and from 12.5 to 14.5% from textiles).
5. Predictability, stability and transparency of system – make the system more transparent and predicable for economic operators. Moreover, approving the GSP on a periodic basis comes within the competence of both the Council and the Parliament.

On the other hand, the margin and the product coverage of preferences have remained almost unchanged. The fundamental principle of the standard GSP with respect to the preference margin has not changed. It still entails the reduction of MFN duty rates depending on the sensitivity of goods. Sensitive products are goods that are considered to be of special importance to the EU that require some protection for one reason or another (e.g. agriculture and food security/employment) (Nguyen, 2008). The fundamental principle of the GSP with respect to the preference margin has not changed. As for sensitive goods (mainly agricultural products, textiles, clothing, footwear, carpets), *ad valorem* MFN rates have been reduced by 3.5%, and specific duties by 30%, if compound duties have been imposed, then only *ad valorem* duties are to be reduced; whereas customs rates applicable to non-sensitive goods have been completely repealed. A beneficiary country can lose its trade preferences for a specific product group – as already mentioned – if they exceed a specific percentage in relation to the total import with the GSP (the graduation mechanism at the product level). On the other hand, *ad valorem* duty rates determined in the Common Customs Tariff for goods originating from a country that is a GSP+ beneficiary have been suspended, as is

headgear, artificial flowers (Section XII); cork and articles of cork, wood and articles of wood, wickerwork (Section IX) (Czermińska, 2010, p. 181).

also the case with specific duties; in these circumstances, the preference margin is thus substantially higher.[7]

The system of preferences for LDCs has not changed and remained in the form of EBA (Everything but Arms Arrangement), which means that for all goods, except for Chapter 93 of the Combined Nomenclature, i.e. arms and ammunition (99.8% of all tariff lines), duty-free access to the EU market, with no quantity limitations, is ensured. These preferences have been granted for an unlimited time period, and what is more, they do not have to be reviewed periodically, which is the case with the GSP.

2. Changed criteria for eligibility for new GSP in relation to countries – country coverage

The new GSP focuses preferences exclusively on those countries that need them. A developing country which has been categorised by the World Bank as a country with a high or upper-middle national income *per capita* for three consecutive years (directly preceding an update of the list of beneficiary countries, issued until January of each year) after a transitional period (one or two years) is excluded from the list of beneficiaries. Furthermore, countries for which preferential access to the EU market has been ensured, are no longer eligible for the system. As for the previous GSP, every developing and least developed country, as well as every overseas country and territory could qualify for the system.

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[7] In the new system, some changes have been made, and with respect to them the preference margin increased. The GSP and GSP+ changes involved mainly raw materials and can be divided into three categories: 1. Category A, adding 15 new tariff lines (six-digit, from Chapters 28, 31, 32, 78 and 81 HS) to non-sensitive products (duty-free access); 2. Category B, converting 4 tariff lines (eight-digit) that were sensitive (reduced tariff access) to non-sensitive (duty-free access); and 3. Category C, adding 4 new tariff lines (eight-digit) to GSP+ (duty-free access). The GSP and GSP+ product coverage now includes a number of agricultural and fishery products listed in HS chapters 1–24, and almost all processed and semi-processed industrial products, including ferroalloys, that are listed in HS chapters 25–97, except for chapter 93 (arms and ammunition). The expansion of the product coverage has resulted in increased preference margins for these products (Regulation (EU) No 978/2012; European Commission, 2017, p. 18).

Therefore the number of GSP beneficiaries has been reduced from 176 to 89 (49 the least developed countries and 40 low- and lower-middle-income countries); 87 countries are no longer eligible for the system.[8]

Countries that are no longer eligible for the system in 2014 are as follows (own based on: European Commission, 2016):

1. Countries with high and upper-middle GNP *per capita* in the last three years (20 countries):[9]
   - 8 high-income countries and territories: Saudi Arabia, Kuwait, Bahrain, Qatar, UAE, Oman, Brunei, Macau (territory),
   - 12 upper-middle-income countries: Argentina, Brazil, Cuba, Uruguay, Venezuela, Belarus, Russia, Kazakhstan, Gabon, Libya, Malaysia, Palau.

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[8] As of December 2015, 30 countries have used the standard GSP: **Africa**: Botswana (until 31 December 2015), Cameroon (until 31 December 2016), Ivory Coast, Republic of the Congo, Kenya, Ghana, Namibia, Nauru, Nigeria, Swaziland, Kenya, Ghana, Namibia (until 31 December 2016), Nauru, Nigeria, Swaziland; **Asia**: Kyrgyzstan (Kyrgyzstan has been granted GSP+ preferences on 25 November 2016), India, Indonesia, Sri Lanka, Vietnam, Tajikistan, Turkmenistan (until 31 December 2016), Uzbekistan; **Australia and Pacific**: Cook Islands, Fiji (until 31 December 2016), Marshall Islands (until 31 December 2016), Micronesia, Niue, Tonga (until 31 December 2016); **Europe**: Ukraine; **Middle East**: Iraq (until 31 December 2016), Syria; **South America**: Colombia, Honduras, Nicaragua (these countries until 31 December 2016). **LDCs** are currently covered by 33 countries in Africa: Angola, Burkina Faso, Burundi, Benin, Chad, D.R. Ethiopia, Gambia, Guinea, Equatorial Guinea, Guinea-Bissau, Comoros, Liberia, Lesotho, Madagascar, Mali, Mauritania, Malawi, Niger, Rwanda, Sudan, Sierra Leone, Senegal, Somalia, St. Togo and Tsen, Togo, Tanzania, Uganda, Zambia; 10 countries in Asia: Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Maldives (until the end of 2013), Myanmar/Burma (preferences currently withdrawn), Nepal, Timor Leste, Yemen; 5 countries in **Australia and Pacific**: Kiribati, Samoa (until 1 January 2019, Samoa will then become a beneficiary of the GSP standard, as it will no longer be the least developed country in the UN classification), Solomon Islands, Tuvalu, Vanuatu, Caribbean: Haiti; 49 countries in total. As at 1 January 2017, the number of beneficiaries of the Standard GSP was 23. Samoa will graduate to Standard GSP status on January 2019 as it is no longer identified as an LDC.

[9] Countries remain eligible for the preferences if their situation changes (they will be categorised by the World Bank as low-income or lower-middle-income countries or preferential agreements will be no longer binding), they will become again system beneficiaries.

These countries have experienced worse conditions for access to the EU market, and for the majority of them, their customs status has changed and MFN rates will be applied thereto.

2. Countries which entered into trade agreements with the EU (34 countries) or benefit from autonomous arrangements with the EU with regard to preferential access to the market:
   - Euromed (6 countries: Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia),
   - CARIFORUM (14 countries),
   - East and South Africa (3 countries: the Seychelles, Mauritius, Zimbabwe),
   - Pacific (Papua New Guinea),
   - MAR, EPAs[10] (8 countries: Ivory Coast, Ghana, Cameroon, Kenya, Namibia, Botswana, Swaziland, Fiji),
   - other (free trade zone) (2 countries: Mexico, South Africa).

   The reformed GSP is generally neutral for this group of countries, as the preferential access to the EU market is ensured for them under the said agreements.
3. Overseas countries and territories (33) – The reformed GSP is generally neutral for this group of countries, they have been provided with preferential access to the EU market.

   The GSP+ scheme is a "special incentive arrangement for sustainable development and good governance." As the name suggests, the scheme has been conceived by the European Union as an incentive to inculcate good governance and sustainable development practices in the developing countries, in order to help them in achieving best practices and development. The additional tariff

[10] A new stage in the development of relationships between the European Union – African, Caribbean and Pacific Group of States (ACP) was marked by the Cotonou Agreement, for which negotiating – in a specific time – Economic Partnership Agreements (EPAs) was of great importance. Due to the fact that very little progress in negotiating the EPAs with the ACP during the transitional period was observed, the EU adopted a regulation on access to the market (Market Access Regulation, MAR), which lays down conditions for earlier and temporary application of trade preferences by the EU, pending EPA ratification, for more information on this subject, refer to (Czermińska, Garlińska-Bielawska, 2016b, pp. 200–206).

preferences provided under the special incentive would be granted to those developing countries which; due to a lack of diversification and insufficient integration within the international trading system, are vulnerable i.e. (Regulation (EU) No 978/2012, Article 9):

– exports of that country should not exceed 2% of EU's global GSP imports,[11] seven largest sectors of products contribute more than 75% of its exports to EU (vulnerable developing country with a non-diversified economy and low level of imports into the EU,
– it is not a high or upper middle income country, and
– has signed, ratified and implemented 27 international conventions on human and labour rights, environmental protection and good governance.[12]

The new GSP Regulation provides for continuous monitoring of the GSP+ beneficiaries' obligations. Once a country is granted GSP+, the Commission and the European External Action Service (EEAS) must, therefore, monitor that it abides by its commitments, namely to (European Commission, 2016, p. 13):

– maintain ratification of the international conventions covered by GSP+,
– ensure their effective implementation,
– comply with reporting requirements,
– accept regular monitoring in accordance with the conventions, and
– cooperate with the Commission and provide all necessary information.

There are currently 8 GSP+ beneficiaries: Armenia, Bolivia, Cape Verde, Kyrgyzstan, Mongolia, Pakistan, Paraguay and the Philippines. More countries can apply to become beneficiaries in the future, if they

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[11] The effect of lowering the vulnerability threshold was that more countries could apply for the system, e.g. Pakistan and the Philippines.

[12] These conventions include: UN Conventions on human rights (7), ILO Conventions on labour rights (8), UN Conventions on environmental protection and climate change (8), UN Conventions on good governance (4); for a full list see Annex VII to The GSP Regulation (Regulation (EU) No 978/2012).

meet the above-mentioned criteria. Sri Lanka applied for the GSP+ beneficiary status in July 2016 and on 11 January 2017 the Commission adopted a delegated act proposing to grant that status to Sri Lanka (The Commission Delegated Regulation of 11 January 2017). The act is currently being considered by the European Parliament and the Council. According to the Opinion of the European Parliament of 20 April 2017, the fact that human rights are currently being violated in Sri Lanka raises doubts as to whether the GSP+ status should be granted or not, and government's reforming efforts, including those directly related to GSP+ criteria, have not made it possible to attain the objective yet – which is the compliance with the International Covenant on Civil and Political Rights, the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment and the Convention on the Elimination of Racial Discrimination (the Resolution reads as follows: "whereas the government's reform efforts, including those that directly relate to the GSP+ criteria, have not yet delivered on their aim of complying with the International Covenant on Civil and Political Rights, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, and the Convention on the Elimination of Racial Discrimination)"; the Parliament made objection to the Commission delegated regulation (European Parliament resolution on the Commission delegated regulation of 11 January 2017 amending Annex III to Regulation (EU) No 978/2012). A delegated act may enter into force only if no objection has been expressed by either the European Parliament or the Council within two months of its notification (the European Parliament's role has been strengthened, as already mentioned).

3. Changed criteria for eligibility for new GSP in relation to goods and graduation mechanism at product level

In the new GSP, the product coverage of preferences has not changed considerably, with respect to both the standard GSP and GSP+. Under the general arrangement, duty reduction (including also to zero) concerns approx. 66% of all tariff lines (around 6,350 tariff lines out of 7,100, for which customs rates are above zero). Apart from that, when considering the fact that the zero customs rate applies to 25% of the remaining tariff lines, then only 9% of all tariff lines is not covered by the GSP (Czermińska, 2016, p. 47). Tariff preferences provided for under the standard GSP are suspended with respect to products covered by a given section or subsection and originating from a GSP beneficiary country, if the average import value of such products from a given country – a GSP beneficiary – is higher than specific thresholds for three consecutive years (*graduation*) (see Table 1).

The GSP+ scheme is – as already mentioned – designed to help developing countries assume the special burdens and responsibilities resulting from the ratification of 27 international conventions as well as from the effective implementation thereof.[13] The GSP+ provides beneficiaries with the full duty suspension generally for the same 66% of items of goods that are covered by the standard GSP. A significant change is that there are no exclusions of goods (graduation). In addition, applications is accepted at any time, not every one and a half years, as in the past. For countries which are granted GSP+, graduation does not apply, this is relevant for some countries (an example is the situation of Costa Rica[14]). The list of product sections subject to such graduation under the new EU GSP regime shows that a wide variety of product sections have been graduated. It is specified in the underlying the GSP Regulation that the European Commission must review the graduation list every three years, the new list was be prepared and adopted following review in 2016, and start to apply from 2017. In the years 2014–2016, GSP tariff preferences did not cover essential items of exported goods from some countries: for import, from China – 27 groups of goods,[15] from India 6 groups of goods

[13] All GSP beneficiaries, except for China, Colombia, India, Indonesia, Thailand and Vietnam, are considered vulnerable countries, and they are thus entitled to apply for a GSP+ status.

[14] Under the previous GSP+ exclusions of goods were applied, for Costa Rica they referred to vegetables and fruit (S-2b).

[15] Such items of goods as live animals and animal products, fish, vegetables and fruit, coffee, tea, and spices, cereals, flour, nuts, vegetable plaiting, prepared foodstuffs (excl. meat and fish), beverages, spirits, inorganic and organic chemicals, plastics, rubber, raw hides and skins, leather, articles of leather and fur skins, wood and wood charcoal, cork, textiles, apparels and clothing, footwear, umbrellas, sticks,

(such as mineral products, chemicals, textiles, road vehicles, bicycles, raw hides, skins, leather, aviation and space; all the exclusions are new, before 2014, no exclusions were applied); from Indonesia – 3 groups of goods (such as live animals and animal products, oils, some chemicals, before 2014, only exclusions related to fats and oils were applied), from Nigeria – 1 newly graduated sector (raw hides and skins and leathers), from Ukraine – 1 newly graduated sector (railway and tramway vehicles and products), from Thailand – 3 products (preparations of meat and fish, prepared foodstuffs, beverages, spirits and vinegar, a new exclusion concerns Section 4a, that is, preparations of meat and fish), Ecuador – 2 newly graduated sectors (vegetable products, preparations of meat and fish) (Annex to Commission Implementing Regulation (EU**)** No 1213/2012)**.** For Vietnam sections 12a (footwear) and 12b (headgear, umbrellas etc.) were no longer graduated – what was particularly important for export from that country was the fact that preferences for footwear were not revoked, which under the previous GSP were subject to the graduation mechanism.

For the years 2017–2019, a new list of goods is applicable, according to which GSP preferences no longer cover: from India – 7 groups of goods: mineral products, inorganic and organic chemicals, textiles, pearls and precious metals, iron, steel and articles of iron and steel, base metals (excl. iron and steel), articles of base metals (excl. articles of iron and steel), motor vehicles, bicycles, aircraft and spacecraft, ships and boats; from Indonesia 2 groups of goods – live animals and animal products excluding fish, animal or vegetable oils, fats and waxes; from Kenya (a new country, and a new group of goods – live plants and floricultural products (main products exported to the EU), Ukraine – 2 groups of goods (railway and tramway vehicles and animal or vegetable oils, fats and waxes) **(**Commission Implementing Regulation (EU) 2016/330). As for the sections of goods that have been excluded, the MFN rate is

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whips, feathers and down, articles of stone, ceramic products and glass, pearls and precious metals, iron, steel and articles of iron and steel, base metals, articles of base metals, machinery and equipment, railway and tramway vehicles and products, road vehicles, bicycles, aviation and space, boats and parts thereof, optical, clocks and watches, musical equipment.

applicable, which means that no tariff preferences are given. The list of countries which exclusions refer to is shorter, which results, among other things, from the fact that some countries (China) are no longer system beneficiaries.

4. Importance of changes introduced to new GSP for system beneficiaries' import to the EU

An average rate of customs duties applied to imports to the EU for GSP countries is not high; in fact – the lowest rate – close to zero – for all goods (both agricultural and non-agricultural products) has been reported with respect to EBA countries, slightly higher for GSP+ countries: approx. 2%, whereas for beneficiaries of the standard GSP – nearly 13% (Table 2). Almost 60% of all tariff lines with respect to imports to the EU is covered by zero rates of customs duties under the standard GSP, even more – nearly 90% under the GSP+, and almost all for EBA countries. Compared with the old system, the changes in that regard are of no importance.[16]

Having considered the changes implemented to the new GSP, adverse effect on preferential imports from beneficiary countries can be observed, yet only marginal (the total fall in exports according to the European Commission's estimates is less than 1%) (European Commission, p. 9). Despite a considerable decrease in the number of GSP beneficiaries, preferential import rate under the GSP has not changed dramatically in recent years, and currently fluctuates around EUR 50 billion compared with approx. EUR 60 billion in 2009 (European Commission, 2016). This was, however, not that much – in fact, it was above 9% of the total EU's imports from all GSP countries in 2009, whereas in 2014,

[16] For comparison, the GSP of the United States provides for duty-free access for eligible countries (designated beneficiary countries – BDCs) for almost 3,500 tariff lines, and for the least developed countries, (*least* developed beneficiary developing countries – LDBDCs) similar preferences for additional 1,500 items of goods. In total, nearly 50% of tariff lines is covered by GSP preferences for LDCs. If considering zero MFN customs rates (approx. 36% tariff lines), then approx. 17% of tariff lines fall outside the GSP and are covered by the above-zero customs rate (Czermińska, Garlińska-Bielawska, 2016a, p. 139).

Table 2
Customs duties for GSP countries, considering imports to the EU, 2012 and 2014

	Simple average tariff rate (%)			Share of tariff lines covered by zero rates of duties (%)		
	Overall	WTO Agricultural	WTO Non-Agricultural	Overall	WTO Agricultural	WTO Non-Agricultural
2012						
Standard GSP	4.2	12.9	2.0	56.5	24.2	65.6
GSP+	1.9	9.3	0.1	88.7	53.4	98.7
EBA	0.0*	0.0	0.0*	99.8	100.0	99.8
2014						
Standard GSP	4.1	12.5	1.9	57.0	25.1	66.1
GSP+	1.8	8.9	0.0	89.1	54.4	99.0
EBA	0.0*	0.0	0.0*	99.8	100.0	99.8

* Means that a duty rate is above zero, but less than 0.05%.

If a preferential duty rate does not apply, for calculation purposes an MFN rate was considered, *ad valorem* equivalent (AVE) was calculated based on the import volume in the previous year. For tariff line calculations, to which zero duty rates apply, 9,383 eight-digit tariff lines were considered for 2012, and 9,379 for 2014.

Source: own using WTO (2011), p. 195; WTO (2015), p. 190.

this proportion increased to 24% (without China, with fewer beneficiaries, but with preferences being used to a greater extent). This percentage fluctuates depending on a beneficiary category: it rose considerably for the standard GSP – from 8% in 2009 to 17% in 2014; for the GSP+ – it grew from 20 to 26%; nevertheless, the largest increase (from 32 to 45%) has been reported with respect to LDCs (own calculation based on European Commission, 2011; European Commission, 2016 and based on data of Eurostat). This share of preferential imports in the total imports from GSP beneficiary countries, which is still not that significant, especially in the case of the Standard GSP and GSP+, stems from the fact that the preference margin under the GSP (in particular with respect to sensitive goods) is relatively low compared to MFN rates – although these are also not so elevated. Also, it must be remembered that some portion of goods playing a substantial role in exports of some system beneficiaries have been excluded from preferences. Furthermore, it is mainly the standard

GSP that does not address the needs of beneficiary countries due to their structure of export to the EU. This means that these countries export mainly goods for which duty-free access to the Union market is ensured due to zero MFN rates or goods which are not included in the system of preferences (sensitive products); an average duty rate applied for imports of non-agricultural products is relatively high – nearly 13% (Table 2). Apart from that, it must be mentioned that the effectiveness of GSP is limited by non-tariff barriers that the EU imposes on imports.

When considering individual countries, a number of large economies, such as India and Vietnam, benefit from the Standard GSP. As a result of this, the Standard GSP represents the biggest share in imports from all GSP beneficiary countries (54% in 2014). The main beneficiaries of this scheme were India, Vietnam and Indonesia, which means that import operations carried out just by these three countries corresponds to almost 90% of the total imports under the Standard GSP (European Commission, 2016, p. 7).

Considerable changes in the geographical structure of preferential import have occurred in the GSP+. The main users were (in 2014) Pakistan (70.1%) and the Philippines (17.7%), which means that in total, only these two countries accounted for nearly 90% of GSP+ imports. They became eligible for GSP+ preferences under the new scheme, before they were beneficiaries of the Standard GSP, therefore their conditions for access to the EU's market have been improved (European Commission, 2016, p. 80).

As for LDCs, Bangladesh was by far the leading beneficiary of the EBA arrangement, followed by Cambodia – these two countries represented slightly more than 85% of all imports where EBA has been used (European Commission, 2016, p. 9).

Conclusions

The analysis conducted allows to formulate the following general conclusions:

1. The most fundamental change relates to the amended criteria under which countries may obtain beneficiary status (country

coverage). Countries which are no longer eligible for the system, categorised by the World Bank as countries with a high or upper-middle national income *per capita*, which means that concentration is on countries being the most in need and lower-middle- and low-income countries; further, countries which have already had preferential access to the EU market no longer qualify for the system; consequently, the list of beneficiaries has been considerably shortened (from 176 to 89 countries, and according to the data obtained in January 2017 – 80 countries).

2. Graduation rules have been slightly relaxed both at the country level and the product level, with a doubling of the import share threshold to 2% and an increase in the number of product sectors, which for imports account for above 75% of the total imports to the EU from that country – a minor change). An important change for GSP+ beneficiaries is that graduation at the product level does not apply.
3. In the new GSP, the product coverage of preferences and preference margin has not changed considerably, with respect to both the standard GSP and GSP+.
4. For the majority of countries that lost the GSP beneficiary status, the reform of the system does not mean worse conditions for access to the Union market, as tariff preferences are granted to them under free trade agreements or EU autonomous regulations. Only for several states, which as a result of the change of customs status are no longer eligible for tariff preferences and do not negotiate with the European Union any preferential trade agreements (e.g. Russia, China), such countries have to accept a different scenario of trade exchange with the EU. However, it must be highlighted that both under the former and the reformed system, many items of goods imported from China, as well as from some other countries, were excluded from preferences, and the import of natural resources from Russia was subject to zero MFN rates, thus as a matter of fact, changed conditions of trade with the EU will not radically affect these countries.

5. Although the number of GSP beneficiaries has declined substantially, preferential import value from these countries in recent years has not changed drastically. Considerable changes in the geographical structure of preferential import have occurred only in the GSP+. The main users (in 2014) were Pakistan and the Philippines. Those countries became eligible for GSP+ preferences under the new scheme, before they were beneficiaries of the Standard GSP, which means that their trade exchange conditions have been improved significantly.
6. The changes to the GSP have the least direct impact on countries classified as LDCs. These countries have already enjoyed duty- and quota-free access to the EU market and continue to do under the revised GSP.

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Changes in conditions for eligibility for new Generalised System of Preferences of the European Union – country and product coverage

Summary. The European Community introduced the Generalised System of Preferences in July 1971. It aimed predominantly to provide developing countries with easier access to the EU market by lowering or completely reducing customs rates applied to goods imported from these countries. A new framework GSP regulation entered into force on 20 November 2012 and will continue to apply until 31 December 2023, however, only for the Least Developed Countries (LDCs) no time limits for preferences have been determined. This paper aims to present new rules for being eligible for the GSP, both from a country-oriented (beneficiaries) and an product-oriented (goods) perspective and to demonstrate changes in the graduation mechanism at a country and product level. Further, the article attempts to determine how significant the changes for beneficiaries of the old and the new system are.

Keywords: Generalized Scheme of Preferences, General/standard arrangement, Everything But Arms Initiative, Special Arrangement for Sustainable Development and Good Governance GSP Plus, beneficiaries of the GSP

JEL classification: F130, F140

Zmiany warunków kwalifikowania do nowego powszechnego systemu preferencji celnych Unii Europejskiej – zakres podmiotowy i przedmiotowy

Streszczenie. Wspólnota Europejska wprowadziła System Powszechnych Preferencji w lipcu 1971 roku. Głównym jego celem jest ułatwienie krajom rozwijającym się dostępu do rynku Unii Europejskiej dzięki obniżeniu bądź całkowitej redukcji stawek celnych na importowane z tych krajów towary. Obecnie, tj. od 1 stycznia 2014 roku, obowiązuje zmieniony GSP. Rozporządzenie ustanawiające nowy system weszło w życie 20 listopada 2012 roku i obowiązuje do 31 grudnia 2023 roku, jedynie preferencje dla krajów najsłabiej rozwiniętych zostały ustanowione bezterminowo. Celem artykułu jest przedstawienie nowych zasad kwalifikowania do GSP zarówno w ujęciu podmiotowym (beneficjenci), jak i przedmiotowym (towary), zmian w zakresie mechanizmu graduacji, a także próba określenia znaczenia wprowadzonych zmian dla beneficjentów starego i nowego systemu.

Słowa kluczowe: powszechny system preferencji celnych, ogólny/standardowy GSP, inicjatywa EBA, szczególny system motywacyjny GSP Plus, beneficjenci GSP

Klasyfikacja JEL: F130, F140