



## **Recommendations by the CONCORD Trade Reference Group for a development centred reform of the EU's Generalised System of Trade Preference**

30 June 2011

On the 10<sup>th</sup> of May 2011, the EC presented its proposal on how to reform the EU's Generalised System of Trade Preference (GSP). Claiming to focus the reform on the countries most in need, i.e. the poorest, it actually risks to undermine the very goal it sets out to achieve. As it currently stands, the proposal reduces the amount of trade preferences, weakens the development dimension and exacerbates regional integration which is essential to economic development.

CONCORD calls for the reform to go in a more development friendly direction.

**The published proposal substantially slashes EU trade preferences to developing countries**, essentially by removing a significant number of countries from the list of beneficiaries. This would reduce GSP imports to the EU from €60bn to €37,7bn and push developing countries into new FTA negotiations as the only way to preserve their preferences. The proposal would also provide the EC with an instrument to take away preference in case of not further defined "*serious and systematic unfair trading practices including those affecting the supply of raw materials, which have an adverse effect on the Union industry*", which amounts to a new economic policy conditionality in the GSP. **In sum, the proposal represents a further step by the EC towards a more self-serving and less development-friendly trade policy.**

The proposal also missed an exceptional opportunity to address the harm done by the EPA process to regional integration in Africa. The reform of the GSP should provide a real alternative or at least a soft landing for those ACP countries that are not in a position to conclude EPAs under current conditions. This would add substance to the commitments made in the Cotonou-Agreement to provide these countries with a new framework which is equivalent to Cotonou preference and at the same time, help to bring the flawed EPA process to a good end. The current proposal does not only miss this opportunity, it in fact further complicates the regional integration efforts by excluding ACP countries like Botswana, Fiji, Gabon, Mauritius, Namibia, Palau, Seychelles completely from the GSP

**For these reasons CONCORD considers the GSP reform proposal from the EC as a step in the wrong direction.** CONCORD hopes that the political process that was started with the publication of the Commission's proposal will lead to a reform that goes in another, more development friendly direction.

Such a **reform** should take into account the following **principles**:

- ◆ **GSP is a development tool.** It must be designed in a way that helps developing countries to develop their economy, to diversify and to increase the value addition of their exports.
- ◆ **GSP must remain a non-reciprocal trade scheme.** It must not be designed to serve EU's offensive trade policy interests. Therefore, no *economic* policy conditionality must be attached to the GSP, such as the obligation to abolish export restrictions on raw materials or to liberalise services or government procurement markets."
- ◆ **GSP must remain accessible to all developing countries.** No developing country *whether* classified as low or high middle income should be excluded automatically from GSP. The arguments that some countries have a growing share in global exports or the fact that some

developing countries are increasingly seen as competitors by the EU do not provide a good justification to exclude a country from the GSP. Especially since the sectoral graduation mechanism already provides for an instrument to ensure that countries with high competitiveness in one or several sectors do not continue to enjoy trade preferences for sectors where they are no longer required. This graduation mechanism could be improved further.

- ♦ **The “Everything but Arms” scheme should be designed to serve the interests of the poorest countries.** Poor non-LDC countries, especially in Africa are often in an equally weak economic situation as their neighbouring LDCs. Instead of using solely the LDC status to grant access to EBA, the GSP reform process should lead to an extension of the EBA status to other low-income, structurally weak, and small vulnerable economies. The aim must be to grant EBA status to low-income countries with the same or similar ‘development, financial and trade needs’ as the current LDCs. This could be achieved through a number of reforms; two options specifically deserve closer examination:
  - a) EBA could be extended to all poor developing countries based on the individual criteria for LDC status, i.e. low-income, human resource weakness and economic vulnerability. Currently not all countries fulfilling some of these criteria are classified as LDCs. Another option is a criterion based on the Human Development Index (currently a remarkable group of non-LDCs rank lower on the HDI as some LDCs). Through a better definition of countries which are in need, EBA practically could be granted to the whole of Sub-Sahara Africa, since all SSA countries share similar development, financial and trade needs.
  - b) EBA could be granted to poor developing countries that are part of a customs union or free-trade agreement where members are to a substantial proportion LDCs. In contrast to the current preference system, which bears the high risk of splitting regional integration groupings in different trade regimes, this option would help preserve regional integration and stimulate regional trade. This would provide a real solution for groupings of poor countries who have decided to integrate their economies despite division in LDC and non-LDCs.
- ♦ As underlined by the European Parliament, the revision of the regulation should ensure that **transnational corporations** are required to comply with their national and international legal obligations in the areas of human rights, labour standards and environmental rules.
- ♦ The current strict rules of origin are significantly restricting the value of GSP preferences. The GSP reform provides an opportunity for further reform of the **rules of origin**. The EU should develop a simplified rules of origin system for developing countries. The rules should focus exclusively on the minimum rules needed to prevent simple relabeling and allow for cumulation between all GSP beneficiaries.