Reform of the EU GSP Regime and its Potential Impact on Sub-Saharan Africa

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1 Introduction

Coinciding with the ongoing economic and financial crisis and with the many contemporary protectionist measures undertaken by industrialized countries that have restricted their trade with the developing countries, one of the most important schemes of non-reciprocal market access for the latter, the Generalized System of Preferences (GSP) of the European Union (EU), is due to expire on December 31, 2011. To ensure that developing country trade is not further disrupted by the lapse of the EU's GSP regime, a proposal for a new GSP regulation needs to be made during 2010, that is, during the current strained macroeconomic circumstances. The forthcoming revision of the EU GSP scheme raises several questions about its scope and contents and whether the depth and uncertain duration of the economic downturn might influence the generosity of those industrialized countries offering preferences.

On March 16, 2010 the EU Trade Commissioner Karel de Gucht launched a public consultation on the future of the European Union's trade policy towards the developing countries, which includes a review of EU's GSP scheme. In his opening address to that meeting the EU Trade Commissioner stated:[1]

> "The fundamental question for the review is whether the current GSP objectives remain valid and whether GSP preferences are still the best tool to achieve them. That implies asking the hard questions: is it right that GSP continues to be available to traders who have in the meantime become major global players in international trade with very significant and wide-ranging exports to the EU? Should the EU give preferences to countries which already benefit from other preferences granted by the EU? Should the architecture of GSP, - which includes GSP, GSP+ and EBA - be changed? And should the current arrangements for monitoring compliance be reinforced?"

This suggests that there is the political will to question several elements of the current GSP regulation, which might result in economically-meaningful reforms to the GSP regulation that, in turn, could affect Sub-Saharan African commercial interests (amongst others). The European Parliament, now involved in GSP matters and associated legislation, has called on the European Commission to submit a revised regulation proposal by June 1, 2010 and this is when concrete proposals will be

1 Opening speech, Karel de Gucht, European Commissioner for Trade, Conference on the EU trade policy towards Developing Countries, Brussels, March 16, 2010.

available for evaluation. Having provided an overview of the current EU GSP regime and its evolution since 2001, this paper then examines the lessons from past GSP revisions made under similarly strained economic circumstances in the early 1980s. Then, on the basis of what is known today about the potential reform options, this paper assesses their possible impact on Sub-Saharan African countries. Ultimately, the goal then is to examine what is at stake for Sub-Saharan African nations from certain leading proposals to reform the EU's GSP regime, bearing in mind that the recent global economic crisis may well inform the reform of that regime.

2 Overview of the EU GSP since 2001

The Generalized System of Preferences is a voluntary opening of markets by the industrialized countries to imports from the developing countries through the elimination or reduction of import tariffs. All major trading countries offer such schemes, although significant differences exist between the amount of incremental market access offered. In 1971 the EU GSP was the first one implemented in response to a UNCTAD proposal of that time and has been extended a number of times since then, each time with a limited duration.

The European Union's unilateral preferences are broad in scope. The EU GSP currently covers 176 countries and offers different level of preferential treatment to groups of countries at different stages of development. In total 49 Least Developed Countries (LDCs) (more than half of them Sub-Saharan African countries) are provided with the most preferential treatment as all of their exports enter the EU market duty-free, apart from exports of arms and several products temporarily excluded such as rice, bananas, and sugar[2]. All other countries fall under the general GSP scheme. Optionally, since July 1, 2005 those countries that are deemed "vulnerable" in terms of size or poor export diversification but that assume obligations arising from the ratification of a number of international accords (on labor standards, good governance, human rights, and environmental protection) can participate in the GSP+ system (the Special Incentive Arrangement for Sustainable Development and Good Governance) and, thereby, receive duty-free access for most products covered, which is an extension of preferences as compared with the general GSP-treatment.

Also other major preference-giving countries including Canada, Japan, and the US have significantly extended their GSP schemes over time, especially with regards to the African LDCs. The US AGOA extended US preferences to African countries by adding 1837 tariff lines. Thus, the period since 2001 can be regarded as relatively progressive in terms of granting further preferential access to the EU market and markets of the developed countries in general. However, in 2001 some higher income developing countries lost preferences on a wide range of products due to new so-called graduation criteria introduced by the EU. Indeed, as will seen below, it is the differences in treatment across developing countries that is a recurring theme in discussions about the effects of GSP regimes and their reforms over time.

2 Banana and rice were covered by the scheme in 2006 and sugar in 2009, the inclusion of the latter was delayed by three months due to a change in the EC's marketing year.

3 The current EU GSP Regulation 2009-2011

Compared to its predecessor, the implementation of the GSP scheme for the years 2009-2011 did not introduce any fundamental changes. The only adjustments were those resulting from the in-built graduation mechanism, which applies when the average imports of a section from a country exceeds 15% of GSP imports of the same products from all other GSP beneficiary countries over a period of three years. Thus, the current scheme introduced de-graduation (i.e. restoring preferences) of six countries/product sections (in the case of Algeria, India, Indonesia, Russia, South Africa and Thailand) and only one graduation (Vietnam/footwear). Due to the de-graduations and other technical changes the additional preferences were worth 160 million Euros per year. The product coverage of the GSP varies according to the type of the arrangement. Of the 9568 existing tariff lines under the Community's Combined Nomenclature (2405 carrying a zero MFN tariff rate) the general GSP arrangement covers 6244 tariff lines, the GSP+ 6336 tariff lines, and the EBA covers the broadest range of products 7140 tariff lines[3].

The current scheme is operating on the legal basis of Council Regulation No. 732/2008 of 22 July 2008, for a period of three years and, as mentioned above, it is due to expire on December 31, 2011. In the absence of the new regulation, most imports from the developing countries would revert to their MFN treatment under the EU's tariff schedules at the WTO, which means their tariff preferences in the EU market would disappear. Only countries covered by the Everything But Arms scheme (EBA), signed for an unlimited period of time, would keep their preferential treatment. As the expiry date is drawing closer, the shape of the new GSP regulation is becoming a more widely discussed issue. Whether the scheme will follow in the progressive direction of extending and deepening preferences, as was the case since 2001, or whether they will rather be limited as result of the strained economic circumstances from the current economic crisis remains to be seen.

The duration of the legislative process in the case of the current GSP revision could be longer than usual due to the enhanced role of the European Parliament concerning the ordinary legislative procedure applicable to the common commercial policy since the entry into force of the Lisbon Treaty. The European Commission has signaled its intention to propose a time-limited extension of the current Regulation at first while the work on the new Regulation progresses.

The shape of the previous, current, and the next GSP schemes are a part of a larger, 10-year plan for 2006-2015 that seeks to provide the scheme with more stability, predictability, and coherence. Although this document sets objectives and instruments for the whole period, it does not constitute a guarantee that the scheme would not be altered in a direction of limiting preferences. Thus, each review of the GSP creates the chance, or risk, of major alteration. In order to consider how the GSP scheme might be revised under crisis-era conditions and when there is above-trend levels of protectionism, it is useful to turn to prior contemporary experience to see if any lessons can be discerned. With this in mind, we know turn to the GSP revision undertaken during the sharp economic slowdown of the 1980s.

3 Generalized System of Preferences, Notification by the European Communities, Addendum, March 3, 2009.

4 The EU GSP during the global economic slowdown of the 1980s

The 1980s saw many countries turn inward, reversing many reforms. This followed a very sharp global economic downturn in 1980-1, itself a consequence of attempts to "squeeze inflation out of the system" by the adoption of restrictive monetary policies in the United States and the United Kingdom, higher worldwide interest rates, and previous oil price surges. Such was the level of concern among trade diplomats at the time that the GATT secretariat was charged with monitoring developments, and their reports make for sorry reading. Here, however, our concern is that the effects of the EU GSP regime were directly or indirectly affected by discriminatory measures taken by European governments or by the European Commission.

The first GSP scheme applied from 1971 to 1980 and was marked by moderate utilization rates of between 55% to 60% and a very limited number of recipients, since just 13 countries accounted for approximately 70% of goods imported at preferential rates. Although criticisms could be applied, the scheme progressed towards improved preferential access with each of its periodical reviews in the 1970s. The second scheme, operating from 1980 to 1985, brought about a simplification through the introduction of a single list of sensitive and non-sensitive products, removing quotas on imports under GSP, and introducing the differentiation (or modulation) of the scheme, which aimed at making the scheme more selective to the level of development and competitiveness of the beneficiaries. However, it was the sharp global recession of the 1980s that resulted in both a slowing down in the pace for GSP extensions and a significant increase of the certain restrictive features of the GSP regime. The latter therefore countered the liberalizing momentum that existed when the second GSP scheme came into force. The remainder of this section describes some of the high profile restrictive changes in the EU GSP regime introduced in the 1980s.

4.1 Restrictions on preference extension on the grounds of economic difficulty

Since the inception of the GSP by the EU in 1971, the scheme was supposed to be extended over time to cover more products, gradually remove quotas. and extend preference margins. However, already before the end of the first GSP phase 1971-1980, a document titled *European Communities Scheme of Generalized Preferences* circulated in March 1979, states "In a climate of growing industrial protectionism the Community's maintenance of the GSP is of particular importance. However, the situation in a number of major industries is such that a prudent approach must be adopted"[4] and "For certain sectors where the European Community is going through serious difficulties, it has not been possible to apply any increase [in the volume of the offer on duty free imports] in 1979"[5].

Withdrawals of the commitment to extend and deepen preferences followed. The

4 The European Communities Scheme of Generalized Preferences, Europe Information, External Relations, No. 18/79, March 1979.

5 Op. cit.

extension of GSP product coverage such as, for example, to cover basmati rice, proposed originally by the European Commission in 1980 to be included in the scheme for 1981, were not in the end adopted. Granting preferential access for this product would have had large developmental consequences for some of the least developed GSP beneficiaries, but the move was strongly opposed by some member states. Similarly, in the spirit of deepening preferences, the European Commission submission for GSP in 1982 proposed a general across-the-board increase of 10% for quotas, but after opposition from some member states a smaller or zero rate increase was adopted for sectors in economic difficulty. These covered, amongst others, the ECSC products, shoes, and certain chemical products. The move to protect these sectors was criticized for being overly protective and the Committee on Economic and Monetary Affairs of the European Parliament called it a restrictive policy, voicing doubts about its validity.[6]

4.2 Increase in the number of "sensitive" goods

Until 1980 the products for which preferential access was less generous due to their "sensitivity" were classified into four categories. Only non-sensitive products received full preferences and towards the end of the first EU GSP regime the share of sensitive products enjoying preferential treatment amounted to only 3-4% of the Community imports. The 1980 renegotiation, which sought to simplify the system by dividing all products into just two categories, sensitive and non-sensitive, in fact largely increased the number of sensitive products[7]. Strict controls were imposed on imports of sensitive products and occasionally the Commission subjected the imports of some of the products from this list to additional monitoring and import conditions. In 1984 the Commission imposed such stricter controls on preferential imports of three products already on the list of sensitive products -- carbonates of sodium, gelatin, and tableware of porcelain - specifically motivating this move with reference to the deteriorating economic situation.

4.3 Oil case and the 20% share in EU imports rule

In 1986 the EU considered excluding Saudi and Libyan petrochemical exports completely from the GSP[8]. This was in fact achieved by introducing adjustments to the GSP eligibility conditions in 1988, specifically by adopting new utilisation rules for the GSP. Developing countries which supply more than 20% of any one product imported by the EU were to be automatically removed from the system of preferences. In fact the new utilisation rules resulted in the removal of preferences for Saudi

6 Committee on Economic and Monetary Affairs, European Parliament Working Documents, 1981-1982, Report on the proposals from the Commission of the European Communities to the Council (Doc-1-450/81) for regulations fixing the Community's scheme of generalized preferences for the period 1982-1985 and opening the scheme applicable in 1982, Document No. 1-641/81, November 11, 1981.

7 Page, S.A.B. (1981), The Revival of Protectionism and its Consequences for Europe, Journal of Common Market Studies, Vol. XX, No. 1, September 1981. In 1984 there were 128 sensitive products, 64 of them industrial.

8 EC Agrees on Plan for Automatic Saudi, Libyan Petchem Exports over quota, Platt's Oilgram News, November 26, 1986.

Arabia. According to an account of remarks made by an EC official in 1998 "By achieving such impressive performance, a country shows that it no longer needs the GSP to maintain its competitive edge on EU markets[9]". With this decision of the European Commission, duty-free quotas for Saudi petrochemical exports were halved by 1989 and completely excluded from the GSP in 1990.

4.4 First GSP benefits suspension case

The 1980s also marked the first time that the EU suspended benefits under the GSP . In 1987 it withdrew the GSP preferences for South Korea because the government in South Korea refused to give EU exporters the same legal protection against counterfeiting as their U.S. counterparts had received[10]. The GSP suspension measure became effective on January 1, 1988 and adversely affected most of the major South Korean export products to the EU, such as textiles, microwave ovens, and electronic items.

4.5 GSP differentiation/modulation

Another development in the GSP scheme during the recession in the 1980s were moves to restrict the number of beneficiaries. The argument of limiting preferences to those beneficiary countries gaining economic strength was first made in mid-1970s. The European Commission stated in its Communication to the Council of 1975 that there was a need to review the eligibility criteria to account for such changes in the economic strength of GSP beneficiaries[11]. The economic crisis in the early 1980s contributed to a faster hardening of views on this issue. When the proposals for the second GSP scheme were being drawn up, the European Commission intended to divide beneficiary countries into three categories depending on their level of development[12]:

- the newly industrialized countries, whose preferences would be restricted due to their aggressive export policies and in order to improve the preferential advantage for the other, less developed beneficiaries;
- the least developed countries (LDCs) whose preferences will be continued and further improved;
- and the developing countries that fall in neither of these categories, for whom the preferences will be continued and extended but to a lesser extent than for LDCs.

9 International EU Ministers Meeting Nov. 21 May End Saudi Preferential Trade Status, Platt's Oilgram News, November 21, 1988.

10 EC Suspends Benefits For Korean Exports, Special to T*he Wall Street Journal*, 21.12.1987, The Wall Street Journal.

11 The Future Development of the European Community's Generalized Tariff Preferences, Communication by the Commission to the Council, COM(75) 17 final, February 3, 1975.

12 Guidelines for the European Community's Schema of Generalized Tariff Preferences for the Post-1980 Period, Commission Communication to the Council, COM (80) 104 final, March 7, 1980.

Although the Commission stated that the changes proposed were not supposed to exclude some highly competitive countries or protect some sensitive products, it also admitted that the new rules were made to exercise selective control over exports of sensitive industrial products originating in certain beneficiary countries.

The list of beneficiaries of the GSP is based on "self selection" as the definition of the developing countries for the purpose of GSP eligibility was countries equated with the list of the Group 77 in UNCTAD. The applications from other countries were selected on their merits.[13] The removal by the EU of their benefits from "newly industrialised countries" was motivated by the fact that by differentiating the access to preferences by country, a better allocation of the preferential advantages could be achieved as the least developed countries would receive more a favorable targeted offer of preferences. As can be seen in the 1983 report of the European Parliament on the proposals from the Commission of the European Communities to the Council, the Parliament "supports the differentiation applied within the system, whereby certain restrictions are imposed on the most competitive supplier countries in order to allow other countries, especially the least developed, better access to the Community market[14]". Consequently, Hong Kong, South Korea, and Macao were excluded from the improvements of preferential access in the GSP 1984.

Additionally, global quotas and ceilings were replaced by individual preferential ceilings for each country at the product level to prevent single countries from accounting for a large part of the total product imported. This move again constituted a withdrawal of certain preferences on a product/country basis, principally for the more developed remaining beneficiaries[15,16]. In 1985 the European Commission suggested for the year 1986 twenty-six product/country exclusions (twelve products in the case of Hong Kong, ten South Korea, one in the case of Brazil and one in the case of Singapore.)

4.6 Lessons for GSP review from the 1980s.

The reversal of liberalisation and the protectionist elements that were incorporated into the Generalized System of Preferences in the 1980s were induced and accelerated by two specific circumstances: the global economic slowdown in the early 1980s and the upcoming expiry of the first GSP scheme. At the beginning of the 1980s it has become clear that no economic recovery could be expected for some time, postponing further the recovery from the sharp downturn due to the oil shock of the late 1970s. As support for further GSP extension deteriorated among the member states in the face of economic difficulties and the expiry of the first GSP scheme

13 Romanian and Chinese applications were accepted and the Bulgarian one rejected. In 1985 the GSP covered 128 countries and 22 dependent territories additionally included in the scheme.

14 Report on the proposals from the Commission of the European Communities to the Council (Doc. 1-635/83 - COM (83) 441 final) for regulations fixing the Community's generalized system of preferences scheme for 1984, European Parliament Working Documents 1983-84, Document 1-1007/83, November 14, 1983.

15 Opinion of the Committee on External Economic Relations on the Commission proposal fixing the Community's generalized tariff preferences scheme for 1984 (Doc. COM (83) 441 final - Doc 1-635/83).

16 Review of the European Community's Generalized Tariff Preferences Scheme, Communication of the Commission to the Council, COM (85)203 final, May 6, 1985.

approached, it was seen and used as a chance to balance several improvements in the operation of the scheme with a protectionist slide towards limiting the preferences offered especially to those countries that were its largest and most successful users. The parallels to circumstances today are very strong, where both considerations apply considerable force.

5 EC GSP and Sub-Saharan Africa

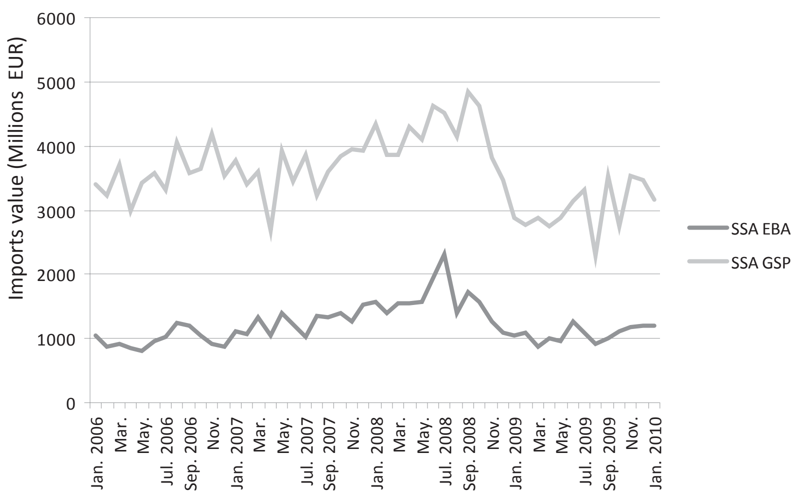
The preferences granted by the EU are said by many to play a central role in conditioning Sub-Saharan African countries' access to European markets. However it is important to appreciate that these countries do not form a homogeneous group of beneficiaries. Under the current GSP Regulation 2009-2011, 33 of the 48 Sub-Saharan African countries enjoy the Everything But Arms treatment (furthermore referred to as the SSA EBA group), while the 15 more developed countries (Botswana, Cote d'Ivoire, Congo, Cameroon, Gabon, Ghana, Kenya, Zimbabwe, South Africa, Swaziland, Seychelles, Namibia, Nigeria, Mayotte and Mauritius) fall under the general GSP (the SSA GSP group). None of the Sub-Saharan African countries is eligible for extended preferences of GSP+. Thus, any changes to the GSP scheme influences the 15 SSA countries directly and the remaining 33 indirectly by changing the relative competitiveness of the preferences offered under EBA. The central point here is the relative benefit of one type of preferences must be compared to the generosity of other preference regimes. Moreover, the unlimited duration of the EBA scheme is an advantage in comparison to the general GSP, as it provides the EU importers from the 33 SSA countries with more stability and predictability, which increases the attractiveness of sourcing goods from SSA EBA beneficiaries. The general GSP involves more uncertainty for its Sub-Saharan African beneficiaries as the preferences can be changed unilaterally by the European Commission without notice.

The years 2000-2007 had been a period of remarkable optimism regarding the prospects for economic growth and poverty reduction in Sub-Saharan Africa (SSA), undermined in 2008 and on by the global financial and economic crisis. Although to a lesser degree integrated in the global financial infrastructure than most of its trading partners, the crisis has had a strong negative impact on SSA primarily due to recessions in the importing countries and the resulting decrease in imports and collapse of commodity prices. Downward trends in foreign direct investment and migrant worker remittances were also observed[17]. The International Monetary Fund (IMF) predicted in 2009 that the growth rate for SSA would slow down to 1% from recent pre-crisis levels of 6% and then rebound again to 4% in 2010. Many analysts point to the strong resilience of African countries during the crisis in terms of economic growth rates as compared with the rest of the world and highlight the fast recovery observed already at the beginning of 2010. Although this is true, the impact of the crisis on Africa's exports was strong and some aspects of the crisis may have longer term effects. This is worrisome as many African countries need high economic growth rates to compensate for population increases if their populations are ever going to escape from poverty.

17 Osakwe, Patrick, N. (2008), Sub-Saharan Africa and the global financial crisis, Trade Negotiations Insights, Volume 7, Number 10, December 2008.

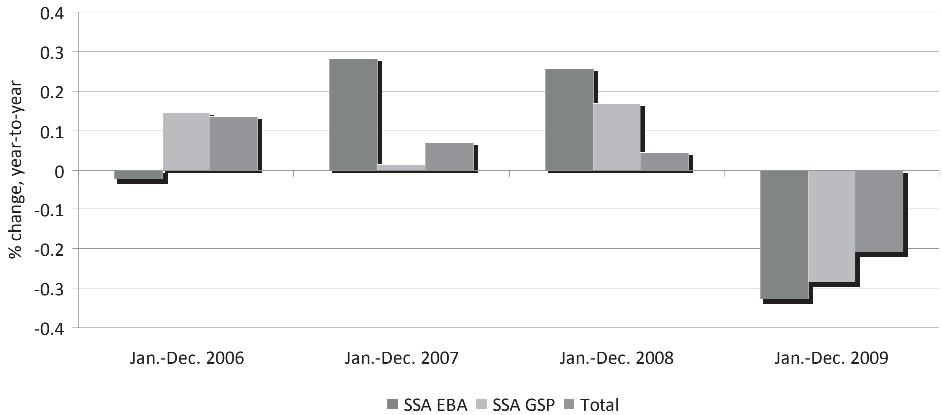
EU's imports from both groups of the Sub-Saharan African countries fell significantly during the recent crisis, see Figure 1. The decrease in imports level between October 2008 and January 2009, that is in the first three months of the global economic downturn, was stronger for the Sub-Saharan countries covered by both schemes than for the whole of EU's imports (Figure 2). Before the crisis, export of both groups to the EU were gradually increasing over 2006, 2007, and most of 2008, but after the crisis hit, SSA GSP group's exports to the EU fell below its early 2006 level and did not recover over most of 2009. The SSA EBA group's exports to the EU were growing at an even faster pace before and then experienced an even stronger decrease, although a little more spread out over time. In general EU's imports from Sub-Saharan African countries exhibit a higher volatility than EU's total imports with higher growth rates during times of economic prosperity and larger slump during the downturns and crises (Figures 3 and 4).

Figure 1 Imports of the EU from the two groups of Sub-Saharan countries, EBA and GSP beneficiaries (2006-2010, monthly data, Millions EUR).



Source: Author's own calculation on the basis of Eurostat data.

Figure 2 Percentage change of EU imports from two Sub-Saharan countries groups under EBA and GSP vis-a-vis total EU imports (2005-2009, year-to-year % change).

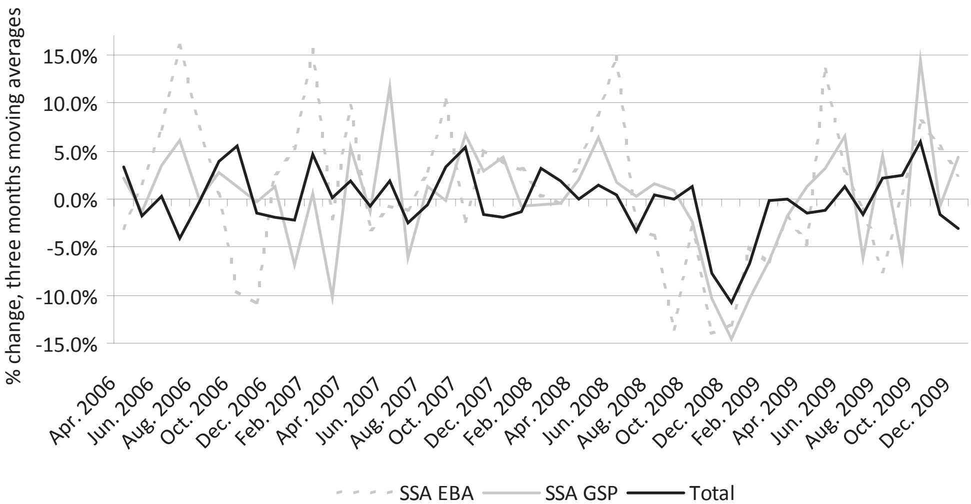


Source: Author's own calculation on the basis of Eurostat data.

Figure 3 Imports of the EU from Sub-Saharan African countries under EBA and GSP and total EU imports (% change, three quarter moving average

Source: Author's own calculation on the basis of Eurostat data.

Figure 4 Volatility of EU imports from the two groups of Sub-Saharan African countries and total EU imports (2006-2009, % change of three months moving average).



Source: Author's own calculation on the basis of Eurostat data.

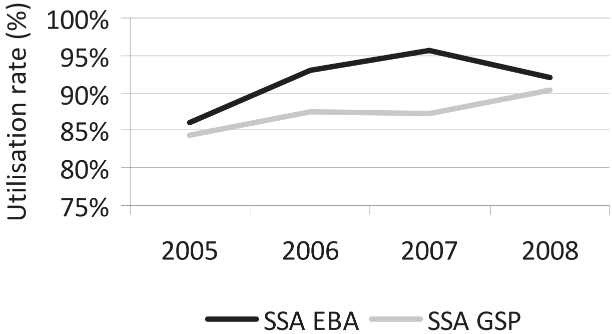
6. Utilisation of EU preferences by Sub-Saharan African countries

The evaluation of effectiveness of EU preferences raises several methodological difficulties. First, there are a number of overlapping preferential agreements granted to the Sub-Saharan African countries such as the GSP, EBA, and the Cotonou Partnership Agreement, currently in the process of being replaced by Economic Partnership Agreements. Secondly, the statutory rate of protection, i.e. preferential access available to exporters, does not always reflect the effective level of protection, which includes also technical and administrative requirements, SPS and TBTs in place as well as the rules of origin. The utilisation rates reported here have been calculated on the basis of Eurostat dataset for EU imports by corresponding tariff regime, which reveals a country's eligibility for preferential or MFN market access and provides information on regime under which the products were in fact imported[18].

Overall, in terms of utilisation rates, Sub-Saharan African countries under EBA are making better use of EU preferences than those under the general GSP regime. This can be due to the higher preferential margin under EBA, which makes it more worthwhile to fulfill all the requirements necessary for obtaining preferences rather than pay the MFN tariff. Although preference utilisation has been growing steadily over 2005-2007, 2008 saw a slight decrease for both groups (see Figure 5).

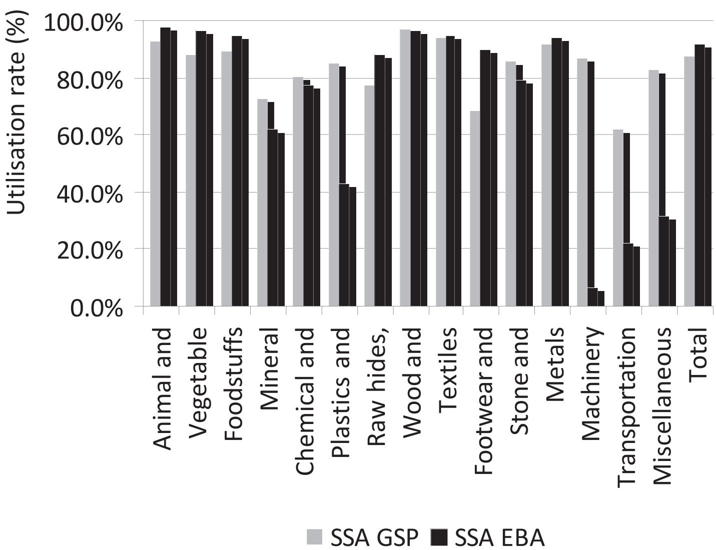
18 The Eurostat dataset "Adjusted EU-EXTRA Imports by tariff regime" provides only information on preferential or non-preferential access and not on the exact import regime (GSP, GSP+ or EBA). Since these schemes differ in the level of preferential access offered and/or in country coverage it is possible to assume that Sub-Saharan African countries go for the most generous preferential scheme they are eligible for.

Figure 5 Utilisation rates of EU preferences by two groups of Sub-Saharan countries (2005-2008).



Source: Author's own calculation on the basis of Eurostat data.

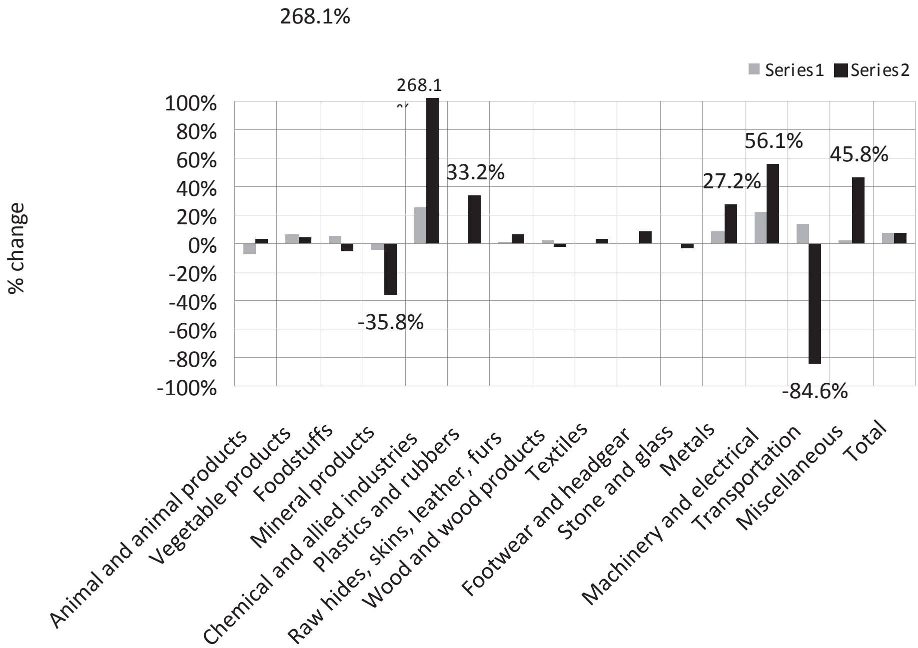
Figure 6 Average utilisation rates of EU preferences by two groups of Sub-Saharan African countries (2005-2008).



Source: Author's own calculation on the basis of Eurostat data.

Significant differences are observed at section level of the Harmonised System in utilisation rates between the two groups. Although the countries under EBA have overall higher utilisation rates, their exports are concentrated in fewer products. Thus, SSA EBA countries exhibit slightly higher preference utilisation rates only for a few categories, all of them primary products such as "Animal and animal products", "Vegetable products", "Foodstuffs" and "Metals". In "Wood and wood products" as well as "Textiles" both groups of countries use more than 90% of the preferences. However, under all other product sections, including those more advanced like "Plastics and

Figure 7 Percentage change in utilisation rates of EU preferences by two groups of Sub-Saharan African countries between 2008 and 2005.



Source: Author's own calculation on the basis of Eurostat data.

rubbers","Transportation" and especially "Machinery and electrical" countries under the general GSP take a clear lead in preferences utilisation (Figure 6). It is apparent that the utilisation rates are correlated with the level of MFN tariff in the EU and are higher in sectors where the EU's trade is traditionally less liberalised, such as agricultural or textile products.

For many sectors, especially those with high preference utilisation, there has not been any significant change in the level of utilisation between 2005 and 2008. However, in some other sectors, with lower utilisation rates, SSA EBA countries largely increased them, which probably shows a development of the corresponding manufacturing industry, stronger contractual relations with EU importer, better results of Aid for Trade initiative, further potential export diversification, and resulting investment in fulfilling preferential market access conditions, such as standards or organising production in a way so as to secure originating status. This was the case for "Chemical and allied industries", where the SSA EBA countries increased their preference utilization by almost threefold, by 268.1% between 2005 and 2008, "Machinery and electrical" (56.1%), "Plastic and rubbers" (33.2%) (Figure 7). No such large changes were observed for the countries under GSP, with some moderate growth of utilisation rates in chemical and machinery sectors. Overall, EBA countries seem to utilise their preferences better than the countries under the GSP, although the former does so in fewer sectors. The volatility and variance of utilisation rates is also much higher, with both large increases as significant decreases. Overall, it appears that many more changes are happening in the exporting sector of the EBA beneficiaries than those under the GSP.

Important insights into the potential problems utilising existing preferences were given by Eurocommerce/Business Europe. This group represents European business and stresses the importance of making the GSP not only more attractive to exporters from beneficiary countries, but most of all to EU importers that in fact decide where to import from. Major outstanding issues, according to this group, involve the lack of stability in the scheme, unanticipated changes, such as annual graduation or withdrawal, that cannot be dealt with on a short-term basis without prior notice, three different incentive regimes that importers need to manage, and late consultations for each GSP revision which result in the details of the next scheme being known much less than a year before implementation. These factors can be to blame for lowering the potential for exports and utilisation rates' growth under the EU's general GSP, less so under the more stable EBA.

7 Potential GSP reform options and impact on the Sub-Saharan African countries

A number of potential reform options can be found in the literature on the EU GSP regime, European Commission documents, and the contributions to the "EU Trade Policy towards Developing Countries" conference in Brussels on March 16, 2010. The majority of proposals for the reform can be grouped into the following broader categories: 1) changes in graduation and eligibility rules to exclude high income developing countries so as to better concentrate preferences on the LDCs, 2) a slightly extended product coverage, 3) measures to strengthen the supply side of exporters 4) changes in the list of sensitive/non-sensitive products and 5) some new proposals, such as import subsidies for products originating from the GSP countries. Other proposals, such as agricultural liberalisation in the EU and extending the duration of the GSP regulations, can be identified but due to their unlikely adoption we leave them outside of the scope of this discussion. It is also on purpose that we leave aside a discussion of the separate but complex matter of the GSP rules of origin reform, although it is often contended that such rules are an important and influential element of the GSP scheme performance. Let us turn now to the discussion of the impact of each of these proposals on the Sub-Saharan African countries and, finally a more detailed evaluation of changes to eligibility rules.

As neither eligibility criteria nor graduation criteria were explicitly established in the UNCTAD proposal for the GSP or the Enabling Clause of the WTO, they remain largely at the discretion of the countries granting preferences. This leaves open the opportunity for unilateral changes to the list of GSP beneficiaries and potential manipulation of the schemes in response to economic and political difficulties, just as it happened in the 1980s. The statement by Mr Vital Moreira, Chair of the Committee on International Trade of the European Parliament on the occasion of the opening of consultation for the new GSP scheme is instructive in this regard:

> "GSP must be revised to take into account the changing landscape in the developing world" and that "we consider that the GSP schemes continue to be most helpful tools but they must target the developing countries that most need them. The list of beneficiary countries should reflect the actual economic situation of developing countries and the graduation among them[19]".

Also Karel de Gucht in his opening address cited above mentioned that "major global players in international trade with very significant and wide-ranging exports to the EU" and whether it is right that the preferences should continue to be available to them. Potential exclusion of certain higher-income developing countries from the current GSP coverage (possibly through a change of graduation criteria) is thus becoming an actively discussed policy option. The apparent rationale here is that preferences for these countries have already achieved the goal of increasing their involvement in trade and the high level of diversification of their exports and are thus no longer necessary. Removal of preferences offered to the high-income developing countries should also serve to concentrate the EU's resources on other GSP beneficiaries in two ways - by deepening the competitive preference margins by freeing up resources that can be used for export capacity building. On the other hand, although it is difficult to support this hypothesis with documentary evidence of the European Commission's intentions, the move to exclude countries such as China and Russia from the preferences can also be influenced by the many protectionist measures introduced by these countries during the current economic and financial crisis (and documented in the Global Trade Alert database). Thus, the exclusion here would be a form of retaliation.

Second, with respect to product coverage changes, if it was limited for the general GSP scheme, the direct impact in Sub-Saharan Africa would be on the 15 GSP-covered countries. But it would also mean improved relative market access for EBA beneficiaries as their preferential margins versus the preferential margins enjoyed by other beneficiaries would increase. However, if the coverage of GSP is extended, as discussed by some researchers,[20] the countries eligible for GSP may gain and those under EBA lose in relative terms. However, these changes are not automatic for any extension or limitation of product coverage - the export structure of the Sub-Saharan African countries to the EU matters and the impact would only exist if changes to product coverage concern products that the African countries indeed export to the EU. For the 33 African countries under the EBA there is literally no scope for extending product coverage as the scheme already covers quota-free and duty free access for almost all products (exceptions were in place until 2006 for rice and banana and until 2009 for sugar). Thus, when speaking about deepening preferences for the least developed countries in Africa, the only way forward is through channels other than product coverage, such as: Aid for Trade, import subsidies, or limiting production subsidies in the EU on sensitive products.

Third, there is evidence that EBA and GSP help developing countries increase their exports but do not contribute much to domestic transformation and export

19 Statement by Mr Vital Moreira, Chair of the Committee on International Trade of the European Parliament, EU Trade Policy towards Developing Countries conference, Challenges and opportunities for the next years, Brussels March 16, 2010.

20 Making the GSP fit for the 21st Century, Dr Christopher Stevens, Overseas Development Institute, Presentation at the EU Trade Policy for the Developing countries conference, Brussels, March 16, 2010. Mr. Stevens also sees the problem of the beneficiary competitiveness.

diversification. Thus, many parties participating in the public consultation on the new GSP scheme suggested that there is a need to strengthen the link between the EU preferential market access and trade-related capacity building[21] in order to increase the utilisation rates and, secondly, to support exports by improving the domestic institutional and physical infrastructure. Most authors suggest more resources be allocated to the Aid for Trade scheme in order to not only increase the volume of exports in existing export sectors but to facilitate export diversification. This could be done by investing in market intelligence services to research the import trends in the EU market, support capacity building in the identified potential sectors, and providing country specific analyses indentifying constraints to export[22].

Fourth, an additional channel of impact of the GSP reform on the Sub-Saharan African countries are changes introduced to the list of sensitive/non-sensitive goods which are unique to the EU GSP scheme. Non-sensitive goods enjoy a larger preference margin than sensitive ones, the latter being also additionally protected by import restrictions under certain circumstances such as economic difficulty. The list can be changed arbitrarily by the EU, shifting products between the two categories and thus limiting or extending preferences. Capacity building support would also involve help in complying with high EU standards, TBTs and SPS.

Fifth, there is an innovative proposal to introduce import subsidies for products originating from the GSP countries. The idea was first put forward in a paper by Limão and Olarreaga (2006)[23] and discussed again by Michael Gasiorek at the "EU Trade policy towards developing countries" conference in March 2010 as a potential option for EU GSP[24]. This proposal requires careful attention as, in contrast to strengthening the supply side support, it concentrates on the demand side which as such has not been receiving support yet in the previous GSP regulations. A large advantage of import subsidies over unilateral preferences is that they may help diversify exports into sectors where preferential margins are small due to a low level of EU tariffs. Preferential access in such sectors does not constitute much of an incentive for exporters. The proposal also partly addresses the issues raised by the European importers from Sub-Saharan Africa concerning too much focus of the GSP scheme on the supply side. However, structure for supply side support is in place through Aid for Trade scheme and requires only further development of use of this tool, unlike in the case of import subsidies where an entirely new system must be developed and cleared for WTO compatibility. This probably makes its implementation a rather lengthy process.

21 EU GSP Scheme is a key tool for increasing trade of developing countries, especially in the context of the global economic crisis, Bonapas Onguglo, Senior Economic Affairs Officer, UNCTAD, Presentation at the EU Trade Policy towards Developing countries conference, Brussels, March 16, 2010.

22 Proposals for EU GSP reform brought up at the conference opening the public consultations (16 March 2010) Mid-Term Evaluation of the EU's Generalized System of Preferences, Michael Gasiorek

23 Limão, Nuno and Marcelo Olarreaga (2006), Trade Preferences to Small Developing Countries and the Welfare Costs of Lost Multilateral Liberalization, World Bank Economic Review 2006, 20 (2), pp. 217-240.

24 Proposals for EU GSP reform brought up at the conference opening the public consultations (16 March 2010) Mid-Term Evaluation of the EU's Generalized System of Preferences, Michael Gasiorek

8 Evaluation of the potential impact of changes to GSP eligibility rules for Sub-Saharan African countries

Limiting the eligibility to GSP treatment was used by the European Commission during the period of slow economic growth in the 1980s and, as today's conditions for GSP revision largely resemble those earlier times, one cannot dismiss the possibility that similar contemporary proposals will not gain enough political support to pass. To assess the implications for Sub-Saharan African countries of the potential withdrawal of preferences from the higher-income GSP beneficiaries, such as Brazil, China, India, Indonesia, Russian Federation, Thailand and Viet Nam,[25] a good starting point is to examine any overlap between the imports structure of the EU from these countries and from the Sub-Saharan African countries under the general GSP (SSA GSP group) and EBA (SSA EBA group). Plausibly one might conjecture that the greater the overlap, the higher the chance that the withdrawal of preferences comparatively improves the value of the preferential access to the EU market for the two SSA groups.

Knowing that the imports of the EU from the SSA countries are concentrated in relatively few tariff lines, as a first step the top 20 products imported by the EU from the two groups of the Sub-Saharan African countries were identified using 6-digit tariff lines classified according to the Harmonised System 2002. In total these top 20 exports amount to 67.07% of the total imports of the EU from the group of 15 SSA countries under GSP and to 81.44% in the case of SSA countries under EBA. It comes as no surprise that exports of the EBA group, being the least developed countries, are less diversified than for the SSA GSP group. In both cases however the analyzed top 20 products cover a large fraction of their exports to the EU. Table 1 below summaries the overlap of the Sub-Saharan African countries exports to the EU as compared with top 100 products exported to the EU by the high-income developing countries at risk of losing the GSP preferential access. These 100 products account for a little more than 50% of their total exports to the EU.

The overlap between top exports products is classified in four categories (Table 1): overlap between the top 20 exported products by Sub-Saharan Africa and the top 20 exported products by the high income developing countries is shaded "black", overlap between top 20 African exported products and the top 20-100 export products of the high income GSP beneficiaries is shaded "dark gray" and any overlap between the top 20 African export products to the EU and any product exported under the GSP by the high income beneficiaries outside the top 100 is shaded "light gray". "White" (no shading) refers to no overlap at all or the fact that the given tariff line is not covered by the GSP regulation at all. As it can be observed from Table 1 most of the top 20 products from SSA GSP and SSA EBA groups would be affected in one way on another by the withdrawal of preferences from GSP high income beneficiaries.

The direct overlap at the level of top 20 products imported by the EU from Sub-Saharan African countries and the top 20 or top 100 products imported from the high income developing countries is approximately 40% of import value for the SSA GSP group and 58% for the SSA EBA group (Table 2). This is where the largest impact on improving comparative preferential access under the GSP scheme is to be expected if

25 The list of high income developing countries that might lose the preferences was compiled on the basis of suppositions found in literature. It is in no way binding or confirmed by the EU.

preferences are withdrawn from the high income GSP beneficiaries. However, it must be noted that oil products account for a high share of this overlap in export structure. Increasing the competitive position of oil exports does help the current account balance of African countries but plays no or a limited role in fostering their manufacturing capabilities. If we exclude oil products, the share of imports with this highest level of impact is reduced to around 15% for both SSA groups. This is not a large figure, implying that the Sub-Saharan African exporters don't export the very goods necessary to gain from the elimination or erosion of any preference margins of the higher income developing countries that may lose their EU GSP eligibility.

Further potential for the improved access lies in the products exported by high income developing countries to the EU which are covered by the GSP scheme, but their import share places them outside the list of top 100 for which the overlap with the top export products of the SSA exists. This concerns additional 23.45% of EU imports from the SSA GSP countries and 8.88% of the SSA EBA countries. Only 4% and 13.86 % of SSA GSP and SSA EBA exports to the EU countries respectively (only the top 20 products concerned) would not be affected as they are not covered by the GSP scheme anyway and thus no preferences concerning them can be withdrawn. Table 2 summarises these findings.

In order to compare the value of imports from SSA countries with the respective value of imports from those countries that might lose their GSP preferences we calculated a ratio of EU imports from high income GSP beneficiaries to the value of imports from the given SSA countries group (imports value calculated as a sum over 2005-2008). The results are reported in columns 6 and 12 of Table 1. The higher the ratio the smaller the fraction of the EU's imports from the SSA as compared to imports of the same product from the high income developing countries and thus the higher the potential for gain from the discussed preference withdrawal. If preferences are withdrawn from its current high income beneficiaries, the potential for improvement of relative preferential status would concern a higher value of exports competing directly with the SSA EBA groups' exports than with exports of the SSA GSP group. The ratio of overlapping exports value for all products exported to the EU (i.e. all products but those marked white), is about four times larger for the SSA EBA than for the SSA GSP group (respective ratios 9.34 and 2.62). Partially, this can be explained by a broader product coverage under EBA and thus a larger fraction of exports competes directly with exports of other countries enjoying the GSP same preferences. This means that EBA group will be by far more influenced by an eventual withdrawal of preferences from high income GSP beneficiaries than the GSP group, which is in line with the assumptions of the proposed changes in eligibility rules. Still, given the paucity of product overlap, the overall impact of any reductions in eligibility of high income developing countries to the EU GSP regime is not likely to offer many opportunities for improving the competitiveness of exports of non-oil products from the Sub-Saharan African countries.

Table 1 Top 20 products imported by the EU from Sub-Saharan African countries (under GSP and EBA) and from the high income GSP beneficiaries and type of overlap between them (HS 2002, 4-digit, based on sum of trade value for the period 2005-2008).

15 Sub-Saharan African countries under general GSP						33 Sub-Saharan African countries under EBA					
No.	Product code (HS 2002 4-digit)	% of total EU imports from this group	Value of EU imports from this group over 2005-2008 (sum)	Value of EU imports from high income GSP beneficiaries group 2005-2008 (sum)	Ratio of EU imports from high income GSP beneficiaries to imports from this group (imports value, sum over 2005-2008)	No.	Product code (HS 2002 4-digit)	% of total EU imports from this group	Value of EU imports from this group over 2005-2008 (sum)	Value of EU imports from high income GSP beneficiaries group 2005-2008 (sum)	Ratio of EU imports from high income GSP beneficiaries to imports from this group (imports value, sum over 2005-2008)
1	H2-270900	24.23%	56489821646	349320138706	6.18	1	H2-270900	43.63%	32195393342	349320138706	0.09
2	H2-710231	9.21%	21476186885	6606987941	0.31	2	H2-760110	6.54%	4823736635	9219455340	0.52
3	H2-271111	5.22%	12166945371	0	-	3	H2-710231	5.32%	3927273909	6606987941	0.59
4	H2-180100	4.02%	9370161243	63654924	0.01	4	H2-890190	3.55%	2617459143	6220549734	0.42
5	H2-270112	3.96%	9227926006	15148183906	1.64	5	H2-090111	3.26%	2403242473	12654786595	0.19
6	H2-842139	3.11%	7247776778	264558479	0.04	6	H2-260111	3.00%	2215022975	18328090630	0.12
7	H2-270119	2.23%	5203955718	7509307245	1.44	7	H2-260600	2.41%	1781389339	837954316	2.13
8	H2-711011	2.02%	4711547493	445901257	0.09	8	H2-240120	1.76%	1296941433	2970232066	0.44
9	H2-710812	1.98%	4628062823	1467115496	0.32	9	H2-740311	1.56%	1150160935	7830942246	0.15
10	H2-720241	1.93%	4498771337	682204415	0.15	10	H2-890120	1.42%	1047592128	2208619871	0.47
11	H2-999999	1.21%	2824884311	34688137669	12.28	11	H2-030613	1.38%	1019356503	3684262478	0.28
12	H2-261690	1.16%	2696281928	1083918670	0.40	12	H2-030410	1.24%	917763315	94954818	9.67
13	H2-160414	1.09%	2547296693	1026905752	0.40	13	H2-180100	1.22%	899206506	63654924	14.13
14	H2-440729	1.06%	2461493059	963037072	0.39	14	H2-170111	0.99%	732554741	1128421557	0.65
15	H2-170111	0.82%	1907802920	1128421557	0.59	15	H2-810520	0.92%	676078249	574052332	1.18
16	H2-060310	0.82%	1903502982	132736057	0.07	16	H2-999999	0.91%	671323363	34688137669	0.02
17	H2-260111	0.80%	1874256511	18328090630	9.78	17	H2-290511	0.62%	457427488	1440473414	0.32
18	H2-080300	0.76%	1779576338	204115946	0.11	18	H2-060310	0.59%	435505809	132736057	3.28
19	H2-080610	0.73%	1704061928	702990868	0.41	19	H2-440349	0.56%	412642702	7069696	58.37
20	H2-711031	0.71%	1662603962	692684467	0.42	20	H2-880240	0.55%	407913229	2767421902	0.15
	Total Top 20	67.07%					Total Top 20	81.44%			
	"Black and dark grey"		92397890255	378584617798	**4.10**		"Black and dark grey"		43312886305	386317667700	**8.92**
	"Light grey"		54681800007	6645904733	**0.12**		"Light grey"		6551070859	79571835494	**12.15**
	All not "white"		147079690262	385230522531	**2.62**		All not "white"		49863957164	465889503194	**9.34**

x (black)	Overlap between top-20 products of the high income countries and any of the SSA countries (under EBA or general GSP)
x (dark grey)	Overlap between top 20-100 products of the high income countries and top 20 of the SSA countries (under EBA or general GSP)
x	Any overlap but no general GSP preferences on the certain product
x (light grey)	Overlap between top 20 products imported by the EU from SSA and products exported from high income developing countries (not top 100)

Table 2 Type of overlap between EU imports from Sub-Saharan African countries under EBA or GSP and the high income GSP beneficiaries at HS 6-digit

Overlap type (colour)	Overlap description	The % EU imports from Sub-Saharan African countries where the elimination of preferences for high income GSP beneficiaries would result in:	Sub-Saharan African countries under GSP	Sub-Saharan African countries under EBA
% of "black and dark gray" products	"Black or dark gray": where there is an overlap between 1) top 20 (black) and top 100 (dark grey) products exported to the EU by high income developing countries covered by GSP and 2) top 20 products exported by SSA countries under EBA or GSP to the EU	strongest increase of the competitive preference margin (oil products included)	39.63%	58.70%
% of "light gray" products	"Light grey": there is an overlap between 1) products exported by high income developing countries to the EU covered by GSP, which are not in the top 100 export products and 2) top 20 products exported by SSA countries under EBA or GSP to the EU	increase of the competitive preference margin in a less significant way	23.45%	8.88%
% of "white" products	"White": top 20 SSA export products to the EU which are not covered by the general GSP (which means high income developing countries anyway do not enjoy any preferences or they do not export it at all)	no impact	3.99%	13.86%
% of "black and dark grey" products minus oil products	"Black or dark gray": see "black or dark gray" products, oil products excluded	strongest increase of the competitive preference margin (oil products excluded)	15.40%	15.07%

9 Concluding remarks.

Experience from the 1980s shows that when an EU GSP revision coincides with a pronounced economic downturn or prolonged slow growth, protectionist considerations can influence the reform of the preferential market access scheme. This suggests that the forthcoming revision of the EU GSP scheme under essentially similar economic conditions might bear significant risks for certain developing countries. Candidates for removal from the EU GSP regime are the higher income developing countries, rather than the Sub-Saharan African countries. Overall, for the latter, the EU preferences have been functioning well. Sub-Saharan African countries attain high utilisation rates and a sustained increase in export value to the EU market, although these gains are limited to relatively few sectors suggesting little progress towards export diversification. Sub-Saharan African countries' exports to the EU were, however, reduced considerably during the recent global economic crisis and restoring their values to pre-crisis levels will take a while. This is where improved preferences could help, by their deepening for African countries under a reformed general GSP and by other means, such as technical assistance, for African countries eligible for EBA.

Does Sub-Saharan Africa have much to fear from the forthcoming revision of the EU GSP scheme? There are a large number of proposals being made during the current revision of the EU GSP regime and care must be taken that the more protectionist in nature are not adopted. The most likely development--changes in the eligibility criteria, although motivated by the concentration of preferences on low income developing countries, would widen the differences in treatment across developing countries. However, as shown here, the overlap between the exports structure to the EU of SSA countries and those higher income developing countries likely to lose their EU GSP preferences is (at the product level) relatively low. Consequently, what higher income developing countries might lose in terms of preferential access to the EU is unlikely to be offset by a substantial gain in relative competitiveness and exports from Sub-Saharan African countries.

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Appendix

Table A.1 EU preference utilisation rates for two groups of Sub-Saharan African countries at HS section level (2008 and % change 2005-2008).

	SSA GSP		SSA EBA	
	2008	% Change 2005-2008	2008	% Change 2005-2008
Animal and animal products	88.6%	-7.5%	98.3%	2.9%
Vegetable products	90.7%	5.9%	97.7%	4.6%
Foodstuffs	92.0%	5.2%	88.8%	-5.6%
Mineral products	73.8%	-4.1%	44.8%	-35.8%
Chemical and allied industries	80.5%	25.7%	99.3%	268.1%
Plastics and rubbers	85.8%	0.4%	33.1%	33.2%
Raw hides, skins, leather, furs	87.0%	0.6%	90.6%	6.2%
Wood and wood products	97.1%	1.8%	93.6%	-1.6%
Textiles	93.8%	-0.3%	96.2%	3.7%
Footwear and headgear	68.5%	0.5%	95.0%	8.4%
Stone and glass	84.3%	0.4%	79.9%	-3.5%
Metals	96.9%	8.3%	99.4%	27.2%
Machinery and electrical	91.3%	21.9%	4.8%	56.1%
Transportation	76.6%	14.0%	4.4%	-84.6%
Miscellaneous	84.2%	1.8%	44.3%	45.8%
Total	**90.3%**	**7.1%**	**92.1%**	**6.8%**