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New Generalised Scheme of Preferences (GSP) to be applicable in the EU as from 2014

The revised import preference scheme, known as the Generalised Scheme of Preferences (GSP) will become effective on 1 January 2014 (Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012).

The GSP provides unilateral trade preferences to imports from developing countries. It was first adopted in the EU during the 1970s with the aim to promote developing countries' economies by granting reduced import tariffs to their exports.

The GSP covers three regimes:

- The "general arrangement" which provides tariff reductions to all beneficiary countries;
- The special incentive arrangement, known as GSP+, that grants additional tariff reductions to developing countries that effectively implement a list of United Nations Conventions in the area of sustainable development and good governance;
- The Everything But Arms (EBA) provides a free duty and quota treatment for imports of all goods (except arms) coming from Least-Developed Countries.

Main changes

The new Regulation will bring relevant changes to the current system, mostly affecting country and product coverage. Currently, almost all developing countries can benefit from the GSP regime. With the new scheme however, economies that have a preferential trade agreement with the EU (i.e. Mediterranean countries, Mexico, South Africa, etc.) will be completely excluded. This differs from the current situation where operators are allowed to choose the most beneficial preference scheme between the GSP and the FTA.

More countries will be excluded given their economic output. Under the new scheme, the territories classified by the World Bank as high or upper-middle income economies will no longer be labelled as beneficiaries. With these changes, the list of beneficiaries will decrease from the current 176 countries to 89. An illustrative list of some of the countries whose imports will no longer be entitled to obtain preferential status from the GSP regime indicates the relevance of these modifications:

- Argentina,
- Brazil,
- Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates),

- Malaysia,
- Russian Federation.

Another significant change is on the "graduation" principle and the products to which it applies. Graduation means that preferences may be revoked for imports of a group of products if the goods become competitive. Although the threshold value to determine when goods are "competitive" is increased, the number of product sections to which graduation applies is expanded.

With the new Regulation, changes will also impact the GSP+ regime. First of all, the above-mentioned graduation principle will not apply to those countries. Furthermore, developing countries will be able to apply at any time (rather than once every 1 and a half years) for the GSP+. Moreover, the vulnerability criterion is relaxed so a country will be eligible if its benefited exports under the scheme represent no more than 2% (previously 1 %) of imports into the EU under GSP benefits. Finally, the criterion that 75% of the country's total exports into the EU must relate to the largest 5 product sections is now relaxed and applicable to the largest 7 sections. The burden of proof for compliance with the listed International Conventions shifts to the applicant economy.

A mechanism to suspend the benefits is foreseen for countries that have unfair trading practices in place, including those affecting the supply of raw materials. Finally, in order to provide more certainty to importers, the new Regulation will apply for a period of 10 years, instead of the current 3 years' timeframe.

What to do?

Imports into the EU from developing countries may be affected when the new Regulation will be in place, either from January 2014 or later, due to the fact that they are no longer meeting the conditions or new requirements. It is possible that products currently benefiting from preferential treatment will no longer have this status and that import duties are substantially increased. Similarly, it is possible that new savings can be obtained due to the inclusion of new tariff lines benefiting from preferences. Deloitte can assist you in determining whether the new legislation will affect your supply chain and help you on what actions can be taken in order to remain competitive.

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