Netherlands
Customs & Global Trade

Customs & Global Trade Newsletter

News you can count on

volume 1, number 5
20 augustus 2013

New Generalized systems of Preferences: What does it mean for you?

"The graduated sectors"

In October last year, the Council adopted a regulation amending the European Union's (EU) Generalized Systems of Preferences (GSP). Said new GSP will apply as of January 1, 2014. Based on the GSP, goods originating in certain countries (i.e. the beneficiary countries) may enjoy a lower customs duty rate upon import into the EU. The most important changes in the new GSP relate to the country coverage, the products for which the GSP is applicable and the sectors from certain beneficiary countries that have been excluded from the scheme ("the graduated sectors"). In our previous newsletter of July 23, 2013 we already asked your attention for the change in country coverage and noticed that the number of GSP beneficiary countries will substantially be reduced. **In this newsletter**, we ask your attention for changes regarding the graduated sectors for beneficiary countries as of January 1, 2014. These changes mostly relate to newly graduated sectors, but also include a sector for which the access to GSP will be restored. Further, we will address an industry that may specifically be impacted by said changes. In this respect, in this newsletter, we will highlight the possible impact on companies in the **food and beverages industry**.

Graduation

In principle, if a country is a beneficiary under the GSP all (exporting) sectors from that country benefit. However, it is possible that beneficiary countries have sectors that are more developed than other sectors. In this respect, if the average value of EU imports of products from a certain sector from a certain beneficiary country over three consecutive years exceeds a threshold (also see below), this sector will be graduated from the GSP scheme, meaning that products from this sector and country are no longer eligible for the reduced GSP customs duty rates upon import into the EU. Such sectors are called “graduated sectors” and these are defined by the Harmonized System’s product sections.

Under the new GSP, three elements with respect to graduation are changed:

- Graduation is no longer applicable for GSP+ countries (beneficiary countries that benefit from further reduced duty rates of the GSP’s special incentive arrangement for sustainable development and good governance). Graduation will only apply to the beneficiary countries of the GSP’s standard agreement. At this point, no beneficiary countries have been qualified yet as GSP+ countries.
- The thresholds used for graduation increase from 15% to 17,5%, where this threshold represents the EU imports of products from a certain sector from a certain beneficiary country as a percentage of all imports into the EU from said sector from all beneficiary countries. For the textiles sectors the threshold changes from 12,5% to 14,5%. Although the thresholds have increased as a percentage, the quantity of products that a beneficiary country may export to the EU before reaching this threshold may, in absolute numbers, actually be less as the number of beneficiary countries has substantially been reduced and aforementioned thresholds will be reached sooner.
- The number of product sections used for graduation is expanded. Instead of 21 product sections, 32 different product sections are now distinguished.

Newly graduated sectors

In the table below you will find an overview of beneficiary countries, which have newly graduated sectors as of January 1, 2014. Below mentioned graduated sectors are applicable in addition to the already graduated sectors at current.

Country	Newly graduated sectors
China	Section 1a – live animals and animal products excluding fish; Section 1b – fish, crustaceans, mollusc and aquatic invertebrates; Section 2b – vegetables, fruits and nuts; Section 2c – coffee, tea, mate and spices; Section 2d – cereals, flour, seeds and resins; and Section 4b – prepared foodstuffs (excluding meat and fish), beverages, spirits and vinegar.
Costa Rica	Section 2b – vegetables and fruits.
Ecuador	Section 2a – vegetable products; Section 4a – preparations of meat and fish.
India	Section 5 – mineral products; Section 6a – inorganic and organic chemicals; Section 6b – chemicals, other than organic and inorganic chemicals; Section 8a – raw hides and skins and leather; Section 17b – road vehicles, bicycles, aviation and space, boats and parts thereof.
Indonesia	Section 1a – live animals and animal products excluded fish; Section 6b – chemicals, other than organic and inorganic chemicals.
Nigeria	Section 8a – raw hides and skins and leather.
Thailand	Section 4a – preparations of meat and fish; Section 4b – prepared foodstuffs (excl. meat and fish), beverages, spirits and vinegar.
Ukraine	Section 17a - railway and tramway vehicles and products.

Upon import into the EU of products from aforementioned newly graduated sectors from corresponding countries, as of January 1, 2014, the EU's general customs duty rates will apply (again). Where these products currently may still be imported into the EU against the reduced GSP customs duty rates, the applicable (general) customs duty rate as of January 1, 2014 may be substantially higher. For companies who import said products from these specific countries, the EU customs duty burden may likewise increase.

Full GSP for Vietnam restored

The new GSP also includes a beneficiary country with one graduated sector under the current GSP, which is no longer graduated under the new GSP. For this country, Vietnam, the GSP is restored in full as of January 1, 2014. Below you will find the relevant sector that is currently graduated, but will not be any more under the new GSP.

Country	**Graduated sectors restored**
Vietnam	Section 12: footwear, headgear, umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair

In this respect, for example, companies in the footwear industry that source their products from Vietnam may benefit from the new GSP as its reduced customs duty rates may be applicable on their imports into the EU as of January 1, 2014.

Impact for specific industries; food and beverages industry

The food and beverages industry may especially be impacted by the new GSP. As can be seen from the table included before, graduation will become applicable for a wide range of products, such as; animals, fish, vegetables, fruits and products thereof, also including beverages and ingredients of aforementioned products. China, Costa Rica, Ecuador, Indonesia and Thailand are among the impacted countries in this respect. As food and beverages industry related sectors will be graduated from said countries under the new GSP, this industry may be confronted with a higher duty burden on the imports of its products or raw materials into the EU as of January 1, 2014.
From this date, the graduation will apply for the sectors and corresponding countries as included in the overview in paragraph 'newly graduated sectors' of this newsletter, which means that the reduced GSP customs duty rates are no longer applicable and the EU's general customs duty rates will apply upon import into the EU.

For example, for imports of pickles from China, the current applicable (reduced) customs duty rate is 0%. Pickles are classified in section '2b – vegetables, fruits and nuts' and this section will be graduated under the new GSP for imports into the EU from China. This will mean that, as of January 1, 2014, a general customs duty rate of 12,8% will be applicable.

Another example is the import of prepared or preserved tuna from Ecuador. The (reduced) customs duty rate that is applicable today for said imports is 0%. Prepared or preserved tuna is classified in section '4a – preparations of meat and fish'. In the new GSP, the applicable general customs duty rate will be 24%.

A higher import duty burden may be a trigger for EU importers to reconsider their sourcing or customs planning.

What to do?

If your company imports products from one or more of the aforementioned countries which have newly graduated sectors, you may want to check if your imports into the EU are impacted. Should this be the case, it is recommended to assess what the additional duty burden may be as of January 1, 2014 for said imports. In case the new GSP results in a (substantial) higher customs duty burden, there are a couple of things you may consider. You can take the (higher) general customs duty rate into account or take appropriate measures to still mitigate the impact thereof. Such measures may include sourcing from other countries, but can also be found in re-evaluating the customs classification and/or customs valuation of your products. In certain circumstances, for example when (some of) the product is eventually re-exported again from the EU, applying for customs authorizations to hold the products under customs supervision in the EU may also reduce the EU duty burden.

We can assist you by assessing your imports into the EU with regard to the new GSP regulation, check if these are impacted by the changes, what (new) duty rates may then be applicable and what options may exist to still reduce the (higher) duty burden.

Wilhelminakade 1
3072 AP Rotterdam
Netherlands