

## **Impacts of the revision of the European generalized scheme of preferences on agrifood imports from developing countries**

*Most countries tax their imports. At the global level, those taxes (or customs duties or tariffs) are ruled by the World Trade Organization (WTO) agreements. These tariffs are fixed according to the most favoured nation (MFN) clause which states that any commercial advantage granted by a country to another country must automatically be extended to all. However, there are many exceptions to this clause. Many countries or regions of the world sign preferential commercial agreements where they unilaterally or bilaterally commit themselves to reducing their tariffs to below the MFN level. This is the case of the European Union which offers unilateral trade preferences to developing countries within the Generalised System of Preferences (GSP) to promote trade from those countries. Since their implementation, a debate has been ongoing about the efficacy of these preferences because of administrative obstacles or restrictive rules of attribution which limit their impact. However, the EU states that the new GSP, in force since 1 January 2006, is both simpler and more generous than the previous ones. In this study which examines whether these claims are justified and confirmed by facts, we concentrate on agrifood trade as most of the changes concern tariffs on this type of products. Whereas the review by the European Union of its scheme of preferences has improved access to its agrifood markets for some of the developing countries, their impact remains limited.*

The new GSP adopted by the EU and implemented in 2006 provides for three arrangements: the GSPG is a general arrangement of preferences which concerns 7200 products; the GSPE offers additional advantages to the countries which commit themselves to sustainable development and good governance; and the GSPA or “Everything but Arms (EBA)” which grants free access to the least developed countries (LDCs). Although the EU claims that this new scheme is more generous than the previous one (see frame 1), given the repeated criticism of this type of arrangement, it appears necessary to check whether facts confirm the EU claims.

### **Despite the revision, the average level of “GSP tariffs” has not changed much**

Using the available data bases on tariffs and

trade (see frame 2), we calculate for agrifood products the changes between 2004 and 2006 in the number of the products benefiting from a tariff reduction or from zero-tariff, in the average level of the tariff and in the preferential margin<sup>1</sup> (see frame 1). Though efforts were made, the conclusions remain mixed.

The number and the proportion of products with zero or reduced tariffs did not increase except for GSPG beneficiaries. Concerning the other arrangements, these figures generally fell between 2004 and 2006.

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<sup>1</sup> Customs tariffs are expressed in % of the product value (*ad valorem* tariffs), or in euros per unit of measure, e.g. in 100€/kg (specific tariffs) or are a combination of both (mixed tariffs). To compare them, it is interesting to put everything in % or in *ad valorem* equivalent (AVE). For 2004, AVEs were directly extracted from DBTAR (an INRA Database). For 2006 we compute them with the 2004 unit value in order to avoid the differences linked to world price variations. The average preferential margin is equal to the difference between the MNF AVE and the preferential AVE.

### **Frame 1: Changes in the EU's Generalised System of Preferences (GSP)**

In 1968, the United Nations Conference for Trade and Development (UNCTAD) recommended the creation of a generalised system of tariff preferences (GSP) within which industrialised countries give developing countries free access to their markets by means of a reduction in tariffs compared to MFN tariffs. The first European GSP scheme was implemented in 1971 for a period of 10 years and periodically renewed. Under conditions of criteria and levels of development, the European GSP gives 178 developing<sup>2</sup> countries and territories free access to the EU markets thanks to reduced or even zero tariffs.

On 1<sup>st</sup> January 1995, a new GSP scheme came into force for 10 years. It provided for:

- 1) a general arrangement (hereafter GSPG) covering around 6900 “products” ranked in 4 categories. Non-sensitive products are free of duty. For very sensitive products the duty is reduced to 85% of the MNF tariff; for sensitive products it is reduced to 70% of the MNF level and for semi-sensitive products, it is reduced to 35% of the MNF level.
- 2) Three special arrangements (hereafter GSPE):
  - an incentive arrangement for the protection of workers' rights, which reduces duties for sensitive products by a percentage of 8.5 points from the MNF level;
  - an incentive arrangement for environmental protection for which additional concessions are granted;
  - an incentive arrangement for the fight against drug production and trafficking for Central American countries and Pakistan (7200 products free of duties);
- 3) a special arrangement for LCDs, also called the “Everything but Arms” initiative (GSPA) launched in 2001 and which gives 50 of the world's poorest countries free access to the European Market for all products except arms and munitions and three sensitive products, bananas, sugar and rice. For these three products, preferences are granted after transitional periods.

In January 2002, a first revision of the GSP scheme simplified and harmonized the arrangements by reducing the number of product categories from 4 to 2 (sensitive products with just one reduction equal to a 3.5 percentage points from the MNF tariff and non-sensitive products with zero duties).

In January 2006, the new GSP scheme came into force for 2006-2008. Described by the EU as more generous, simpler, more transparent and steadier, it reduced the number of arrangements from 5 to 3.

- 1) The general GSPG scheme was maintained but the number of products rose from 6900 to 7200, mainly in the agrifood sector.
- 2) A special arrangement on sustainable development and good governance GSPE for the most vulnerable countries was implemented. It concerns 7200 products under the condition that the beneficiary country complies with a number of criteria and signs and applies 27 international conventions on humans and workers' rights, environmental protection, the fight against drugs, and good governance.
- 3) The “Everything but Arms” arrangement (GSPA) did not really change. The transitional periods end for bananas (in January 2006), for rice (in September 2009) and for sugar (in October 2009), when these products will have zero duties.
- 4)

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<sup>2</sup> Most of these countries are given other preferential trading systems like the Cotonou agreements (for the Africa-Caribbean-Pacific (ACP) area), the Euro-Mediterranean agreements (for North African and Middle East countries) or bilateral trade agreements (as is the case of Mexico, Chile, or South Africa).

According to our figures, the MNF average tariff for agrifood goods is around 19-20% for 2004 and 2006, a result in accordance with the literature (European Commission, 2008). GSP beneficiaries benefit from a tariff of 14-18% and from an almost zero tariff in the case of LDCs. Taken as a whole, the GSP beneficiary's average tariff did not change much with the new scheme (less than a percentage point between 2004 and

2006) but this diverges according to the product categories. Three sectors (dairy products, vegetables and "food industry residues") even saw their tariffs increase for the GSPG and GSPE schemes. On the other hand, the cereal sector experienced a big reduction in its average tariff, from around 36% in 2004 to 19% in 2006.

Overall, the preferential margin in percentage only increased a little between 2004 and 2006.

## Frame 2: Databases

**TARIC** is an administrative data which gives the customs duties on all products imported by the European Union for each existing customs regime. In the European customs system, imported products are codified according to a classification called the Combined Nomenclature (CN). These codes (or lines) have up to 14 digits according to the level of detail with which each product is defined and refers to a specific customs tariff.

For example, code 01 (when the code has only 2 digits, we call it chapter) corresponds to live animals, 0102... live bovine animals, 010210 ...pure-bred breeding animals, 01021010 ...heifers. The customs tariff is given at the 8-digit tariff line (CN8). In our example, the MNF duty is of 0%. Chapters 01 to 24 cover the majority of agricultural and agrifood products. The TARIC data is raw. In order to compare tariffs, it is necessary to convert them into *ad-valorem* equivalent (AVE).

**COMEXT** is the EUROSTAT foreign trade database. It gives from 1995, the values and volumes of trade flows for all the products going into/ going out of the European Union by origin/destination. This database gives the Community imports under four regimes at a CN 10-digit level: MNF, MNF with zero duties, Preferential, Preferential with zero duties for 2000 to 2008. However, no information is given under the type of preferential system used (ACP,<sup>3</sup> GSP, Euromed and so on.)

**DBTAR** is a database developed by J. Gallezot (INRA). It gives in AVE the tariffs applied by the EU at the CN 10-digit level. Tariffs are given for 2002 to 2004.

**TRADEPREF** is a database developed by J. Gallezot (INRA). It gives the value of trade, the import regime in the Community, the *ad-valorem* equivalent of the applied tariff and the MNF equivalent for all the countries given a preference and for 2002 at the CN 10-digit level. This work is based on the processing of the information contained in the customs declarations.

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<sup>3</sup> There are preferential agreements other than the GSP, e.g. the Lomé-Cotonou agreements for the ACP (Africa Caribbean, Pacific) area or the Euromed agreements for the countries of the Mediterranean basin and so on.

## Agrifood imports from the beneficiaries of the GSP have considerably changed

The value of agrifood imports from countries benefiting from the European Generalised System of preferences changed considerably between 2004 and 2006 (see table 2). For GSPG countries, they went from 37 billion to 43 billion Euros and from 11 to 18% of global EU imports. Imports from countries with GSPE increased by two billion Euros and their share increased by 10 points (from 28 to 38%). GSPA countries did not see their agrifood exports to the EU increase much because of the lack of changes in the “Everything but Arms” arrangement.

## Differentiated changes according to countries

Looking at the ranking of the countries according to the value of their agrifood exports to the EU, it can be seen that emerging countries are the major beneficiaries of this preferential regime. Whether in 2004 or 2006, China, Argentina, India and Brazil appear in the top five places of this ranking. These countries did not only increase the global value of their exports (under and off preference) but, without exception, also increased their share of GSP exports in the total.

Last, we assessed the value of the preferential margin by multiplying the value of imports by the preferential margin in percentage (see table 3). It is the value of the rent that may be shared between exporters and importers thanks to the preferential regime. We compared the value of the utilised preferences to the value of the potential preferences (products can benefit from the GSP but entered the EU either under MNF or under another scheme). Significant changes appear between 2004 and 2006: the value of the potential and actual margins increased for all agreements between both dates. These results are consistent with the previously identified evolution in exports to the EU.

Some other countries also did spectacularly well. This is the case of Thailand, in fifth position among GSPG countries in 2006 for the volume of its exports under a preferential regime and in fourth position for its preferential margin, while it was respectively 17<sup>th</sup> and 18<sup>th</sup> in 2004. Exports of agrifood products from this country increased from 1.4 to 1.7 billion Euros over that short period. In the meantime, its exports eligible for preference went from 74 to 962 million Euros and those which actually benefited from a preference from 45 to 588 million Euros. Similar developments can be seen with Vietnam (7<sup>th</sup> in 2006) or Russia (10<sup>th</sup>) which use the GSPG preferences much more.

**Table 1: Comparison of indicators under the MNF and GSP scheme between 2004 and 2006 for agrifood products**

	Total Nb. of products <sup>4</sup>	Nb. of products under preference	Nb. of products with zero duty	Average tariff (%)	Preferential margin (%)
<b>2004</b>					
MNF	3,677	0	405	19.61	0
GSPG	3,683	1,658	522	17.68	1.93
GSPE	3,683	2,489	2,236	14.58	5.03
GSPA	3,683	3,631	3,629	1.38	18.25
<b>2006</b>					
MNF	3,447	0	388	19.04	0
GSPG	3,453	1,998	553	16.95	2.10
GSPE	3,453	2,178	2,161	13.97	5.07
GSPA	3,453	3,390	3,389	0.38	18.66

Source: DBTAR, TARIC and the authors' calculation.

<sup>4</sup> Here the “lines” of the Combined Nomenclature are reproduced. A line is a code which corresponds to a specific product and tariff (see frame 2). The total number of lines decreased because some lines were re-coded between 2004 and 2006. For example, this is the case when the tariff of two similar products are equal: (e.g., In 2004 the line 0403105300 “flavoured yoghurts” was divided into two lines: (0403105310) for those containing cocoa; (0403105390) for the others. For these two lines, the tariff was identical. In 2006, only the line 0403105300 remained.

**Table 2 – Level of EU agrifood imports from countries benefiting from the GSP between 2004 and 2006 (index 100 in 2004)**

	I) Imports under GSP preference (in Mo euros)	II) Eligible imports to GSP (in Mo Euros)	III) EU Global imports (in Mo Euros)	IV) Share of GSP imports in total imports (I / III, in %)
<b>2004</b>				
GSPG	4276.83 -100	13687.08 -100	37315.83 -100	11
GSPE	1517.70 -100	1817.34 -100	5345.25 -100	28
GSPA	524.10 -100	1471.37 -100	2132.57 -100	25
<b>2006</b>				
GSPG	7580.40 -177	19616.63 -143	43201.59 -116	18
GSPE	2643.89 -174	3052.24 -168	7138.85 -133	37
GSPA	603.65 -115	1669.43 -113	2510.12 -118	24

Source: EUROSTAT/COMEXT and the authors' calculations

Concerning the GSPE, although the level of trade increased, the ranking of the beneficiaries did not change much. Sri Lanka replaced Pakistan in sixth position when the latter lost its

beneficiary status. Last, as we might suspect, neither the level nor the ranking of the GSPA beneficiaries changed over the period.

**Table 3 - Level of GSP preferential margin between 2004 and 2006**

	Effective preferential Margin (in Mo Euros)	Potential preferential Margin (in Mo Euros)	Utilised share of preferential Margin (1)/(2) %
<b>2004</b>			
GSPG countries	210.96	443.55	48
GSPE countries	202.71	226.82	89
GSPA countries	62.78	165.95	38
<b>2006</b>			
GSPG countries	353.00	732.51	48
GSPE countries	313.81	354.91	88
GSPA countries	69.82	191.85	36

Source: the authors' calculations from EUROSTAT/COMEXT, TRADEPREF, DBTAR and TARIC

## Conclusion

Did the new EU generalised system of preferences foster the growth of imports from beneficiary countries? At the time of the study, 2006 was the only year available but some conclusions can be drawn by comparison with the year preceding these modifications. Though the average GSP tariff did not change much between both periods, imports from beneficiary countries have grown, particularly for countries concerned by the general agreement GSPG. Though the preferential margin in percentage did not progress much, the value of the global margin increased substantially. This evolution is

due to the increase in the volume of imports but also to a change in their composition.

The new GSP confirmed the presence at the top of the list of emerging countries such as China, Brazil, Argentina, India or South Africa, but also saw the emergence of new beneficiaries such as Thailand, Vietnam or Russia which were able to take advantage of the preferences offered by the EU. Because they already benefited from zero tariffs for almost all their agrifood products, LDCs did not experience much improvement in the volume of their exports.

However, this analysis only takes into account the changes in the tariffs levels and not the changes in the eligibility rules which also influence the value

of preferences. For example, the 2004 GSP provided a 15% reduction in the MNF tariff for ethanol. This preference was withdrawn in 2006 but was maintained for the GSPE beneficiaries. Given the potential growth in imports of bio-ethanol in Europe, it represents a potential loss

for some countries. This is the case of Pakistan, which was the second-biggest provider of ethanol to the EU and which has not benefited from the GSPE preferences since 2005.

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#### **For further information**

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