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QUANTIFYING THE BENEFITS OBTAINED BY DEVELOPING COUNTRIES FROM THE GENERALIZED SYSTEM OF PREFERENCES

Note by the UNCTAD secretariat*

Executive summary

The total value of imports receiving preference in 1997 under the most important GSP schemes was close to US$ 100 billion, or 18% of total imports of preference-giving countries from beneficiaries of their schemes. This underscores the continuing importance of GSP preferences in the post-Uruguay Round trading system. However, the distribution of the benefits from the GSP is greatly concentrated, and the share of LDC beneficiaries in total imports receiving preferences remains low. Furthermore, from an analysis on the product composition, it appears that although the share of agricultural goods in total imports of preference-giving countries from beneficiaries is significant, the corresponding share of imports receiving preferences is still low. The Uruguay Round Agreement on Agriculture, which has provided for tariffication of non-tariff barriers, leading to an increase in applied tariffs, now creates further scope for GSP preferences on agricultural products, providing a further reason why GSP should be preserved and enhanced. As regards industrial goods, in addition to expanding product coverage and increasing the depth of tariff cuts, one concrete way to increase the real benefits obtained by beneficiaries would be to simplify the rules of origin requirements. In this respect, the possibility of renewing efforts to harmonize GSP rules of origin could be explored. Finally, it is important to continue and to strengthen activities of technical cooperation to increase awareness and understanding of the operation of the various GSP schemes.

***Unedited text**

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INTRODUCTION

1.The Commission on Trade in Goods and Services, and Commodities, at its third session, agreed that the Generalized System of Preferences (GSP) and other non-reciprocal trade preferences are of continuing relevance and thus should be preserved and improved by preference-giving countries, and better utilized by preference-receiving countries in the post Uruguay Round trading environment. It, *inter alia*, recommended that "the UNCTAD Secretariat continues to analyse and quantify the benefits obtained from GSP and other non-reciprocal trade preferences"[1]. Pursuant to this recommendation, the UNCTAD Secretariat has prepared this technical note on the basis of the data it has received from some of the preference-giving member countries - namely Canada, the European Union, Japan, Norway, Switzerland and the United States - on the utilization of their respective GSP schemes. Other preferential arrangements - such as for instance those provided under the Lomé Convention - are not reviewed since data on their utilization is not currently available at the UNCTAD Secretariat.

2. This report is an attempt to quantify the recent evolution of the benefits obtained by developing countries and countries in transition, with particular reference to LDC's, within the context of the GSP. As such, it should be considered as part of an on-going effort by the UNCTAD Secretariat to contribute to the discussion on the continuing relevance of the GSP, which should hopefully lead to further refining the methodology and content of this report.

3. For the purpose of quantifying the value of GSP preferences, two statistical indicators are of particular importance and have been calculated for each of the schemes reviewed in this report: the total value of imports receiving preference and revenue foregone. The former is simply the total dollar value of goods that have benefitted from a partial or total reduction of import tariffs under the terms of the relevant GSP schemes. The latter - which is defined in technical terms together with other statistical indicators utilized in this report in Box 1 below - can be utilized as a rough indication of the "order of magnitude" of each scheme since it is larger the wider the margin of preference and the higher the total value of goods receiving preference.

Box 1 - Definition of the Statistical Indicators Utilized in the Report

In the text as well as in the tables and charts following definitions were utilized:

- **Preference margin**: This indicator is defined as: PM = [(MFN rate -GSP rate)/ (1+MFN rate)].
- **Revenue foregone** gives an estimate of the loss in the customs revenue of the importing country from the application of the preferential tariff rates. It is calculated by multiplying the preference margin by the value of imports actually receiving preference.
- **Average duty applied to beneficiaries of the GSP scheme**: This average was calculated utilizing GSP tariff rates for products covered by the scheme and MFN rates for all other products. It should be noted that previous UNCTAD publications have traditionally utilized the simple average of GSP rates. These two indicators are clearly quite different: for

[1] See: "Report of the Commission on Trade in Goods and Services, and Commodities, on its Third Session", TD/B/COM.1/22 October 1998, Geneva, paragraph 15.

example, in the GSP scheme of the United States, all covered products are subject to a full tariff rebate. Thus, the simple average of GSP tariff rates will be simply 0. The average duty applied to beneficiaries of the GSP scheme of the United States is instead 4.8% in 1997. The utilization of this indicator can be questioned, since not all products for which a GSP rate is applicable will actually receive preference. However, this indicator is relevant for purposes of economic analysis since it provides an immediate understanding of the tariff barriers encountered by beneficiaries of the scheme in the market of the preference giving country.

- **Product coverage** is defined as the ratio between imports that are covered by the GSP scheme and total dutiable imports from the beneficiary countries. This indicator can be calculated for all beneficiary countries, for a particular sub-group or for a single country.
- **Utilization rate**, defined as the ratio between covered imports actually receiving preference and covered imports, can refer to all beneficiaries, to a sub-group or to single countries.
- **Utility rate**, defined as the ratio between covered imports actually receiving preference and dutiable imports, can refer to all beneficiaries, to a sub-group or to single countries.

4. Throughout the report, a general caveat applies to the calculation of averages of applied MFN, GSP and LDC tariffs presented in Table 1, and which are quoted and discussed throughout the text. These statistics have been calculated excluding all specific and combined tariffs, since no ad valorem equivalents are available. Especially as regards agricultural products, specific and combined tariffs may actually represent a substantial share of the total number of tariff lines, and this holds particularly true for the European Union and for Norway. Their exclusion may lead to an underestimation of applied tariffs. Furthermore, since in many instances the rate applied to GSP beneficiaries is a fraction of a specific MFN rate, the preference margin can also be underestimated. For these reasons, these statistics should be considered throughout the report as useful indicators, but not as exact estimates of the level of applied tariffs.

I. THE GSP SCHEME OF THE EUROPEAN UNION

5. Under the GSP scheme of the EU[2], the total value of imports receiving preference was US$ 65 billion in 1997, representing 22% of the value of total imports of the EU from beneficiaries of its scheme. Total "revenue foregone" could be estimated at US$ 1.6 billions in 1997 (please see Chart 1 in the Statistical Annex). By both indicators, the EU GSP is by far the most important among the schemes currently in operation. This is all the more significant when one considers that the EU additionally grants developing countries a number of other instruments of non-reciprocal trade preferences, unlike most of the other preference-giving countries.

6. In the period under review, the EU introduced a new GSP scheme characterized by two important elements: the tariff modulation mechanism and the country/sector graduation. The impact of these changes on the preference margin and the product coverage is described in the following paragraphs. Other important changes in the scheme have been introduced in 1999, but the effects of these recent rules are not yet reflected in the available data.

[2] For all details regarding the EU GSP scheme, please refer to Handbook on the Scheme of the European Communities (UNCTAD/ITCD/TSB/Misc. 25/ Rev. 1). You may find an electronic copy of this Handbook at the following address: http://www.unctad.org/en/pub/pu98g3en.htm#top

7. Tariff modulation: In a radical departure from the previous schemes, the 1995 revision removed all quantitative limitations of GSP-covered imports. With "tariff modulation" all GSP covered products are classified according to four categories of product sensitivity: very sensitive, sensitive, semi-sensitive and non-sensitive, and they benefit from a 15%, 30%, 65% and 100% preference margin respectively. This system started to apply from 1 January 1995 for industrial products and from 1 July 1996 for agricultural products[3].

8. As can be seen from Table 1 in the Statistical Annex, following the introduction of tariff modulation the average duty applied to beneficiaries of the GSP scheme (other than least developed) increased from 2.8 in 1994 to 3.4% in 1997, while average MFN tariffs fell from 7.3 to 6.0%. Consequently, the preference margin for non-LDC beneficiaries of the EU GSP scheme dropped from 4.2 to 2.5% over the period under review. It should be emphasized that average duties applied in 1994 do not take into account the presence of quotas, so in spite of the decrease in preference margin, market access conditions may actually have improved for some of the scheme beneficiaries.

9. LDCs beneficiaries continued to enjoy duty-free access on all covered industrial and agricultural products, as well as on an additional list of selected agricultural products. It should also be noted that starting from July 1999, the additional list has been modified to cover an increased range of products while becoming subject to the modulation mechanism. The duty-free access on all other covered products has been retained.

10. Country/sector graduation: Graduation means that certain countries are excluded from GSP preferences for specific sectors or for the entire EU GSP scheme. The decision on a country's graduation combines an assessment of export specialization (based on the ratio between a beneficiary country's share of EU total imports in a given sector and its share of total European Community imports in all sectors) and a development index (based on a country's per capita income and total exports, as compared against those of the EU).

11. As graduation was progressively implemented over the period 1995 to 1998[4], product coverage for industrial products dropped from 73.5% in 1994 to 66.9% in 1997, contrary to the development for agricultural goods mentioned above. In fact, although the list of covered products remained unchanged, some specific countries were excluded from GSP benefits for some specific products, resulting in a drop in the ratio between total imports and covered imports. The average between these conflicting trends is shown in Chart 1 in the Statistical Annex.

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[3] For agricultural products, since monthly statistics were not available, the "new scheme" was utilized for the whole year 1996.

[4] For countries with a GNP per capita of over US$ 6,000 in 1991 (Bahrain, Brunei Darussalam, Hong Kong, Kuwait, Libyan Arab Jamahiriya, Nauru, Oman, Qatar, Republic of Korea, Saudi Arabia, Singapore, United Arab Emirates) the preferential margin was reduced by 50 per cent as from 1 April 1995 and abolished as from 1 January 1996 for all products. For other countries, the preferential margin was reduced by 50 per cent as from 1 January 1997 and abolished as from 1 January 1998 (see OJ C 384, 18.12.97, containing the list of products and countries concerned by this abolition). For countries subject to the ancillary clause (countries whose exports to the EC of products covered by the scheme in a given sector exceed 25 per cent of total beneficiary countries' exports to the EC in that sector) graduation was applied in a single stage as from 1 January 1996.

12. Although graduation was introduced in order to ensure a more equitable distribution of preferences among beneficiary countries, the share of the three largest beneficiaries on imports actually receiving preferences increased over the period of its progressive implementation (from 46.3 to 51.6%), while the share of LDCs remained constant around 1%.

13. The single country which suffered the most from graduation was the largest beneficiary of the EU GSP scheme, China, which saw product coverage fall from 90.6% in 1994 to 69.6% in 1997. It is significant however that - in spite of sector graduation - total imports of the EU from China increased by over 40% over the same period.

14. As is to be expected thanks to the wide product coverage of the scheme, imports receiving preference were well diversified and included: for non-LDC beneficiaries, food and agricultural products, metal products and machinery, wood and paper, textiles & clothing, and leather goods; for LDC beneficiaries: textiles & clothing, food and agricultural products and leather goods.

15. One last observation concerns the utilization rate which has been increasing steadily over the period under review, from 48.9 in 1994 to 57.6% in 1996. The only exception in this trend is the significant drop in the utilization rate of LDCs in 1997, from 47.5 to 26.7% which mirrors the drop in utilization of the major LDC beneficiary, Bangladesh (from 48.5 to 27.4%).

16. Recent changes in the scheme (not reflected in the data): Starting from 1 January 1998, the EU GSP scheme provides for "special incentives" which operate on the basis of an additional margin of preference. The granting of these incentives is subject to compliance with certain requirements related to labour and environmental standards. The preferential duty applying to very sensitive, sensitive and semi-sensitive agricultural products is thus reduced by 10%, 20% and 35% of the MFN rate respectively. The percentages of reduction applicable to industrial products are slightly higher: 15%, 25% and 35%[5]. Special arrangements provided for the member countries of the Andean Group and the Central American Common Market which are conducting anti-drug campaigns have been improved, especially as regards industrial products.

II. THE GSP SCHEME OF THE UNITED STATES

17. The total value of imports receiving preference under the GSP scheme of the United States[6] was US$ 14 billion in 1997, while revenue foregone from the US GSP scheme could be estimated at 242 million dollars, down from 363 million dollars in 1996 - as shown in Chart 2 in the Statistical Annex.

18. This decline may be attributed to the drop in the utilization of the US GSP scheme from 61.8 in the previous year to just 37.8%, possibly connected with the protracted uncertainties regarding

[5] For countries/sectors subject to the graduation mechanism duties applying to the graduated agricultural and industrial products are reduced by 15% and 25% of the MFN rate respectively

[6] For details on the GSP scheme of the United States please see *Handbook on the GSP scheme of the United States of America* (UNCTAD /TAP/163/Rev.13, February 1999), also available at http://www.unctad.org/en/pub/pu98g3en.htm#top . Since the scheme was due to expire on 30 June 1999, this is a preliminary document: a revised edition will be published when the scheme is renewed.

the continuation of the scheme after its expiration in May 1997. Although the scheme was subsequently retroactively reinstated for one year, the low utilization rate in 1997 underscores the importance of the certainty and stability of trade preferences. In the words of the US Trade Representative Charlene Barshefsky: "Unpredictability undercuts the GSP program's ability to become an incentive for traders and investors. This reduces the Program's ability to be a development tool"[7]. In this respect, the experience gathered by UNCTAD in its field activities on GSP suggests that yet another cause behind the low utilization of GSP preferences - for the US scheme as well as for all the other schemes reviewed in this report - is the lack of awareness and understanding of the technicalities of the schemes by exporters in developing countries, especially as regards rules of origin requirements. This point will be discussed in more detail in the conclusions of this report.

19. During 1997, a significant improvement in the GSP of the United States in 1997 was the designation of 1,783 products for duty free treatment when produced in the LDC beneficiaries of the scheme, which resulted in an increase in product coverage for LDCs from less than 2% in 1996 to over 60% in 1997. In particular, product coverage for agricultural goods from LDC beneficiaries was close to 100% in 1997, while it was of over 60% for industrial goods. Product coverage for goods from beneficiaries other than LDCs was also expanded, increasing from 41.2 to 59.4% between 1996 and 1997.

20. The initiative in favour of LDCs had an immediate consequence on the revenue foregone attributable to LDC beneficiaries of the US GSP scheme which rose 25-fold in 1997 to US$ 25.4 million, or 10% of total revenue foregone, the highest percentage among preference-giving countries[8].

21. In spite of the fact that graduation under the scheme of the United States was introduced as early as 1985, preferences still remain concentrated among main beneficiary countries: in particular, the five top beneficiaries had a share of over 66% of total imports receiving preferences, while the corresponding value for the ten largest beneficiaries was 81.9%. The share of LDCs in total imports receiving preference increased from just 0.3 to 5.2% in 1997, the highest percentage among all the preference-giving countries.

22. Turning now to product composition, it is worth noting that imports receiving preferences originating from LDC beneficiaries are dominated by unprocessed commodities such as petroleum[9], tobacco and raw cane sugar. This share has actually increased substantially since 1994 and it would be recommendable to monitor this trend when 1998 data becomes available, since it is clearly fundamental for the fulfillment of the underlying goals of the GSP program that

[7] USTR Press Release, 5 June 1997. Currently, the US GSP scheme once again expired on June 30 1999. It is expected that it will be once again retroactively reinstated for one year by the Congress in the fall.

[8] It should be stressed that the almost three-fold increase in total imports from LDC'S occurred in 1996, thus prior to the entry into force of this regulation. In 1997, total imports from LDC'S continued to increase but at a slower pace.

[9] Although the tariff rate on crude petroleum is very low at 0.4% - this commodity represented 88% of imports receiving GSP preferences under the US scheme in 1997 as regards LDC beneficiaries.

preferences create a real incentive to deepen the level of industrialization and promote processing of exported goods in the producing countries.

23. As regards non-LDC beneficiaries of the scheme, it is significant that - although the share of agricultural products in total import of the US from this group of countries was 14% - these products only represented 6% of revenue foregone, mainly due to the lower margin of preference for agricultural products than for industrial ones. This observation applies to several of the GSP schemes currently in operation and will be discussed in more detail in the conclusions of this report.

III. THE GSP SCHEME OF JAPAN

24. The total value of imports receiving preference under the GSP scheme of Japan was of US$ 15 billion in 1997, while total revenue foregone could be evaluated at US$ 353 million, down from 467 million dollars in 1994, as shown in Chart 3 in the Statistical Annex. It appears from the data that this may be attributed to the reduction in MFN rates following the implementation of the Uruguay Round Agreements, accompanied by the significant fall in total imports from beneficiaries of the scheme in 1997 connected with the disruption caused by the East Asian financial crisis in the region.

25. Under the scheme of Japan, 440 HS headings - referring exclusively to industrial products - are subject to ceilings[10].These products can therefore be imported at the preferential rate only until the ceilings are reached: thereafter the MFN rate applies. In calculating the duty applied to beneficiaries of the scheme, shown in Table 1 in the Statistical Annex, it was not possible to take this factor into account, so the average applied GSP rate may have been underestimated.

26. As regards the product composition - similarly to what was observed above with regard to the GSP scheme of the United States - agricultural products represent 13% of total imports of Japan from beneficiaries of its scheme, but only 8% of total revenue foregone, possibly due to the lower margin of preference on these products.

27. As regards LDC beneficiaries, it is significant that in the period 1994 to 1996 the estimated revenue foregone attributable to this group of countries increased by 15.5% - from 7.7 to 8.9 million dollars - mirroring a 28.8% increase in total imports from these beneficiaries. The 1997 drop in revenue foregone was less pronounced for LDC than for non-LDCs beneficiaries so that the overall share of LDCs has increased from 1.7 to 2.2% between 1994 and 1997. This evolution did not result from any significant changes in product coverage or depth of tariff cuts for LDCs or non-LDCs beneficiaries over the period under review. LDCs continued to enjoy duty-free entry for all products covered by the scheme as well as exemption of preferential imports from any ceiling restriction.

28. As regards product composition, imports from LDCs actually receiving preference are

[10] Ceilings are calculated for each fiscal year. For more information on ceilings for the current fiscal year, from April 1999 to March 2000, as well as on the product coverage and the tariff cuts provided for under the GSP scheme of Japan, please see *Handbook on the Scheme of Japan 1999/2000* (UNCTAD/ITCD/TSB/Misc.42). You may find an electronic copy of this Handbook at: http://www.unctad.org/en/pub/pu98g3en.htm#top.

dominated by fresh fish and fishery products, mostly imported from Mauritania. Imports receiving preference from other beneficiaries are more diversified and include - in addition to processed fish products - chemical, wood and paper, and metal products and machinery.

29. As is the case for the other preference-giving countries reviewed in this report, preferences under the GSP scheme of Japan are concentrated among main beneficiary countries. In particular, the share of the five top beneficiaries in total imports receiving preferences increased from 69 to 75.9% in the period under review.

30. One last observation refers to the utilization of the GSP scheme of Japan which, although it has been decreasing over the period under review from 45.5 to 39.9% as regards non-LDC beneficiaries and from 94.9 to 72.2% as regards LDC beneficiaries[11], remains one of the highest among the GSP schemes in operation, most likely due to the predictability and stability of preferences.

31. <u>Recent changes in the scheme (not reflected in the data)</u>: In fiscal year 1998/99, the GSP scheme of Japan has started to provide for graduation of selected products from advanced beneficiaries of the scheme. A particular product of a particular beneficiary may be excluded from GSP preferential treatment if:

(a) the beneficiary is classified as a high-income economy in the *World Bank Atlas* or, when it is not in the Atlas, it is recognized to have that level of GNP per capita;
(b) exports of the product of the beneficiary to Japan exceed 25% of the world's exports of the product to Japan; and
(c) exports of the product of the beneficiary to Japan are valued at more than one billion yen.

32. Additionally, starting from April 2000, a beneficiary may be excluded from the list of beneficiaries - thus losing GSP preferences for all products - if is classified as a high-income economy in the previous three consecutive years *World Bank Atlas*.

IV. THE GSP SCHEME OF CANADA

33. The total value of imports receiving preference under the GSP scheme of Canada[12] was US$ 2.9 billion in 1997, while revenue foregone could be estimated at of 52.6 million dollars in 1997 for countries other than LDCs and just 0.2 million dollars for LDC beneficiaries. There were no significant variations with respect to the previous years, as shown in Chart 4 in the Statistical Annex.

34. The important difference between revenue foregone between LDC and non-LDC beneficiaries

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[11] It may appear a statistical anomaly that the utilization rate is higher for LDC'S than for non-LDC beneficiaries in the case of Japan. This is due to the fact that Mauritania - whose utilization rate is close 100% - has a predominant share of Japan's imports from LDC's receiving preference under the GSP scheme.

[12] For all details on the GSP scheme of Canada, please refer to *Handbook on the scheme of Canada*, UNCTAD/TAP/247/Rev.3, UNCTAD, March 1999.

is mainly to be attributed to the low value of total imports from LDC beneficiaries (which represent only 1% of total imports from non-LDC beneficiaries) and to low product coverage which was of only 17.6 for LDCs against 58.6% for non-LDCs.

35. In turn, lower product coverage can be ascribed to the different product mix which Canada imports from LDCs and non-LDC beneficiaries of its scheme. In particular, textiles & clothing account for 38% of total imports of Canada from its LDC beneficiaries, whereas the corresponding share for non-LDCs is only 14%.

36. It is also significant that the preference margin for LDC beneficiaries fell from 5.7 to 3.7% during the period under review, mainly as a consequence of the reduction in MFN tariffs, especially as regards agricultural products.

37. The benefits of the Canadian GSP scheme are also very concentrated: in particular top 5 beneficiaries had a share of 77% of total imports receiving preference whereas the corresponding value for the top 10 beneficiaries was of 90%. Imports from LDC's receiving preference were just 0.2% of total imports receiving preferences under the GSP scheme of Canada. These percentages are basically unchanged with respect to 1995.

38. One last observation refers to the utilization of the GSP scheme of Canada, which has been increasing for non-LDC beneficiaries (from 62.5 to 70.4%) while it has decreased (from 64.1 to 56.6%) for LDC beneficiaries. As was mentioned earlier as regards the GSP scheme of the United States, low utilization rates may be connected to an insufficient understanding or awareness of the technicalities of the various schemes or to the perceived stringency of the requirements that need to be fulfilled to be granted preferential market access.

V. THE GSP SCHEME OF SWITZERLAND

39. The total value of imports receiving preference under the GSP scheme of Switzerland[13] was US$ 1.5 billion in 1997. The value of revenue foregone could not be calculated for Switzerland in view of the prevalence of specific rates for which no ad-valorem equivalent is available.

40. Over the period under review, the product coverage of the GSP scheme of Switzerland decreased from 85.4 to 72.1% for non-LDC and from 67.5 to 61.1% for LDC beneficiaries. Product coverage for agricultural products was very low: agricultural imports covered by the GSP scheme represented 1.8% of total agricultural imports from non-LDC beneficiaries[14].

41. For LDC's the scheme provided for a full rebate in tariff rates for all industrial products as well as for most covered agricultural products. For other beneficiaries, tariff rebates ranged from free access to various reductions in tariff duties: once again, the tariff rebates are expressed in terms of reduced specific duties so that the margin of preference could not be calculated.

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[13] For all details on the GSP scheme of Switzerland, please refer to: *Handbook on the scheme of Switzerland*, UNCTAD/ITCD/TSB/Misc.28. You may find an electronic copy of this Handbook at the following address: http://www.unctad.org/en/pub/pu98g3en.htm#top

[14] The corresponding percentage for LDC beneficiaries was less than 0.5%.

42. Preferences remained concentrated among main beneficiaries: top five GSP beneficiaries accounted for 66.5 of total imports receiving preference while the comparable share for the ten largest was over 81%.LDC's have a marginal share in total imports receiving preference (less than 1% in 1997).

43. The product composition of imports receiving preference from non-LDC beneficiaries was dominated by industrial products but very diversified including wood and paper, metal products and machinery, chemical products as well as textiles, clothing and leather. Interestingly these products groups are those for which product coverage is highest. In particular - and in sharp contrast to other GSP schemes - the Swiss scheme provides for full product coverage of a number of sectors of export interest for developing countries: textiles, clothing, footwear, vehicles, consumer goods, etc. Imports from LDC beneficiaries were concentrated in textiles and clothing.

44. Utilization of the GSP scheme of Switzerland decreased in the period under review from 40.6 to 37.1% for non LDC beneficiaries and from 39.2 to 34.3% for LDC beneficiaries.

45. Lastly, it should be noted that the report could not take into full account the introduction of a new GSP scheme which came into effect in March 1997 and which will be valid until February 2007, and which provided a significant extension in product coverage, particularly for LDC beneficiaries of the scheme and as regards agricultural products.

VI. THE GSP SCHEME OF NORWAY

46. The total value of imports receiving preference under the GSP scheme of Norway[15] was US$ 0.7 billion in 1997, while revenue foregone could be estimated at 34.7 million dollars for 1997. In the scheme of Norway, the share of least developed countries in revenue foregone is relatively high - with respect to other preference giving countries - at 4.6%.

47. This is certainly also to be attributed to full product coverage for LDCs: preferences ranging from duty and quota-free market access to a 30% tariff rebate are granted for all industrial and agricultural products originating from third group of countries. Product coverage for other developing countries was of 60.1% - resulting from an almost full product coverage of agricultural imports (95.9%) and a more limited coverage of industrial product (56%).

48. Average tariffs applied to LDC and non-LDC beneficiaries of the scheme of Norway were at 0.8% against MFN rates of 6.2% resulting in preference margins of 5.1%. The preference margin was much lower for agricultural products than industrial ones (1.8 against 5.4%) for both LDC and non-LDC beneficiaries. This is apparently the reason why - although agricultural products account for 13% of total imports of Norway from beneficiaries of its scheme - the corresponding share in revenue foregone is only 5%.

[15] For all details on the GSP scheme of Norway, please refer to: *Handbook on the scheme of Norway,* UNCTAD/ITCD/TSB/Misc.29.You may find an electronic copy of this Handbook at the following address: http://www.unctad.org/en/pub/pu98g3en.htm#top. Complete statistics on the utilization of the GSP scheme of Norway were provided to UNCTAD for the first time in 1999, so for many indicators time series could not be elaborated.

49. Imports receiving preferences under the GSP scheme of Norway from non-LDC beneficiaries were well diversified and included: wood, paper and the industrial products, metal products and machinery, leather products, chemical products, and textiles. Among agricultural products, fresh fruits and vegetable had the largest share. Imports from LDCs were also relatively diversified, including textiles, meat and sugar.

50. Distribution of imports receiving preference was very concentrated: the share of the top five countries was of 70.4%, and that of the top ten countries was 83.4%. The share of least developed was relatively high - with respect to other GSP schemes - at 4.5%.

51. Utilization of preferences was relatively high for the GSP scheme of Norway, with a value of 77.8% for non-LDC beneficiaries and 73.1% for LDC beneficiaries.

CONCLUSIONS

52. The total value of imports receiving preference in 1997 under the most important GSP schemes was close to US$ 100 billion, or 18% of total imports of preference-giving countries from beneficiaries of their schemes. Total revenue foregone under the various schemes was estimated at 2 billion dollars in 1997. These figures underscore the continuing importance of GSP preferences in the post-Uruguay Round trading system. However, the real benefits that developing countries obtain from the various GSP schemes can be increased in a number of ways.

53. In this respect, from the analysis of the schemes of the preference giving countries discussed in this report, some general conclusions can be drawn. A first point is that, from an analysis on the product composition, it appears that the share of agricultural goods on total imports of some of the preference-giving countries from beneficiaries of their schemes is larger than the corresponding share in revenue foregone. It appears that this may be connected with lower margins of preference on agricultural goods with respect to industrial ones.

54. The Uruguay Round Agreement on Agriculture - which has removed quantitative restrictions on imports of agricultural goods - may provide further scope for GSP preferences. Indeed, in view of the fact with the tariffication of non-tariff barriers some of the applied tariffs have been increased, a possibility that could be explored by preference giving countries is to increase the number of tariff lines in which tariff preferences are granted either within tariff quotas or without and to deepen the existing margin of preference for products already covered by their schemes. Since agricultural products still constitute an important share of the exports of LDCs and other less advanced developing countries, increasing the depth of tariff cuts for agricultural products could represent a concrete solution to the problem of the high concentration in the distribution of the benefits from the GSP, providing a concrete reason why GSP should be preserved and indeed enhanced.

55. As regards industrial goods, there is an apparent mismatch between the product mix imported from beneficiaries and the product coverage of some of the GSP schemes currently in operation, especially for LDCs. The report clearly shows how an expansion in product coverage targeted for LDC beneficiaries may lead to a substantial increase in the share of this group in total revenue foregone.

56. A third finding from the report is that utilization rates are generally rather low, especially for

least developed countries. It is also a worrying sign that utilization rates have been decreasing for a number of the GSP schemes reviewed in the report. In one instance, low utilization was the result of protracted uncertainties, underscoring the importance of the stability and predictability of trade preferences if they are to become an effective incentive for traders and investors.

57. The causes behind low utilization - however - are multiple and include the lack of awareness and understanding of the technicalities of the schemes by exporters in developing countries, the erosion in preferences which in some cases are too low to compensate for the cost of compliance, and the complexity and restrictiveness of rules of origin and other requirements.

58. In view of these constraints, one concrete way to increase the real benefits obtained by beneficiaries - in addition to expanding product coverage and increasing the depth of tariff cuts - would be to simplify the rules of origin requirements. It appears - in fact - that too stringent and too complex rules of origin requirements now prevent many beneficiaries from fully utilizing the GSP schemes. In this respect, developing countries may have an interest in exploring the possibility of utilizing the next multilateral round of negotiations to renew efforts for an harmonization of GSP rules of origin possibly based on the body of non-preferential rules of origin which are being negotiated at the multilateral level[16].

59. Finally, it is fundamental to strengthen activities of technical cooperation to increase awareness and understanding of the operation of the various GSP schemes. In particular the UNCTAD secretariat thanks to voluntary contributions of its Member States will continue to organize field activities, such as workshops and training courses. Additionally, the Secretariat is presently launching a GSP website that will allow entrepreneurs as well as students and researchers from developing and developed countries to find detailed and updated information on the GSP schemes of the various preference-giving countries.

[16] For a discussion of this possibility, please see: UNCTAD, "Interim and summary report on the attendance of UNCTAD at the meetings of the Committee on Rules of origin of the World Trade Organization and of the Technical Committee on Rules of Origin of the World Customs Organization", UNCTAD/ITCD/TSB/Misc. 33, September 1998. as well as Stefano Inama and Lorenza Jachia "Assessing Market Access Preferences for Mediterranean Countries on the EU Market for Industrial Goods", forthcoming.

STATISTICAL ANNEX

(available shortly)