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**NEW DEVELOPMENTS AND MAJOR ISSUES IN GSP, NEW INITIATIVES FOR
LDCs IN THE AREA OF MARKET ACCESS, AND TECHNICAL COOPERATION
IN SUPPORT OF GSP UTILIZATION**

Informal background note by the UNCTAD secretariat

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INTRODUCTION

1. At its sixteenth executive session, the Trade and Development Board considered possible action on the implementation by UNCTAD of the outcome of the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development. The Board recommended, *inter alia*, that the Secretary-General of UNCTAD consider convening an ad hoc meeting as soon as possible on GSP, GSTP and new initiatives for LDCs in the area of market access. This note has been prepared by the UNCTAD secretariat to facilitate the deliberations of the meeting.

2. The meeting is intended to provide an opportunity for officials and experts from member States to: (i) discuss major new developments in their national GSP schemes, including review of their special provisions in favour of LDCs; (ii) follow up the announcements for new LDC preferences made during the High-level Meeting; and (iii) propose measures to extend the necessary advisory services to enhance GSP/market access utilization. The Board also requested that the report of the ad hoc meeting be brought to the attention of the Commission on Trade in Goods and Services, and Commodities.

3. UNCTAD IX recognized once again the value of the GSP as an instrument for the expansion of trade of developing countries. The Conference invited preference-giving countries to continue to improve and renew their GSP schemes in keeping with the Uruguay Round trading system and with the objective of integrating developing countries, especially LDCs, into the international trading system. It was, in particular, emphasized that ways and means should be found to ensure more effective utilization of GSP schemes, especially by LDCs.

4. Following the WTO Ministerial Decision on Measures in Favour of Least Developed Countries, preference-giving countries have made efforts to improve trade preferences for LDCs, both within and outside the framework of the GSP. At the Singapore Ministerial Conference, member States of the WTO renewed their commitments to support LDCs and agreed on a Plan of Action, including provision for taking positive measures, for example duty-free access, on an autonomous basis. Further announcements of improvements in favour of LDCs were made at the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development.

I. MAJOR NEW DEVELOPMENTS IN GSP SCHEMES AND SPECIAL MEASURES IN FAVOUR OF LDCs IN THE POST-URUGUAY ROUND TRADING ENVIRONMENT

5. Many preference-giving countries have amended their GSP schemes in various ways since the conclusion of the Uruguay Round, in part to adapt them to the results of the Round.

6. The implementation of the Uruguay Round Agreements and unilateral reductions in MFN tariffs on the part of preference-giving countries have reduced, and continue to reduce, preferential margins enjoyed by GSP beneficiaries. A few schemes have responded by lowering GSP rates with a view to mitigating the impact of declining MFN rates on GSP benefits. On the other hand, two schemes are phasing out GSP benefits for most developing countries in the context of their progressing trade liberalization programmes, essentially leaving LDCs as the only beneficiaries.

7. The GSP and other unilateral trade preferences are increasingly being applied in a world economic setting characterized by a proliferation of

reciprocal preferential trade arrangements in the form of large economic integration groupings, regional arrangements and bilateral agreements (e.g. Euro-Mediterranean Association Agreements, Europe Agreements). While "mixed" reciprocal agreements between developed and developing countries offer the latter distinctly more favourable market access conditions than those enjoyed under the GSP, they ultimately oblige participating developing countries to open their own markets to the same far-reaching extent and to introduce measures extending well beyond tariff preferences.

8. A number of GSP schemes have significantly expanded their product coverage for all beneficiary countries. Good progress has in some cases been made in expanding the coverage of agricultural products and food industry products. The European Union has improved preferential market access for many sensitive products under the Lomé Convention in favour of African, Caribbean and Pacific island (ACP) countries, which comprise 39 LDCs. Moreover, a few GSP schemes have removed quotas or ceilings on GSP benefits generally or for a range of products. Thus, the European Union, in the course of the implementation of a fundamentally new GSP scheme, has replaced such restrictions by a "modulation" of GSP preferences according to the import sensitivity of production sectors.

9. GSP preference-giving countries are increasingly applying graduation measures to beneficiary countries which are no longer considered to be in need of preferential treatment. A widening range of products of export interest to developing countries are affected by product/country graduations which withdraw GSP cover from a beneficiary country with regard to specific products or sectors. Some countries have been removed totally from the list of beneficiaries. On the other hand, other countries, notably those of the former Soviet Union, have been added.

10. In addition, a number of preference-giving countries are linking GSP benefits more and more to compliance with social, humanitarian or other conditions which are not related to trade. Some preference-giving countries have established a link between social or environmental conditions and GSP benefits by granting special incentives if beneficiary countries comply with these conditions.

11. Some preference-giving countries have been making efforts to put their GSP schemes on a longer-term basis. This could improve stability and predictability of GSP benefits, promote investments in benefiting export industries and contribute to an enhanced utilization of the GSP.

Special measures in favour of LDCs

12. Various special measures have been taken in favour of LDCs. Besides the fact that LDCs have benefited from general expansions in product coverage, some schemes, including those of the United States, Norway and Switzerland, have introduced extensions in product coverage especially in favour of LDCs. As a rule, LDCs are now being granted duty-free market access for products covered under the existing GSP schemes. Moreover, ceilings under the scheme of Japan and competitive need limitations under the scheme of the United States are not applied to LDC imports.

13. A major initiative has been the expansion of product coverage for LDC beneficiaries through the addition of nearly 1,800 agricultural and industrial articles under the GSP scheme of the United States. Moreover, the African Growth and Opportunity Act proposed by the United States Administration in the context of its new trade and investment policy for sub-Saharan Africa envisages, under

certain conditions, granting eligible sub-Saharan developing countries duty-free market access for any non-import-sensitive product.

14. The European Union has extended the favourable treatment of ACP countries under its Lomé Convention to LDCs which are not members of Lomé, i.e. LDCs in the Asian region. Products subject to quotas are, however, excluded from this extension. Moreover, the European Council has invited the European Commission to prepare concrete proposals for additional measures to be taken on an autonomous basis over the medium term with a view to improving market access for LDCs, including the provision of duty-free access for essentially all products from these countries.

15. A number of preference-giving countries have relaxed stringent rules of origin through derogations and the simplification of certification requirements in favour of LDCs. Thus, the European Union has introduced a derogation in favour of some Asian LDCs from its "double-jump" provision for the manufacture of certain clothing articles. Moreover, the European Council has announced that the Community will promote regional cumulation facilities for the benefit of LDCs and, over the medium term, further adapt the rules of origin to stimulate the development of existing industries and the creation of new industries in LDCs.

16. The African Growth and Opportunity Act proposed by the United States Administration, introduces regional cumulation and donor-country content provisions for eligible developing countries in sub-Saharan Africa. The GSP scheme of the United States does not allow for donor-country content, nor does it apply cumulation with regard to the sub-Saharan region.

II. ANNOUNCEMENTS OF SPECIAL MARKET ACCESS PROVISIONS IN FAVOUR OF LDCs MADE AT THE HIGH-LEVEL MEETING

17. During the High-Level Meeting, several developed countries and economies in transition pointed to the various improvements which they had undertaken in their GSP schemes in favour of LDCs and to plans for further concessions. Moreover, developing countries themselves are increasingly taking initiatives to accord preferential market access to LDCs unilaterally.

18. Within the framework of the GSTP, which provides for preferential market access among developing countries and special concessions in favour of LDCs, many members grant some special access conditions to LDCs which participate in the arrangement. However, in spite of some expression of interest, to date only a few LDCs have decided to join the GSTP. A second round of negotiations is under way, and important issues which are under consideration include extensions of product coverage, across-the-board tariff cuts and reductions of non-tariff barriers.

19. At the High-Level Meeting, several developing countries announced their decision or intention to put in place special arrangements which would grant LDCs preferential or duty-free access for selected export products. These measures take a variety of forms. Several developing countries announced that they were ready to introduce a GSP for LDCs or extend further special concessions in favour of LDCs within the framework of the GSTP. Such announcements were made by Egypt, Malaysia, the Republic of Korea, Singapore and Thailand. Chile and Indonesia are also examining the possibility of putting in place special concessions for LDCs. Moreover, Morocco will introduce duty-free treatment for a range of products to the benefit of African LDCs. India and South Africa are considering special measures in favour of LDCs within their respective regional integration groupings. Turkey has introduced selective concessions in favour of LDCs until such time as it takes up the GSP scheme of the European Union.

20. The details of many of the concessions which have been announced still have to be communicated by the preference-giving developing countries. This ad hoc meeting convened by the Secretary-General of UNCTAD will present an opportunity for all donor countries to provide further information on the design and operation of their preferential schemes for LDCs and the stage of implementation in cases where preferences are not as yet operational.

III. MAJOR ISSUES REGARDING GSP PREFERENCES FOR LDCs

21. Only about half of GSP-covered imports into developed countries from LDCs actually receive preferential treatment. Moreover, most LDCs export very little under the GSP; LDC products which benefit are almost exclusively textiles, clothing, footwear and leather articles, as well as processed food products. In addition, some LDCs are not considered as LDC beneficiaries under certain GSP schemes.

22. In the case of many GSP schemes, there remains scope for expanding the coverage of agricultural and processed food products in favour of LDCs. In the industrial sector, the exclusion by some schemes of certain import-sensitive areas such as many textiles, clothing, leather and footwear products is particularly onerous for LDCs, as their supply capabilities lie in precisely these sectors. In addition, many of the GSP-excluded products of LDCs in both the agricultural and industrial sectors will continue to be subject to peak tariffs even after the implementation of Uruguay Round tariff reductions. Some preference-giving countries also continue to apply MFA quotas on textile and clothing imports from several Asian LDCs.

23. A product coverage which "matches" the export capabilities of LDCs would significantly enhance their trading opportunities. Moreover, the granting of such coverage by all schemes would enhance "burden sharing" among donor countries and reduce the risk of exposure to unbalanced increases in imports.

24. Furthermore, tariff quotas on many agricultural and a few industrial products are applied to LDCs and other countries alike, and exports from LDCs seeking GSP treatment may have to be accommodated within these quotas together with imports from other countries. The tariffication of agricultural non-tariff measures (NTMs) and the use of tariff quotas provides an opportunity for a meaningful extension of GSP treatment.

25. Social, humanitarian or other conditions which are not related to trade are applied to LDCs in the same way and to the same extent as to other GSP beneficiary countries. LDCs have on many occasions expressed the desire that safeguard measures should not be applied against their exports. Preference-giving countries, on their part, have pointed to the linkage between providing the widest possible GSP product coverage for LDCs and having the possibility of applying safeguards in unforeseen circumstances.

26. Complex and stringent rules of origin can carry considerable economic risks for LDCs in cases where the latter are not capable of correctly managing these rules. Solutions may be sought through further liberalization of stringent rules, adapting origin requirements to production capabilities of LDCs and relaxing further complex administrative procedures in their favour. Donor countries have claimed that the potential to provide wider product coverage and avoid safeguard action in the case of LDCs depends on rules of origin which ensured that benefiting products effectively originate in LDCs.

27. The GSP schemes of developed countries offer a rather fragmented picture due to major differences with regard to product coverage, the criteria on which they base major GSP policies, and the design and application of rules of origin. Duty-free and unrestricted access for all products, as well as compliance with the basic principles of the GSP as stated in UNCTAD Conference resolution 21 (II), would contribute greatly to more uniformity, stability and predictability of preferences in favour of LDCs. It may also be recalled that the Enabling Clause provides a standing legal basis for special GSP treatment for LDCs.

28. The ad hoc meeting may therefore wish to consider, in particular, the following issues regarding GSP preferences for LDCs which developed countries, economies in transition and developing countries grant or intend to make available:

- (i) Scope of product coverage and preference margins, in particular ways to tackle exclusions for textiles, clothing, shoes, food and other sensitive products;
- (ii) The application of agricultural tariff quotas and GSP ceilings;
- (iii) Non-trade-related conditionalities;
- (iv) Safeguard measures;
- (v) Rules of origin; and
- (vi) Stability and predictability of schemes to encourage investment.

Moreover, by analogy with the extension of Lomé benefits to non-ACP LDCs, consideration might be given to the extension of "NAFTA parity" to all LDCs on a non-reciprocal basis.

IV. MEASURES TO EXTEND THE NECESSARY ADVISORY SERVICES TO ENHANCE GSP/MARKET ACCESS UTILIZATION

29. In examining measures of technical cooperation to enhance utilization, the ad hoc meeting may wish to take the considerations set out below into account.

30. The goal of enhancing GSP utilization by LDCs may be pursued through technical cooperation activities which increase awareness of existing GSP benefits, strengthen human resources and institutional capacities to comply with GSP procedures and help reduce transaction costs. To this end, direct assistance in the form of advisory services and national workshops on individual schemes or particular technical aspects relating to the GSP and other market access conditions could be strengthened considerably. Furthermore, it may be envisaged to arrange for national round tables in such countries for an exchange of experiences with experts and enterprises from developing countries which have been able to benefit effectively from the GSP to foster their development. In the longer run, one may also envisage mutual TCDC-type arrangements for the implementation of training activities.

31. The modalities of technical cooperation for more advanced developing countries may be shifted increasingly to measures of support which enhance the capacity of these countries to carry out national workshops, information activities and training of their exporters at the national level themselves. Such a decentralized approach to technical cooperation would involve the preparation of information and training materials for dissemination to

developing-country institutes capable to provide information services and training courses to local producers and exporters. Technical cooperation along these lines would reach a much larger proportion of producers and exporters and would also be more cost-effective.

32. Strengthening of information and training services could have various major components: (i) continuous updating and dissemination of information on the GSP and other trade laws through dissemination of CD-ROMs, diskettes or other appropriate media; (ii) placing information on GSP schemes on the Internet; (iii) the preparation of training packages for each of the GSP schemes; (iv) the establishment of a network of cooperating training institutions in developing countries (e.g. chambers of commerce, export promotion institutes, academic institutions); and (v) assistance with training of trainers and adaptation of the training packages to national conditions, where required.

33. Finally, support measures could aim to: (i) increase financial support from donor countries and UNDP; (ii) reinforce cooperation between preference-giving countries and the UNCTAD secretariat in collecting GSP information; and, more generally, (iii) strengthen technical cooperation to expand the export supply capabilities of LDCs, promote industrial cooperation at the enterprise level with other countries and remove major supply-side constraints.