

# THE GENERALISED SYSTEM OF PREFERENCES IN INTERNATIONAL TRADE

**Juan C. Sánchez Arnau**

*Argentine Ambassador to the Russian Federation, former Representative to GATT and WTO*

**Keywords:** International trade, economy, developing countries, industrialised world, industrialisation, development.

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Glossary

## Summary

The Generalised System of Preferences (henceforth referred to as the GSP) consist of a number of non-homogenous schemes established by the industrialised countries, granting different kinds of tariff preferences to products imported from developing countries. The GSP has been in force for almost thirty years with a limited impact on both, industrialised country imports and developing country exports. This is due to limitations and uncertainty of the above mentioned schemes. The legal basis of the GSP is a complex structure of non-binding UN resolutions, GATT and WTO decisions and national legislation, which is even more complex in the case of the EU due to the trade policy responsibilities of the Commission.

## 1. Introduction

The GSP is one of the few trade policy instruments of the industrialised countries conceived to promote growth in export earnings for the developing countries. It consists

of a non-homogenous set of national schemes, implemented by the industrialised (donor) countries, sharing certain common characteristics. The basic principle is the granting of a preferential tariff treatment, consisting, in most cases, of an exemption – total or partial- from payment of customs duties on “industrial” products (with certain exceptions) and on certain agricultural products originating from developing (beneficiary) countries. This treatment is subject to exceptions and conditions that generally vary from one scheme to another. At the same time, all of these schemes share the common feature of having different types of safeguard clauses, aimed at ensuring that any sharp or significant increase in the imports of a certain product, originating from one or more beneficiary countries, does not lead to a “market disruption” in the preference-giving country.

The economy and international trade have gone through major changes since the inception of the GSP and its role as a factor for stimulating the economies of the developing countries has been considerably reduced. The industrialised nations - and a few developing countries - have put into effect the tariff reductions agreed at the successive negotiating rounds of GATT: the "Kennedy" and "Tokyo" rounds, and more recently the “Uruguay Round”, thus diminishing the “margins of preference” granted through the GSP. In turn, the preferential schemes have also been modified, in certain cases reducing their original scope and in others increasing product coverage and the list of beneficiary countries alike. On the other hand, a certain number of developing countries have significantly increased their share in the international trade of manufactured products and even the very structure of trade has undergone major modifications.

The national GSP schemes have been in operation since the early seventies, benefiting almost one hundred ninety countries and territories. The schemes that remain will continue to operate until the middle of the first decade of the new century. However, their future will be decided, most probably, within the framework of the last round of multilateral trade negotiations launched in November 2001 in Doha. The Ministerial Decision adopted call, among other things, for a new reductions of import duties “or as appropriate eliminate tariffs (on industrial products), including the reductions of tariff peaks, high tariffs, and tariff escalation....in particular on products of export interest to developing countries”. It also includes several references to “provisions for a special and differentiated treatment for the developing countries” and it stress that such provisions “shall be reviewed with the view to strengthening them and making them more precise, effective and operational”. These two decisions could, eventually, open the door for a revival of the SGP in a new trade context

## **2. The Implementation Process**

Apart from some early talks within the GATT, the first specific outline plan relating to the setting-up of the GSP was the report submitted in 1964 by Raúl Prebisch, in his capacity as Secretary General, at the first United Nations Conference on Trade and Development (UNCTAD). This report put forward a global development strategy aimed at helping to pull the developing countries out of their backward economic situation. The GSP was a pivotal component of this strategy. However, it was during the second UNCTAD, held in New Delhi in 1968, that the industrialised countries accepted the

principle that it was desirable to give preferential tariff treatment to the developing countries.

The debate on this matter at UNCTAD evolved around three main issues. The first one opposed the African countries, wary of the GSP affecting preferences obtained through association agreements with the European Economic Community (EEC), and on the other, the Latin American and Asian countries, which hoped that the GSP would mitigate the diversion of trade caused by these agreements. The root of the problem was the preferential treatment given by the EEC to tropical products from former French colonies in Africa, discriminating against products from other regions of the developing world. As a safeguard for the associate countries, the EEC decided, from the beginning, to exclude from GSP preferential treatment all products of interest to those countries. Its GSP scheme thus became irrelevant for many beneficiary countries of other regions whose exports competed directly with those of the African countries and were unable to take advantage of the preferential treatment in the manufactures sector. The problem worsened with United Kingdom accession to EEC, because the new Lomé Convention extended EEC preferential treatment to British dependent territories and former-colonies in Africa, the Caribbean and the Pacific (hence the new name “ACP countries” for EEC-associated countries and territories).

This problem was later exacerbated with the formal recognition of a new category of countries within the United Nations system: that of the “least developed countries” which included about fifty countries with the lowest level of development and per capita income in the world; most of them in Africa.

The second pole of discussion was between the group of GSP-beneficiary developing countries, especially those of Latin America and Asia, and the industrialised nations. Discussions centred around the enforceability of schemes, their standardisation, margins of preference conceded, sectors or groups of products covered or excluded, safeguard clauses and rules of origin.

The third problem was the position adopted by the United States regarding the so-called “reverse preferences”. This was the name given to preferences, tariff and others, granted by developing countries to industrialised countries, within the context of association agreements with the EEC and the British Commonwealth. The United States imposed the abandonment of such preferences by the countries that granted them as a condition for their inclusion in its GSP scheme as beneficiaries. Furthermore, the United States had serious reservations about the very idea of the GSP, fearing that it would become a stumbling block for subsequent multilateral negotiations based on the MFN clause.

Two years after the New Delhi Conference, in October 1970, the Trade and Development Board –the permanent council of UNCTAD- reached an agreement that left the problem of “vertical preferences” intact and tacitly shelved finding a solution to the “reverse preferences” problem posed by the United States. The Board adopted Decision 75 (IV) at its Fourth Extraordinary Period of Sessions, including a set of “Agreed Conclusions” previously adopted by the Special Committee on Preferences. This negotiating process was completed a little later with the adoption, on the part of GATT, of a “waiver” to Article I of the Agreement (which includes the “most favoured

nation” clause), authorising the preference-giving member countries to extend, for an initial period of ten years, the preferential tariff treatment only to the GSP beneficiary countries.

Thus, the GSP was able to come into force in the mid-seventies with the successive implementation of the preferential “schemes” of the EEC, Japan, Norway, Sweden, Denmark, United Kingdom, Finland, Switzerland, Austria and Ireland, all of them for an initial period of ten years. Later, in January of 1973, when the United Kingdom, Denmark and Ireland joined the EEC, their respective schemes were absorbed into the EEC scheme (as happened when six new members subsequently joined the Community). In 1974 Canada’s scheme was finally implemented and in 1975 that of the United States. Independently of this process, Australia had already implemented its own tariff preference scheme in 1966, also with the agreement of GATT.

On the other hand, Hungary, Czechoslovakia, Bulgaria, Poland and the former Soviet Union, by virtue of certain commitments that they had undertaken within UNCTAD, had also set up different preferential tariff mechanisms benefiting products from the developing countries. Nevertheless, given that customs tariffs had played a role in these socialist countries which was very different to that of countries in a market economy, the effect of such preferences was also very different and, generally, much more limited or even non-existent. All of them -now members of the WTO and applying customs duties on a most favored nation (MFN) basis- and the Russian Federation -not yet a WTO member but also applying normal customs duties- grant to-day some form of tariff preference in favour of developing countries imports.

On April 1979 GATT member countries reached an agreement that closed the “Tokyo Round” of multilateral trade negotiations. The outcome included important tariff reductions in industrial products and limited tariff reductions for agriculture products in the industrialised countries; the updating and expansion of areas covered by GATT codes (customs valuation, import licensing, technical barriers to trade, subsidies and countervailing duties, government procurement and anti-dumping measures); a sector code on the trading of civilian aircraft and a series of amendments to the articles of the General Agreement of interest for the developing countries.

Two of these decisions were relevant for the GSP. The first was an across the board tariff reduction of about 35% on approximately 80% of industrial products subject to customs duties before the round that would be implemented by the industrialised countries in stages over eight years, starting in 1980. This was the first of a series of erosions affecting the preferential margins granted by the national GSP schemes.

The second was the so-called “enabling clause” which facilitate that preferential treatment granted to developing countries as permanent feature for the GATT system and beyond any time limitation.

The difficult economic situation in many industrialised countries did not, however, prevent the national GSP schemes from being extended during the 80’s, generally for another ten years. This time, however, new restrictive clauses were introduced into the schemes of the US and the EEC, which affected the most competitive developing

countries.

Another major multilateral trade agreement kept its shape in the Marrakech Declaration of 15th April 1994, consolidating the results of several years of negotiations in the context of the “Uruguay Round”. Among the most important aspects of these results was the creation of the World Trade Organisation with far wider objectives and functions than those which made up GATT, while still maintaining the General Agreement as a spinal column of the whole legal structure that would have to administer the WTO. This legal structure would also be strengthened by a series of new agreements and by the setting up of a dispute settlement mechanism, whose decisions, unlike the former GATT system, would be binding for the member countries.

After the reductions of the Uruguay Round and according to the calculations of the WTO Secretariat, the mean average tariff applied by the industrialised countries to industrial products, should have remained at 3.9%, while the weighted average of imports from the developing countries barely reached 3.8%. However, the level of tariff protection for this category of products would continue to be reduced as a consequence of a significant trade agreement reached up in parallel with the First Ministerial Conference of the WTO, which took place in Singapur, at the end of 1994. The International Telecommunications Agreement was signed by 55 countries which represented 95% of world trade in a number of sectors, like computer components, telecommunication equipment, semi-conductors and equipment for their manufacturing. The value in trade of these products in 1996 was almost five hundred billion dollars, i.e. almost ten per cent of world trade. To this must be added another agreement signed between 22 countries on 465 pharmaceutical products. For both group of products the signatory industrialised countries agreed to remove import duties in the year 2000 and developing countries in the year 2005. Both tariff removals were made on MFN basis and consolidated within the framework of the WTO.

This will have two effects for the GSP beneficiary countries that are not signatories of the ITA or the agreement on pharmaceutical products. On the one hand, they will lose the preferential margin that they have enjoyed up to now, under the conditions and restrictions of the national GSP schemes. This means that they will lose the relative advantage that they had *vis-à-vis* the other non GSP-beneficiary countries. On the other hand, in the future they will benefit from duty free access to the countries that previously granted them preferences, with the security that this treatment is consolidated in the WTO and without having to give up anything to obtain this concession.

With such reduced margins, the potential benefits of the GSP are going to be concentrated more and more around those products which are among the most protected and, therefore, excluded from the GSP. It is precisely in these sectors where the high customs duties, the “tariff peaks” and the greatest escalation and effective protection still persist.

Finally, it should be mentioned that the Fourth WTO Ministerial Conference which took place in Doha, Qatar, in December 2001, launched another round of trade negotiations not less ambitious than the Uruguay Round, including new tariff reductions, adding new areas to the organisation’s work programme and, specially, a new development perspective that was absent in the previous rounds.

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