



Brussels, 15 April 2022

THE REVIEW OF EU GENERALISED SCHEME OF PREFERENCES (GSP)

EUROCOTON - **European federation of Cotton and Allied Textiles Industries**, representing the cotton ginneries as well as the spinners and weavers of cotton and man-made staple fibres in the EU, has **some major concerns** with regard to the proposal of the European Commission for a new Generalised Scheme of Preferences (GSP). In view of the debates on the subject, it calls for:

1. A **product graduation mechanism** that **also applies to the GSP+ and EBA arrangements** as goods that are competitive on the European market without preferences do not need to receive preferences. It would stimulate the beneficiaries of those two arrangements to reduce their dependency on a limited number of products. In order for the mechanism to be more effective, it should be **applied to clothing and to home textiles separately**, and not to both taken together, as is currently the case.
2. A **GSP+ arrangement** that would **remain focused on those developing countries most in need** and to which only – just as in the current GSP scheme – the vulnerable developing countries would be eligible for, **so as to maximise the positive effects on those countries of the additional support that is given through the GSP+ arrangement**. **Insufficient integration in world trade** should therefore **remain a criterium to be eligible for the GSP+ arrangement**.
3. A **GSP+ arrangement** that **ensures** that the **international conventions** related to the human and social rights, the environment and good governance are **effectively implemented on the ground** and whereby failure to implement these conventions is not tolerated.
4. A GSP scheme that **better protects the financial and economic interests of the EU and averts harm to the EU industry**, by an **efficient and effective automatic safeguard mechanism for textiles and clothing**. To this end, the **threshold of 6%** of total Union imports, under which the safeguard clause does not apply to the standard GSP and GSP+ countries, should be **lowered and the condition to trigger the safeguard mechanism relaxed**. The automatic safeguard measures should be **applied to clothing and to home textiles separately** instead of taken together, and should furthermore **also apply to EBA beneficiary countries**.
5. A GSP scheme whereby a **request** from a GSP beneficiary country **to benefit from regional cumulation between beneficiary countries of different regional groups or from extended cumulation** with regard to the rules of origin is **only answered positively if the requested additional cumulation possibility does not harm the EU industry**. The new GSP Regulation should furthermore **make it impossible to cumulate** with a beneficiary country of the same or another regional group, **for those products for which the latter has been graduated**.
6. A transparent GSP scheme whereby the European Parliament and the EU-Member States can fully play their role. When **GSP+ status** is granted to GSP beneficiaries, a **separate delegated act should be used for each country**.

THE VIEWS OF EUROCOTON IN MORE DETAIL

On 22 September 2021, the European Commission presented its proposal for a new Generalised Scheme of Preferences (GSP), as the current GSP framework expires by the end of 2023¹. The GSP is a trade arrangement through which the EU unilaterally – so on a non-reciprocal basis – grants some 67 developing countries a preferential access to the European market, whereby most of the goods of origin of these countries benefit from reduced, or even zero, import duties when entering the European market.

More than half of the GSP imports in the EU28 in 2019 were textiles and clothing products², 45.7% of which were products of origin of Bangladesh. The other main beneficiaries of the GSP scheme as far as textiles and clothing are concerned, were India, Pakistan, Cambodia and Myanmar. These five countries were responsible for 91.5% of the total GSP textile and clothing imports in the EU in 2019, meaning that the more than 60 other GSP beneficiary countries all taken together accounted for less than 10%. The three most important beneficiary countries, Bangladesh, India and Pakistan, were even responsible for 75% of the GSP imports of textile and clothing products.³

The current GSP scheme as well as the new GSP scheme the European Commission proposed, contain three arrangements, whereby the situation for textiles and clothing products is currently and would remain as follows:

- An EBA (Everything but arms) arrangement for least developed countries (LDC), of whom the textile and clothing products⁴ of origin benefit from a duty free access (zero import duties) to the EU and whereby the rules of origin are extremely flexible, mostly only requiring a single transformation (for garments for example, in many cases only the making-up is sufficient to have a garment of preferential origin).
- A standard, also called general arrangement for low and lower-middle income countries, whereby their textiles and clothing products⁵ of origin benefit from a 20% reduction on the MFN-tariff when imported in the EU and whereby the rules of origin are based on a double transformation.
- A special incentive arrangement for sustainable development and good governance (GSP+) whereby vulnerable beneficiary countries of the general arrangement can benefit from zero-import duties for their textiles and clothing products of preferential origin instead of a 20% reduction on the MFN-tariffs, in case they accept certain sustainability requirements.

The GSP pursues three main objectives, namely to assist developing countries in their efforts to reduce poverty and to promote good governance and sustainable development, while taking into account the situation of the sector producing the same products in the EU. It is important that the right balance is found between these different goals, especially with regard to the textile and clothing sector as they amount for about half of the GSP imports. Having these objectives in mind, EUROCOTON wants to

¹ With the exception of the special arrangement for the least developed countries (EBA arrangement) to which the expiry date does not apply.

² Total GSP imports amounted to 73.5 billion EUR, whereby those of section S-11a (textiles products of HS chapters 50 till 60) were worth 1.4 billion EUR and those of section S-11b (garments and other made-up textile articles (HS chapters 61 till 63)) 36.2 billions EUR.

³ European Commission, *GSP statistics (1 December 2020)*, https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc_158640.pdf.

⁴ With the exception of the products under heading 5105, horsehair yarn and woven fabrics.

⁵ *Ibid.*

suggest a number of improvements with regard to the proposal for a new GSP of the European Commission.

1. A product graduation mechanism that applies also to the GSP+ and the EBA arrangement

The GSP scheme provides for a product graduation mechanism that suspends the preferences for those products of origin of those GSP beneficiary countries that exceed a certain threshold in total GSP imports from all GSP beneficiaries as they do no longer need the GSP to boost their exports to the EU. This mechanism however currently only applies to the standard GSP arrangement and according to the Commission's proposal for a new GSP Regulation, this would also be the case in the new GSP.

For EUROCOTON it is crystal clear that products that are competitive on the European market without GSP preferences, should be excluded from these preferences. There is no reason to make in this regard a distinction between the standard arrangement and the EBA and GSP+ arrangements. Also least developed countries and vulnerable GSP beneficiaries can be very competitive in certain sectors. Therefore the product graduation mechanism should also apply to the EBA and the GSP+ arrangements. It would also stimulate and help the countries benefiting from these arrangements diversifying their economies. Today some of them are highly dependent on the exports of just a few products and are thus extremely vulnerable to changes that may take place in the international supply chains of those products.

The product graduation mechanism should furthermore be improved by applying it, as far as section S-11b is concerned, at a more disaggregated level. S-11b indeed contains very different products as it encompasses HS-chapters 61 and 62, i.e. clothing, as well as HS-chapter 63, i.e. other made-up textile articles, in fact mainly home textiles. In order for the mechanism to be more effective and targeted, it should be applied to clothing and to home textiles separately, and not to both taken together.

2. The insufficient integration in world trade needs to stay as a criterium to be eligible for GSP+

Standard GSP beneficiary countries can apply for the GSP+ arrangement if they fulfil a certain number of conditions. If they are a GSP+ beneficiary their textile and clothing products of origin will on importation in the EU benefit from a duty-free access instead of a 20% reduction on the MFN-tariff of the EU. As the MFN-import duties on clothing usually amount to 12%, the import duties on garments of origin of standard GSP beneficiaries are generally 9.6%, while the GSP+ countries benefit from 0% import duties. Given the more generous tariff reductions in GSP+, this arrangement is intended for a selected group of developing countries, i.e. those developing countries that are vulnerable and have ratified and implement specific core international conventions related to human and social rights, the environment and good governance.

For years a vulnerable country has been defined as a country whose exports are extremely concentrated in just a few GSP sections and who is insufficiently integrated in world trade. However the European Commission proposes to change this definition, in the sense that the second criterium – the criterium of insufficient integration in world trade, also called the export competitiveness criterium – would be deleted. The reason behind the proposed change is to keep the opportunities of one single country, i.e. Bangladesh, intact to potentially benefit from the GSP+ arrangement in the future. Several least developed countries, along which Bangladesh, are expected to graduate from LDC status in the next 10 years. After a transition period, they will then no longer benefit from the EBA arrangement.

They will in any case benefit from the standard arrangement, but could also apply for the more generous GSP+ arrangement if they fulfil the eligibility conditions. However Bangladesh will not fulfil the criterium of insufficient integration in world trade. Consequently to make it possible for Bangladesh to apply for GSP+, once it will no longer benefit from the EBA arrangement, the European Commission proposes to delete this criterium.

One cannot simply abolish a criterium that is there for many years, just because one is at a particular moment not pleased with the outcome. Both economic criteria to apply for GSP+ are there for a reason, i.e. to ensure that the most vulnerable developing countries, and only they, get some extra support in their economic development by given them some additional tariff reductions. It goes without saying that the positive effects of the very generous GSP+ arrangement on the vulnerable countries will substantially diminish, if also other countries, that in fact do not need this additional support, could also benefit from it. The negative consequences of a deletion of the criterium of insufficient integration in world trade on the real vulnerable countries are amplified by the fact that according to the Commission's proposal the product graduation mechanism does not apply to the GSP+ arrangement. It should moreover not be forgotten that this criterium was added to the current GSP scheme to prevent that larger middle income countries did not become eligible for GSP+, a concern that remains valid today.

The European Commission argues that the effects of the LDC graduation need to be softened and that therefore all LDC beneficiaries graduating from EBA should become eligible for another generous preferential arrangement, i.e. GSP+. While it is true that graduation from LDC status may have an important impact on the said country as it loses its very generous preferential market access through the LDC-specific schemes, it must however be noted that graduation from LDC status implies that the said country has made significant progress in raising its gross national income per capita, strengthening its human assets and reducing its vulnerability to economic and environmental shocks.

Graduation from LDC status and the subsequent loss of the EBA preferences do moreover not happen overnight. There is indeed firstly a transition period between the UN General Assembly decision on graduation and the graduation itself. This period usually was three years. However recent practice has been to grant longer preparatory periods. Bangladesh for example will benefit from five instead of three years to prepare for a smooth transition from the LDC status.⁶ The EU furthermore grants an additional three year grace period after official LDC graduation during which the graduated LDC continues – although it is no longer a LDC – to benefit from the EBA arrangement designed for LDC. The EU is thus already very attentive to the potential effect of LDC graduation. Countries like Australia, Canada and Japan do for example not grant such an extended transitional period.⁷

Finally it can hardly been argued that Bangladesh is not sufficiently integrated in world trade as the country has been during much of the 2010s the world second largest exporter of apparel after China. Its share in the world textile and clothing exports has grown from 3.1% in 2010 to 5.8% in 2019.⁸

⁶ Resolution 76/8 of the General Assembly of the United Nations (24 November 2021), *UN Doc. A/RES/76/8* (2021).

⁷ UN joint study, *Textiles and clothing in Asian graduating LDCs*, 2022, <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/Garment-Study-Synthesis-Report.pdf>, 28.

⁸ *Ibid.*, 6.

3. The international conventions related to human and social rights, the environment and good governance need to be effectively implemented on the ground

EUROCOTON welcomes the increased attention in the proposal for a new GSP to sustainable development, by extending the negative conditionality to international conventions related to the environment and governance principles and by adding new conventions to the list. For EUROCOTON it is essential that countries benefiting from the GSP+ arrangement effectively implement these conventions on the ground. The ratification of the conventions can be a first step in ensuring its implementation, but ratification in itself is not enough. What is important, is the effective implementation on the ground. Failure in this regard should not be tolerated.

4. An efficient and effective automatic safeguard mechanism for textiles and clothing

The GSP Regulation contains, apart from a general safeguard, also an automatic safeguard mechanism that only applies to specific products, including textiles and clothing. The latter has however never been activated as the conditions have not been met. The automatic safeguard mechanism – the one in the current GSP Regulation as well as in the proposal of the European Commission for a new GSP – does not apply to EBA beneficiary countries. It – the current one and the new one proposed by the Commission – applies to the standard GSP and GSP+ countries, but only to those whose share for the concerned products exceeds 6% of the total Union imports of the same products. And even if this hurdle is taken, another threshold has to be met before the safeguard mechanism is activated. In the current GSP regulation, this additional threshold is either the fact that the imports from the country increased by at least 13.5% in volume compared to the previous calendar year or that the imports from the country account for at least 47.2% in value of the EU imports of those products from all GSP countries. In the proposal of the European Commission for a new GSP, only one possibility is kept, i.e. that the share of the GSP imports of the said products from the country exceeds 37% of the value of Union imports of those products from all countries listed in Annex I, columns A and B, during a calendar year.

The study commissioned by the European Commission in support of an impact assessment to prepare the review of the GSP shows that the automatic safeguard mechanism would have been triggered if the mechanism had been applicable to EBA beneficiary countries as well as if the threshold of the precondition had been lower than 6% for the beneficiaries of the general and GSP+ arrangements. Indeed Bangladesh share for S-11b (clothing and other manufactured textile articles) in total EU imports from GSP was higher than 47.2% and this for several years. The safeguard mechanism was however not activated as it does not apply to EBA beneficiaries, which Bangladesh is. Also Pakistan imports increased in 2015 compared to 2014 more than 13.5% in volume but as the precondition of 6% was not met, the automatic safeguard mechanism was not triggered.⁹

While it is true that the use of the safeguard mechanism should be exceptional rather than daily business, it is important that this mechanism is efficient and effective as the GSP scheme should protect the EU's financial and economic interests and avert harm to the EU industry. The manufacturers of textiles, and especially of made-up textile articles such as bed linen and bath towels, in the EU have for example since 2014 suffered immensely from the preferences from which Pakistan

⁹ European Commission, Study in support of an impact assessment to prepare the review of GSP Regulation No 978/2012 – Final report – Volume 1: Main report, June 2021, <https://op.europa.eu/en/publication-detail/-/publication/706f539c-f0db-11eb-a71c-01aa75ed71a1/language-en/format-PDF/source-221478841>, 204.

benefits under the GSP, leading even to the closure of companies in the EU. The automatic safeguard mechanism has however not been triggered, meaning that it is not fit for purpose.

With regard to the new GSP Regulation the Commission does not propose fundamental changes to the automatic safeguard mechanism but only some technical adjustments. EUROCOTON seriously doubts that these technical adjustments will be enough to have an efficient and effective safeguard mechanism in the future, a mechanism that avoids that the GSP scheme causes serious harm to the manufacturing textile and clothing industry in the EU. For this to be the case, according to EUROCOTON, the 6% threshold of the precondition (art. 29.2) should be lowered and the condition to effectively trigger the safeguard mechanism (art. 29.1) relaxed. It would furthermore be appropriate to apply the automatic safeguard mechanism to clothing (HS-chapters 61 and 62) and to HS-chapter 63 (mainly home textiles) separately, and not – as is currently the case – to section S-11b which encompasses both, as clothing and home textiles are very different products.

The safeguard mechanism should also apply to the EBA arrangement. The aforementioned study argues that the extension of the automatic safeguard to EBA countries would have no effect with the current product coverage¹⁰. However the baseline for this analysis was that the graduation of a number EBA beneficiaries that will graduate from LDC status during the period that the new GSP scheme will apply, has already taken place. The analysis is thus incomplete as a certain number of countries, which will still be, at least for some time, an EBA beneficiary under the new GSP scheme, such as Bangladesh, were, due to the chosen baseline scenario, excluded from the analysis.

5. Regional cumulation between beneficiary countries of different regional groups as well as extended cumulation can only be granted if it does no harm the EU industry

Under the current GSP scheme, GSP beneficiary countries in any case benefit with regard to the rules of origin from the following cumulation possibilities: bilateral cumulation, cumulation with Norway, Switzerland and Turkey as well as regional cumulation within the same group. On top of this, the Commission may grant, at the request of a GSP beneficiary country, additional cumulation possibilities, i.e. extended cumulation (cumulation with a country with whom the EU has an FTA) as well as, for GSP beneficiary countries of Group I and Group III, cross regional cumulation between these groups.

In its proposal for a new GSP Regulation the European Commission proposes to grant upon request from a beneficiary country, regional cumulation between beneficiary countries of different regional groups or extended cumulation, where and as long as a number of conditions are met. The impact of the requested additional cumulation possibility on the EU industry is however not among the conditions. For EUROCOTON it is clear that a request for an additional cumulation possibility can only be answered positively if it does not harm the EU industry, meaning the full pipeline of the industry in the EU involved in the production of the type of product wherefor the additional cumulation possibility is requested. So if for example an additional cumulation possibility is asked with regard to garments, not only the effects on the companies manufacturing clothing in the EU should be taken into account, but also the impact on the European spinners and weavers.

Ideally the new GSP Regulation should furthermore make it impossible to cumulate with a beneficiary country of the same or another regional group, for those products for which the latter has been graduated. If a beneficiary country has been graduated for certain products, this means that it has become competitive for those products. Consequently, those products should no longer benefit, when

¹⁰ *Ibid.*, 209.

they are exported directly to the EU, from a preferential access to the EU. They should however also no longer indirectly – when they are further processed in another GSP beneficiary country of the same or another regional group – benefit from a preferential access to the EU.

6. A separate delegated act for each country that is granted GSP+

For reasons of transparency and in order for the Member States and the European Parliament to fully play their role, the European Commission should, when granting GSP+ status to GSP beneficiaries, use a separate delegated act per country. Indeed, a delegated act adopted by the Commission can only enter into force if no objection is raised by the Council or the Parliament. If several countries are mentioned in the same delegated act, it is difficult for the Council and the Parliament to oppose the granting of GSP+ status to one or more of them – even if they have good reasons to do so – as by doing so they would also block – at least temporary – the other mentioned countries in the said delegated act from receiving GSP+ status.

About EUROCOTON:

EUROCOTON represents the European textile manufacturing industry of cotton and man-made staple fibres, starting from the cotton ginning, over the manufacturing of yarns and fabrics of cotton and man-made staples fibres. These yarns and fabrics are mostly used in the garment industry, for home textiles or for technical applications. We have members from the following EU-member states: Austria, Belgium, France, Germany, Greece, Italy, Poland, Slovenia and Spain. We urge for a favourable business climate for our industry and are in particular active on trade and industry topics where we advocate free but 'fair' trade.