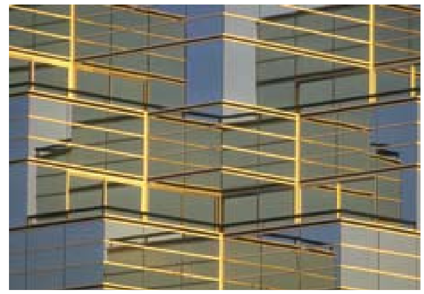
Client **Alert**

International Trade

7 January 2014

EU GSP – China, Thailand, Ecuador, Maldives losing GSP benefits; GSP Plus list released



The EU's new Generalised Scheme of Preferences (GSP) regime started to apply on 1 January 2014; recently, some key announcements were made relating to removal of certain GSP beneficiary countries and granting of GSP Plus status to certain other countries under the new GSP regime:

- In late December 2013, it was announced that **GSP benefits will be removed** for **China, Thailand, Ecuador** and **the Maldives** as from **1 January 2015**.
- Shortly thereafter, the EU published the list of **ten countries** which enjoy **GSP Plus status** as of **1 January 2014**.

Removal of GSP benefits

As explained in our previous Client Alert of 9 October 2012, the EU's new GSP regime – established in Regulation 978/2012[1] – aims to provide tariff preferences to fewer countries, but with a broadened product scope. It also features an annual review mechanism to ensure swifter removal of GSP benefits for those countries that fulfil certain criteria involving, *inter alia*, classification by the World Bank as a "high" or "upper middle income" economy for three consecutive years.

Following the recent second annual review of the EU GSP beneficiary list,[2] the EU has announced in Regulation 1421/2013[3] that China, Thailand, Ecuador and the Maldives will lose GSP benefits as a result of their World Bank classification in the past three years. While Regulation 1421/2013 entered into force on 1 January 2014, the actual removal of GSP benefits for these countries will only take effect on 1 January 2015 (i.e., following a one-year transition period).

Some observations on the expected impact of GSP removal for these countries:

- Many products from **China** are already excluded from GSP benefits under the 'graduation' mechanism (covering more products under the new regime),[4] so the complete removal of GSP benefits will only impact a limited number of product types. Still, as it is not foreseen that the EU will negotiate a Free Trade Agreement (FTA) with China anytime soon, this means no Chinese products will benefit from tariff preferences when imported into the EU in the future.
- The removal of GSP benefits is expected to have considerable impact on **Thailand**. Although Thailand is currently negotiating an FTA with the EU, it is highly unlikely that it will be in place in time – also in light of recent political unrest in Thailand which could potentially delay negotiations – to avoid a 'gap' in tariff preferences for products exported to the EU.

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[1] Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008, [2012] OJ L 303/1.

[2] The first annual review of the EU GSP beneficiary list was conducted in late 2012; it resulted in a decision to remove GSP benefits for **Iran** and **Azerbaijan** – with effect from 22 February 2014 – because of their World Bank classification (see Commission Delegated Regulation 154/2013).

[3] Commission Delegated Regulation 1421/2013 of 30 October 2013 amending Annexes I, II and IV to Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences, [2013] OJ L 355/1. In addition to removing GSP beneficiary countries as a result of the annual review, Regulation 1421/2013 also makes a number of technical amendments – involving Croatia, South Sudan, the Maldives and Burma/Myanmar – to Regulation 978/2012 to reflect certain developments.

[4] See Commission Implementing Regulation (EU) 1213/2013 of 17 December 2012 suspending the tariff preferences for certain GSP beneficiary countries in respect of certain GSP sections in accordance with Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences, [2012] OJ L 348/11.

- **Ecuador** will also lose its GSP Plus status (see below) when GSP benefits are removed. While there is no FTA currently in place with the EU, there have been recent reports that negotiations are pending to possibly integrate Ecuador into the existing FTA that the EU has in place with the Andean countries Colombia and Peru.
- Previously a beneficiary of special Everything But Arms (EBA) benefits under the EU's GSP regime,[5] **the Maldives** is likely to experience considerable impact as it is bound to lose all tariff benefits under the standard EU GSP regime as a result of pending GSP beneficiary removal. There have been no recent indications of possible FTA negotiations between the EU and the Maldives.

GSP Plus beneficiary list

In addition to standard GSP benefits, the new EU GSP regime also provides for so-called 'GSP Plus' status. This special incentive arrangement – for which a GSP beneficiary country can apply – provides access to more generous GSP benefits (often a 0% duty rate compared to a mere reduction of the normal MFN rate under the standard GSP regime) for GSP beneficiary countries that comply with certain criteria related to sustainable development and good governance.

Regulation 1/2014 contains the first list of countries with GSP Plus status under the new EU GSP regime.[6] Under this Regulation, the GSP Plus beneficiary countries as of 1 January 2014 are: Armenia, Bolivia, Costa Rica, Cape Verde, Ecuador, Georgia, Mongolia, Peru, Pakistan, and Paraguay. Except for Pakistan, all of these countries enjoyed GSP Plus status under the previous regime as well (while certain countries that previously enjoyed GSP Plus status are no longer listed).

It is also expected – pursuant to a European Commission proposal that is currently being discussed within the EU institutions – that **El Salvador, Guatemala and Panama** will be granted GSP Plus status in the future. Unconfirmed reports further indicate that the **Philippines** has recently submitted an application for future EU GSP Plus status.

[5] The EBA regime under the EU's GSP provides for duty-free treatment of all products except arms from countries listed by the United Nations as least-developed.
[6] Commission Delegated Regulation (EU) No 1/2014 of 28 August 2013 establishing Annex III to Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of preferences, [2014] OJ L 1/1.