



GSP REGULATION REVISION

EURATEX Position Paper

EURATEX



THE EUROPEAN APPAREL
AND TEXTILE CONFEDERATION

Introduction

EURATEX represents the European textile and clothing industry, which in 2019 employed more than 1.5 million workers belonging to more than 160,000 companies, more than 90% of them SMEs. The sector generated a turnover of EUR 162 billion and its extra-EU exports represented around EUR 61 billion. It is an export-oriented industry, focusing on product differentiation, quality and added value, sustainability and innovation.

As part of the revision of the GSP Regulation, EURATEX expresses its views on a set of issues of great importance and relevance for European textile and clothing industry that we would like to see included in the future GSP Regulation entering into force in 2024.

With the proposals described below, we believe that the future GSP Regulation will be able to respond positively to the interests of both GSP beneficiary countries and European textile and clothing industries, providing a scheme that is simple to apply, effective, predictable and with clear indicators regarding which countries can benefit and in which conditions.

In annex 1 you can also find a short analysis of EU Textile and Clothing trade in terms its imports from the GSP beneficiary countries and in annex 2 a deep focus on Pakistan, CH63 Home Textiles and Section 11-b Clothing and Made-up.

I – Trade plays its role but standing alone cannot do much

In the context of the GSP Regulation, it is important to take into account that Trade itself cannot - and should not - solve all the problems of the XXI century and consequently of the GSP beneficiary countries.

EURATEX considers that trade policies can only make an important contribution if they are aligned with other important variables. It may include, for instance, good governance, respect for human, social and political rights, sustainable development, defense of intellectual property rights and the equitable redistribution of its economic benefits to GSP beneficiary countries.

The objectives of the GSP Regulation are clear and related to preferential access to the EU market. However, such openness implies a return as regards the development of GSP beneficiary countries and hence an increased focus on issues such as human and social / labor rights and sustainable development is of extreme importance. We believe more efforts should be done in this sense.

II – GSP Regulation, sustainable development and human rights: better monitoring and full enforcement of international conventions in the ground

One of the major issues related to the GSP Regulation is sustainable development and the strengthening of human, social and political rights by the GSP beneficiary countries. In this context, EURATEX considers that a greater focus on better monitoring and full implementation in the field of the various conventions (annexed to the GSP Regulation) is absolutely necessary.

Having several conventions listed in the GSP Regulation is not enough by itself. It is necessary to dispose of effective mechanisms of control, monitoring and swiftly implementation with precise indicators and available to all the parties so that the objectives of the GSP are effectively realized. Entrusting the European Commission in its capacity of monitoring the Convention's implementation and carry out its assessments should be kept as a top priority and continued in close dialogue with relevant stakeholders, including employers, NGOs and the UN. The European Parliament and the Member States could also have a deeper role while discussing and addressing this kind of problematics.

On the other hand, EURATEX believes that the conventions applicable to GSP+ beneficiary countries can be amended, provided that the application of the GSP+ remains as simple and predictable as it currently is. EURATEX thinks that all the countries benefiting from GSP should implement some international core conventions on all of the issues related to, for instance, human and social rights, sustainable development and good governance.

In addition, we encourage the European Commission to include the Paris Agreement in the framework of the GSP+. It is an instrument that is part of any current Free Trade Agreement negotiation and being a topic of such importance on a global scale, we would also like to see a harmonization between FTAs and GSP countries.

III – The withdrawal mechanism to be efficiently enforced but limited in time

EURATEX stands for the principle of withdrawal (partially or not) in case, for instance, of systematic violations of fundamental rights: It may be considered a stimulus for GSP beneficiary countries to pursue their progress on social and human rights, among others. The objectives behind the GSP Regulation should be pursued without any impediments. The EU Commission should do whatever is necessary to

safeguard the interests of the EU textile and clothing industry and, at the same time, keep the GSP objectives alive, otherwise it will lose its international credibility.

This being said, it is important to mention that any change in the GSP system, either withdrawal, safeguard, product/country graduation, needs to be considered with due care. It should also be efficiently enforced and limited in time, allowing GSP beneficiary countries to improve their situation and be ready to benefit again from the GSP schemes.

The recent case of the Cambodian withdrawal of trade preferences and the same possibility for Myanmar, nevertheless rare cases, shows the importance of having such mechanism. The Commission is able to activate its means in case of need and in the context of serious and systematic violations at the level of the various principles listed in the different conventions. This activation must always be carried out swiftly with optimum legal predictability and favorizing dialogue between the parties.

EURATEX defends that the withdrawal mechanism should be also applicable to GSP standard beneficiary countries in case of serious and systemic violations of principles related to the protection of the environment and good governance. This is an evolution of the priorities of all global players and the GSP beneficiary countries cannot be left behind. However, we assume the difficulty of having the EBA countries to fully implement these new dimensions, so in an initial phase we can only consider the extension to GSP+ and GSP standard beneficiary countries.

Furthermore, EURATEX thinks the EU's trade policy practices overall are getting increasingly transparent and we welcome these improvements. Nevertheless, we believe more efforts could be employed, in particular regarding the processes of withdrawal/temporary suspension of tariffs preferences. More information related to the reality in the ground would be appreciated so that the economic operators would be better prepared to adapt their supply chains.

IV – Product coverage expansion

EURATEX acknowledges that substantial focus has been made on sustainable production at large and, as a principle, this area should be also further exploited in the framework of the GSP Regulation. However, EURATEX stands cautions given its complex technical and operational aspects as it is difficult to define what a sustainable product is. Moreover, there is no references on the EU nomenclature to identify such type of products.

EURATEX believes that the future GSP scheme should be expanded so as to cover a wider range of products. Exports diversification should be targeted as one of the main goals in each GSP beneficiary country so that they would be able to consolidate their economic development and reduce their dependency towards a few sectors or countries.

Particularly in the Textiles and Clothing sector, GSP EBA countries accounted for 19,7% of EU Textile and Clothing imports (an increasing share) in 2019. Moreover, EBA countries have the least diversified export portfolios at the product and sectoral levels. Therefore, exports diversification would be highly recommended.

V – Product and country graduation towards export diversification

EURATEX supports the product graduation as it is a good mechanism to prevent distortions in the EU market when imports of a certain category of products from a particular country reach a certain level.

EURATEX advocates for the extension of product graduation applicability to both GSP+ and EBA beneficiary countries in order to encourage such countries to diversify their exports. If a country reaches a certain level of exports of a certain product or products, the country is no longer in need of fully benefiting GSP incentives.

Nevertheless, the product graduation should not be perceived as a punishment but rather an incentive towards export diversification. Any change in this regard should be implemented against one-year advance notice period so that economic operators can adapt to the new realities.

Moreover, EURATEX believes that the product graduation applicable today could be further improved, allowing the applicability of product graduation to individual products instead of product's sections. This is particularly important for the sub-sector of Home Textiles. This evolution should be linked to a certain level of predictability and simplicity in the process.

As the product graduation is today applicable to a group of related products, it means that either Textiles S-11a section and Clothing S-11b section can be targeted. However, in the Clothing S-11b section includes CH63 "Other made-up textile articles; sets; worn clothing and worn textile articles; rags" meaning Home Textiles.

Therefore, while applying the product graduation to the entire section S-11b Clothing, it does not differentiate Home Textiles as those that are included in this section. An approach by product typology would be more relevant and accurate as you can see in Annex 2. This would also allow to target only those products that have reached a certain limit of EU imports share and keep the remaining products outside the scope of the graduation mechanism.

Regarding the country graduation mechanism, EURATEX would like to see its transitional period reduced. We believe that one-year period advance notice would be sufficient to implement the necessary adaptations. The UN's classification as regards LDC countries takes normally quite long time. Adding 1 year of top of the UN's processes is reasonably.

VI – Safeguard mechanism: strengthening and improving predictability with effective tools

The current safeguard mechanism needs to be improved in order to be triggered in an effective and efficient manner in case of need. EURATEX would like to highlight in this context some principles that we consider fundamental and which we would like to see embedded in the future GSP Regulation.

We believe that the European Commission should not refrain from activating the safeguard mechanism in cases where the share limits for imports from the GSP countries are exceeded and therefore will have a negative impact on the European industry. However, we believe that the safeguard mechanism should be activated only when conditions are fulfilled, allowing a certain level of predictability across economic operators.

On the other hand, we would like to see increased transparency and information sharing throughout the process. This will also increase greater certainty and allow economic operators to adapt their supply chains in the event of activation of the safeguard.

Finally, the applicability of the safeguard mechanism should be extended to all GSP beneficiary countries. The rationale behind the product graduation's extension to EBA and GSP+ countries is equally applicable in the safeguard mechanism context. If a GSP beneficiary country gets a certain level of competitiveness in a specific product or sector putting at risk the EU industry interests by reaching a certain level of imports, therefore existing procedures such as product graduation and safeguard mechanism should be triggered. This would also encourage such countries to diversify their

exports in terms of sections/products and reducing the dependency on one or few industrial goods' exports.

In any case, such arrangements should be activated only if the conditions are met (surge of imports reaching the thresholds) and hence the preferences must be withdrawn quickly. This should be done in an efficient, transparent and predictable way so that economic operators would have the necessary time to adjust their supply chains and adapt to the future arrangements.

VII – Better alignment between DG Trade and DG TAXUD

The GSP and the related preferential rules of origin are still poorly coordinated. Cooperation between DG Trade and DG TAXUD is still suboptimal in this respect.

This became tangible when DG TAXUD managed the transition from the certificate of origin Form A to the REX system (based on declarations by registered exporters). Against all warnings by economic operators, the Commission set deadlines for this transition and several of the GSP poorest beneficiary countries failed to comply (i.e. Somalia, South Sudan and others).

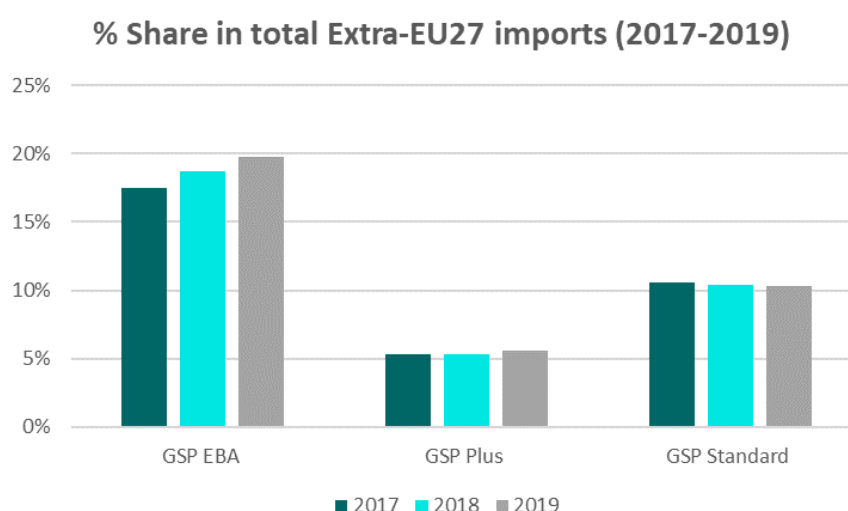
The issue is, unfortunately, not limited to the sole GSP. DG TAXUD's focus on bureaucracy can sometimes be quite unhelpful to serving the purposes on DG Trade's policy which is focused on competitiveness and on free and fair trade.

Annex 1 - EU imports analysis from GSP beneficiaries

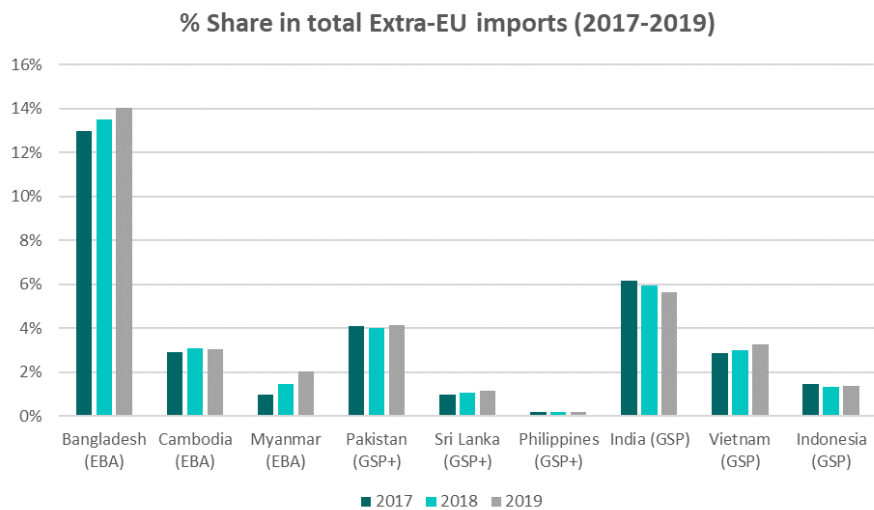
	Unit : Millions Euros			% Share in total Extra-EU imports			GSP utilisation rate (%)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Total T&C imports	102,327	105,575	109,027	100%	100%	100%			
Total imports from GSP beneficiaries:	34,211	36,295	38,842	33.4%	34.4%	35.6%	85.1%	85.5%	86.1%
GSP EBA	17,906	19,718	21,489	17.5%	18.7%	19.7%	} 66%	68%	69%
GSP Plus	5,489	5,641	6,102	5.4%	5.3%	5.6%			
GSP Standard	10,816	10,936	11,251	10.6%	10.4%	10.3%		19%	18%
Imports from:							2017	2018	2019
Bangladesh (EBA)	13,275	14,263	15,290	13.0%	13.5%	14.0%	97%	97%	97%
Cambodia (EBA)	2,994	3,262	3,310	2.9%	3.1%	3.0%	97%	97%	96%
Myanmar (EBA)	1,004	1,545	2,215	1.0%	1.5%	2.0%	94%	96%	96%
Pakistan (GSP+)	4,168	4,222	4,524	4.1%	4.0%	4.1%	97%	97%	98%
Sri Lanka (GSP+)	1,010	1,105	1,252	1.0%	1.0%	1.1%	42%	47%	52%
Philippines (GSP+)	204	191	187	0.2%	0.2%	0.2%	45%	43%	48%
India (GSP)*	6,309	6,274	6,153	6.2%	5.9%	5.6%	93%	93%	94%
Vietnam (GSP)	2,936	3,165	3,531	2.9%	3.0%	3.2%	15%	17%	19%
Indonesia (GSP)	1,492	1,419	1,483	1.5%	1.3%	1.4%	62%	63%	62%

* GSP utilisation rate based on section 11b (clothing and made-up textiles)

EU import share of GSP beneficiaries:



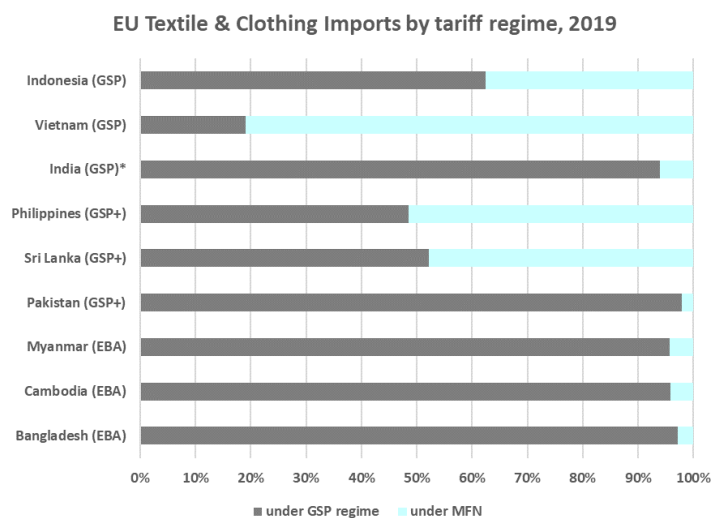
In 2019, EU27 imports of textile and clothing from GSP beneficiaries accounted for 35.6% of global EU textile and clothing imports. Imports from EBA countries accounted for 19.7% of T&C imports (an increasing share), while imports from GSP+ countries amounted to 5.6%. On the other hand, imports from standard GSP beneficiaries have progressively decreased to 10.3% in 2019.



Among the main EU suppliers, Bangladesh recorded the highest share with 14% in 2019 corresponding to €15.3 billion. EU imports from India accounted for 5.6% of total T&C imports, while Pakistan had a share of 4.1%. Over the three-year period, the share in total extra-EU imports increased markedly for Bangladesh, Myanmar and Vietnam.

GSP preferences' utilization rates

Imports from beneficiary countries can further be broken down into imports under GSP preferences and imports under MFN/other preferential arrangements. Among all T&C exported by all GSP beneficiaries, 86.1% were exported using GSP preferences and 13.9% were exported under MFN. Furthermore, of the 86% beneficiary countries using the GSP preferences, 69% was under the GSP zero import regime (EBA or GSP+) and 17% was under the standard GSP regime.



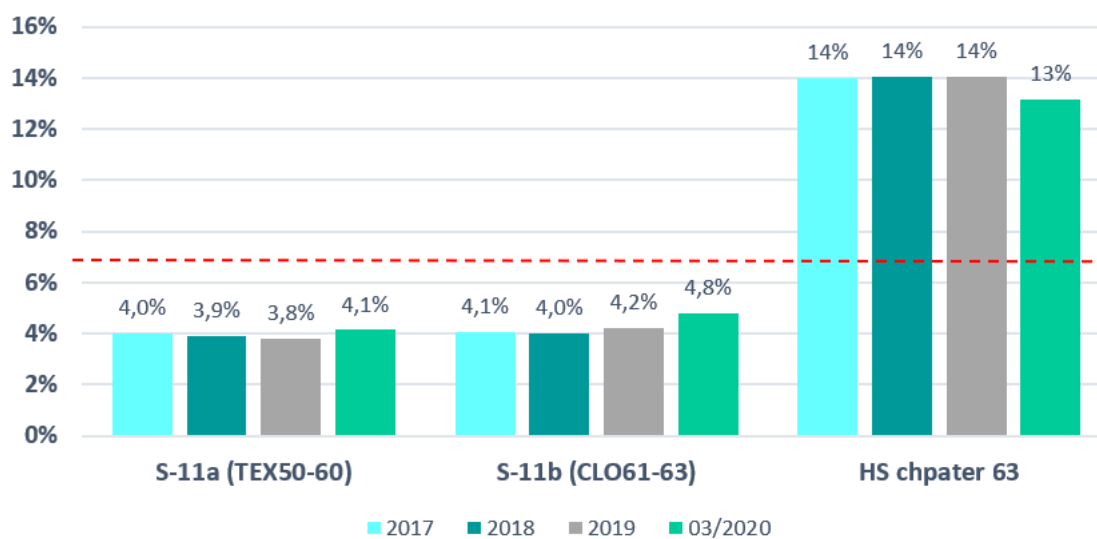
* GSP utilisation rate based on section 11b (clothing and made-up textiles)

As illustrated above, the EBA countries (Myanmar, Cambodia and Bangladesh) and Pakistan utilized their preferences the most and exported more than 96% of their textile and clothing exports under GSP arrangements. Utilization of GSP preferences by India is also high (94%). On the opposite, Vietnam (standard GSP) largely exported under MFN arrangements.

Annex 2

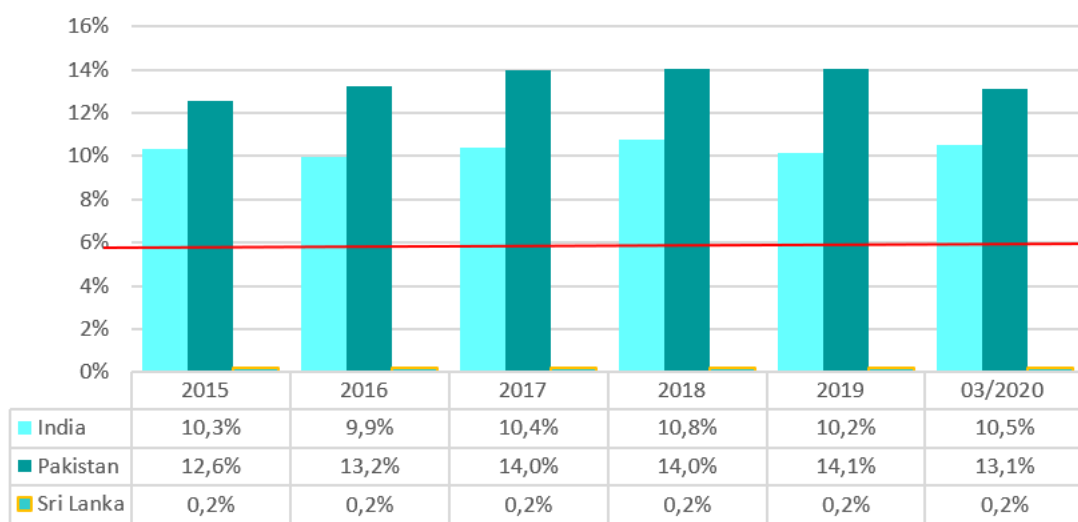
Pakistan import share in tot. Extra

(threshold 6% - based on values)



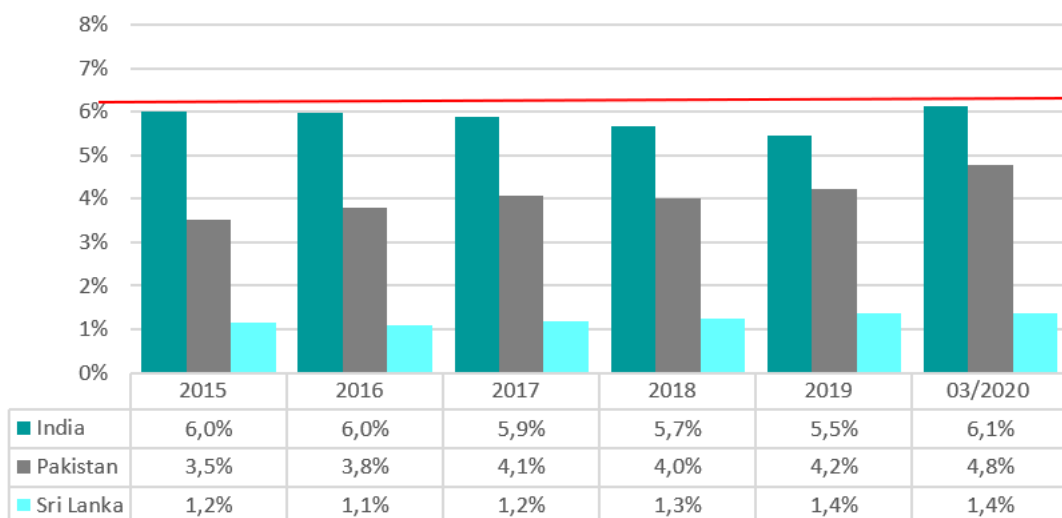
HS chapter 63

Country import share in tot. Extra-EU (threshold 6% - based on values)



Clothing & made-up (S-11b)

Country import share in tot. Extra-EU (threshold 6% - based on values)



Contacts

E-mail: info@euratex.eu
www.euratex.eu

Copyright © EURATEX
Publication prepared by
EURATEX, Trade and Internal Market

Published in August 2020

Follow us on



About EURATEX

As the voice of the European textile and clothing industry, EURATEX works to achieve a favourable environment within the European Union for design, development, manufacture and marketing of textile and clothing products.

The EU-27 textile and clothing industry, with around 160,000 companies employing 1.5 million workers, is an essential pillar of the local economy across many EU regions. With over € 61 billion of exports, the industry is a global player successfully commercializing high added value products on growing markets around the world.

Working together with EU institutions and other European and international stakeholders, EURATEX focuses on clear priorities: an ambitious industrial policy, effective research, innovation and skills development, free and fair trade, and sustainable supply chains.

