

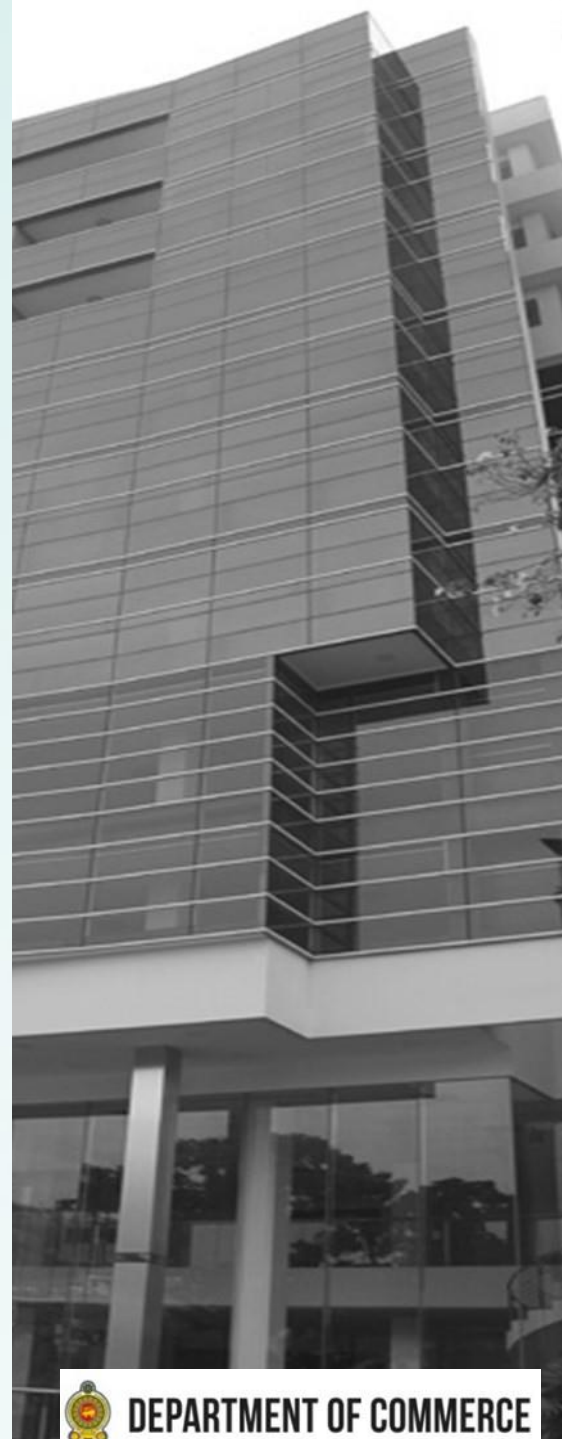


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**“EU- Generalized System of Preference & Sri Lanka”**

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**DEPARTMENT OF COMMERCE**

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## EU- Generalized System of Preference & Sri Lanka

### History of GSP plus

The Sri Lanka Mission in Brussels argued as far back as early 2000 that the EU had granted zero customs duty concessions to LDCs and ACP countries under different schemes, and Sri Lanka, as a small and vulnerable country had been excluded from any such special schemes, resulting in an uneven market access in the EU for exports of Sri Lanka. Therefore, it has been said that GSP plus was a special scheme invented to accommodate Sri Lanka under a duty-free scheme.

Sri Lanka as a Lower- Middle Income earner had been utilizing Standard GSP scheme of the EU since 1971 till 2005. In 2005, Sri Lanka became a beneficiary the GSP+ facility of the EU which gives zero duty facility for eligible exports to the EU, upon ratification and the effective implementation of the 27 UN Conventions and undertaking to extend cooperation as a binding commitment for regular monitoring of the implementation of these conventions in Sri Lanka.

### Sri Lanka's Eligibility for GSP+

Under the GSP+, import duties in the EU on the eligible products exported from Sri Lanka are zero. In terms of the current EU GSP implementation cycle (10 years from 01.01.2014), Sri Lanka will continue to benefit from the EU GSP+ until 31.12.2023, if not withdrawn earlier based on alleged violations of the effective implementation of the 27 UN Conventions and non-cooperation for the Monitoring Mechanism of the GSP+ or graduated to Upper Middle-Income Level (UMI).

Since the EU GSP+, implement the graduation of UMI after a country remain at UMI status for consecutive 3 years, graduation of Sri Lanka from current GSP plus cycle should not be a matter of immediate concern. The form and the substance of the new EU GSP effective from 01.01.2024 are not made available yet, except a proposal from the European Commission issued on 22<sup>nd</sup> September 2021. Consultations were held to obtain views of the beneficiary countries and any interested parties to formulate the new scheme.

*"Constructive engagement with the west including the EU would add a great strength to the country's external outlook which is a prerequisite to attract export-oriented investment as well. Sri Lanka's main exports markets are in the west. It is unlikely that such markets will be replaced by the countries in the east during the next decade"*

### EU as the main Export Destination

The EU is the largest export destination with US \$ 3,5 Bn in 2019 (*in 2020 general pattern has been changed due to onset of COVID and BREXIT*) for Sri Lanka's exports which amounts closer to 1/3 of total export earnings and we have been having trade ties with the EU over decades. Over the years, the EU GSP scheme has contributed to enhance the price competitiveness of GSP eligible and utilized products. GSP concessions were found to be instrumental in diversifying the export basket of Sri Lanka to the EU over the years.

### Major milestones under EU-GSP

The milestones in Sri Lanka's journey towards gaining EU GSP and the GSP+ concessions are given under table 1.

**Table 1.**

Year	Total Imports into EU		Eligible Imports under GSP/ GSP+		Preferential Imports under GSP/GSP+		GSP- Utilization		Remarks (key related events of Sri Lanka with EU)
	Value Euro 000'	Growth %	Value Euro 000'	Growth %	Value Euro000'	Growth %	Utilization	Growth in Utilization %	
1997	932,121	8	881,886	-	294,375	-	33	-	
1998	986,949	6	951,242	8	274,426	-7	29	-14	
1999	1,280,168	30	991,606	4	275,222	0	28	-4	

2000	1,895,648	48	1,203,532	21	358,818	30	30	7	
2001	1,538,727	-19	1,134,787	-6	400,822	12	35	18	WTO lifted Apparel quota
2002	1,424,519	-7	1,088,968	-4	414,774	3	38	8	
2003	Couldn't find	-	-	-	-	-	-	-	
2004	1,167,980	-	1,162,251	-	489,463	-	42	-	From 1/2/04 Labour GSP
2005	1,199,317	3	1,174,530	1	602,768	23	51	21	From 1/7/05 GSP+
2006	1,495,357	25	1,454,639	24	937,521	56	65	27	
2007	1,535,610	3	1,488,612	2	998,922	7	67	3	
2008	Couldn't find	-	-	-	-	-	-	--	
2009	1,947,047	-	1,614,668	-	1,192,223	-	74	-	
2010	2,123,094	9	1,745,380	8	1,270,445	7	73	-1	Withdrawal GSP+ in Aug
2011	2,239,282	5	1,775,154	2	1,176,558	-7	66	-9	
2012	2,250,081	0	1,763,395	-1	1,071,986	-9	61	-8	
2013	2,038,712	-9	1,644,404	-7	979,947	-9	60	-2	Europe suppressed global imports-debt crisis/recession
2014	2,161,406	6	1,797,549	9	1,072,181	9	60	0	
2015	2,340,300	8	1,966,945	9	1,077,736	1	55	-8	From Jan, IUU Fish ban
2016	2,402,537	3	2,029,722	3	1,105,608	3	54	-1	In June IUU ban lifted. Applied for GSP+
2017	2,634,576	10	2,263,580	12	1,240,239	12	55	1	Re-gained GSP+. May 19th
2018	2,757,647	5	2,349,858	4	1,365,837	10	58	6	Sri Lanka- Upper middle country
2019*	3,038,000	10	-	-	1,598,000	17	63	7	Sri Lanka- Lower middle country
2020 EU 27	2,100,000	-	-	-	1,104,000	-	-	-	UK left the EU on 01.02.2020, UK Import data not included
2021	Stat, not published as yet	-	-	-	-	-	--	-	On 10.06.2021, the EU passed a resolution on Sri Lanka's PTA. As per 2020 data of the World Bank, published on 1.7.2021, Sri Lanka continues as a Lower middle-income country

Source: Based on the EU imports data from Sri Lanka

As in the Table 1 above, from August 2010 to May 2017, Sri Lanka was exporting under the Standard GSP scheme (Textile and clothing -20% reduction and other eligible products 3.5 percentage points reduction of general duty rates). Further, Sri Lanka's GSP+ utilization was 73% in 2010, the highest.

As depicted in the Table 1, during 2011 to 2016 except in 2013 in which year the EU's global imports contracted due to a recession in the EU, Sri Lanka's exports to the EU under the Standard GSP has increased from Euro 2.1 Bn to Euro 2.4 Bn whereas the GSP utilization rate went down from 66% in 2011 to 54% in 2017. This is a salutary development where Sri Lanka was able to push her exports up without GSP plus concessions. This phenomenon has not provoked any study so far to delve into the contributing factors for it. What is relevant to Sri Lanka is the extent to which GSP plus duty free facility contributes to increase the exports.

*"EU is shifting its policy focus towards environmental aspects and has taken steps to link their green policy with other policy areas including trade policy. It is likely that they will add environment related conditions to the commitments the beneficiary countries should comply with in future GSP cycles from 01.01.2024"*

Viewed in this context, the growth dynamics of Sri Lanka's exports to the EU during 2011 to 2016 reflects the fact that deciding factor for the export growth is not solely the duty concession itself, but also the other strong factors such as long-term exporter-importer relationship, dependability of exporters, ability to meet real-time delivery schedule, country's connectivity, compliance with environmental and labour standards, engagement in the global value chain, firms' agility and management practices, depreciation of Rs. etc. The importers for high end market segments may not be concerned about duty concessions and they are hesitant to change suppliers overnight. Such factors may have mattered very much in the buying decisions of the EU importers to place orders during absence of GSP plus. In certain cases, Sri Lanka exporters may have reduced FoB prices to stay competitive.

Further, Sri Lanka re-gained GSP+ on 19th May 2017 and the GSP+ utilization increased from 55% in 2017 to 63% in 2019 while Sri Lanka's total exports to the EU increased from Euro 2.6 Bn in 2017 to Euro 3.0 Bn by 2019. There has been a positive correlation between enhanced GSP concessions and growth of Sri Lanka's exports to EU during 1990s up to 2010. This positive correlation is continuing after regaining GSP plus in 2017 as well.

## EU-GSP Utilization

Even though over 7,000 product lines at zero duty under GSP+, Sri Lanka's exports under GSP+ are concentrated on a few product sectors and utilization of GSP+ by Sri Lanka sector-wise in 2019 are given in the table 2 below

**Table 2**

Product Sector	Utilization Rate (2019)	Remarks
Chap 61 & 62- Apparel	51.75%	Stringent ROO as it is required double transformation from yarn to fabric and, fabric to apparel
Rubber Products	96.38%	Mostly "Wholly Obtained" ROO with "value added ROO"
Fish Products	99.48%	"Wholly Obtained" ROO
Edible Preparations	96.92%	"Wholly Obtained" ROO
Bicycles	96.32%	Mostly "value added" ROO
Apparel Accessories	77.58%	Relatively less stringent ROO than apparel in Chap 61 & 62
Apparatus & Electrical Parts	41.28%	Mostly "value added" ROO
Toys	86.94%	Both "Wholly Obtained" ROO and "value added ROO"
Headgear parts	87.04%	Mostly "value added" ROO
Tea and Spices	73.99%	Mostly "Wholly Obtained" ROO
Average Utilization	63%	Increased from 58% in 2018

(Source: the latest available in the EU)

The reason for low utilization for Apparel sector is that the cost of compliance with the Origin Criteria far outweighs the benefit of the tariff concession.

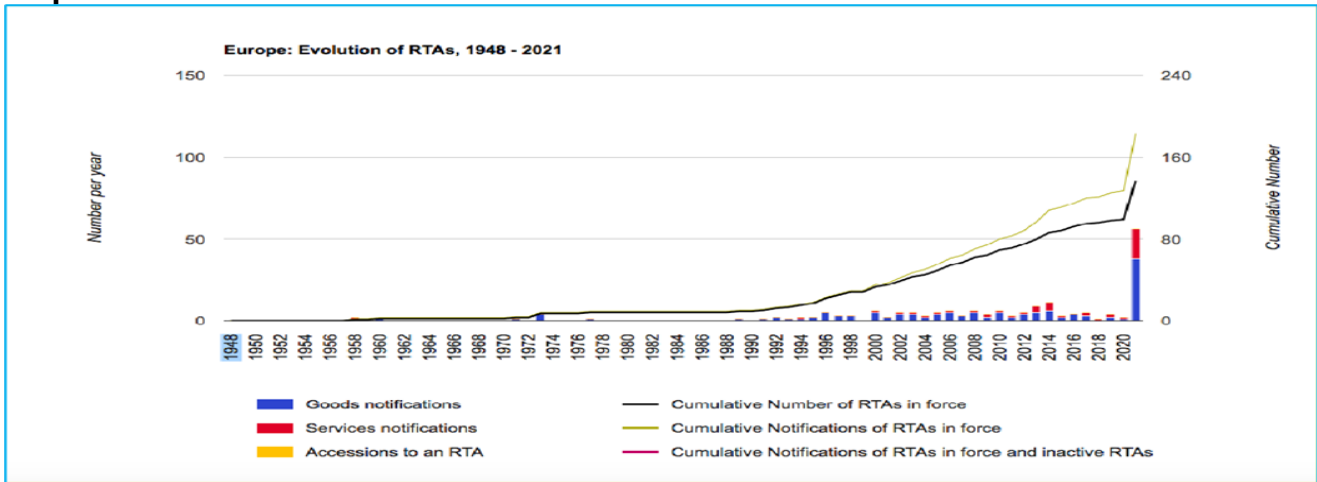
## Future Outlook

There are new challenges which were not existing between 2011 and 2016, where Sri Lanka exported to the EU without GSP plus.

After the re-gaining GSP plus in May 2017, the EU has entered into trade agreements with many other countries

resulting preference erosion and further competition for Sri Lanka even under GSP+. The graph below shows how the EU enhanced its RTAs/FTAs over the years, which may have created a pressure on the exporters of non-FTA member countries with the EU.

**Graph 1**



Source: WTO

Further, the EU is shifting its policy focus towards environmental aspects and has taken steps to link their green policy with other policy areas including trade policy. It is likely that they will add environment related conditions to the commitments the beneficiary countries should comply with in future GSP cycles from 01.01.2024. Even if a special incentive scheme of the next EU GSP cycle effective from 01.01.2024 links tariff concessions with non-trade related commitments, including 27 UN conventions given the fact that Sri Lanka has already ratified them, their effective implementation is needed to be ensured.

### Concluding Remarks

Considering the country's overall production cost which is on the higher side when compared with the countries in the region and competitive suppliers, with surging labour shortages and the absence of economies of scale, GSP plus should certainly provide a leverage, a space and a cushion for the manufacturers and exporters in Sri Lanka for the EU market to remain competitive in the highly competitive EU market.

Further, Sri Lanka's economic outlook for the next 05-10 years is forecast with challenges of external debt payments, exacerbated by the crippling effects of COVID-19 and therefore, to earn much needed foreign exchange, smooth access to the markets in the west is essential.

In this context, a constructive engagement with the west including the EU would add a great strength to the country's external outlook which is a prerequisite to attract export-oriented investment as well. Sri Lanka's main exports markets are in the west. It is unlikely that such markets will be replaced by the countries in the east during the next decade.

**Department of Commerce**  
**15.10.2021**

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