

What is the “GSP” concession?

The EU’s Generalised Scheme of Preferences (GSP) is a system of unilateral trade concessions that reduces or eliminates tariffs on a range of exports from developing countries and least-developed countries. The GSP is used to increase export revenue in developing countries in order to reduce poverty and promote sustainable development and good governance. The GSP preferential arrangements focus solely on granting tariff preferences for trade in goods.

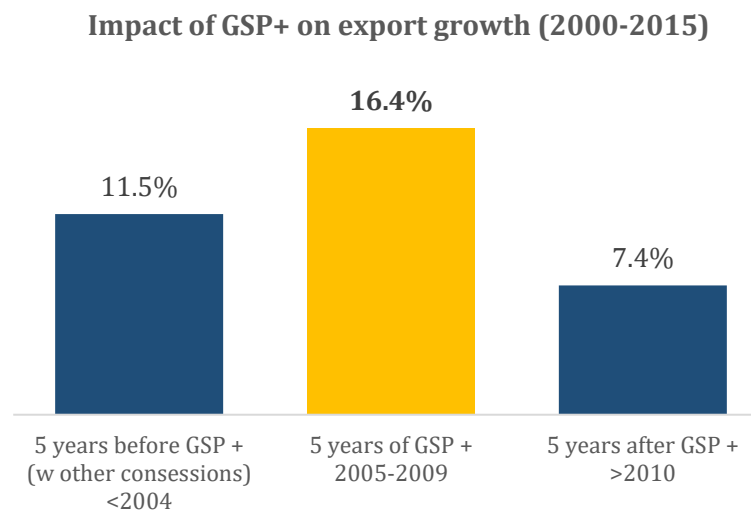
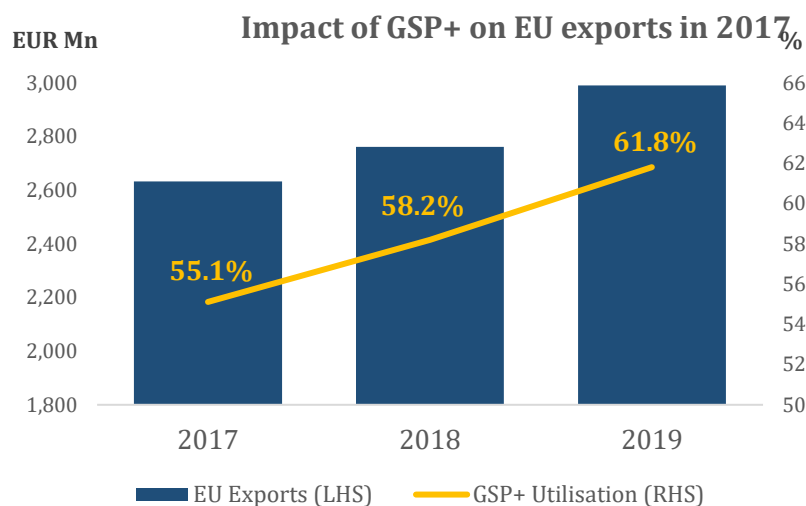
Concession	Beneficiaries	Sensitive Goods	Non-Sensitive Goods
GSP	15 Low Middle-Income Nations	A Duty Reduction of 30%	Duty Suspension
GSP +	8 Vulnerable GSP Nations	Duty Suspension	Duty Suspension
EBA	48 LDC’s (Least Dev. Countries)	Duty Suspension	Duty Suspension

What is applicable to Sri Lanka?

The (GSP+) is a special component of the GSP scheme that provides additional trade incentives to developing countries already benefitting from GSP, who are identified as vulnerable based on World Bank criterion. The scheme provides countries with duty free access to EU markets for over 7200 products. In return, the recipients must implement international conventions in the fields of human rights, labour rights, the environment and good governance.

Sri Lanka’s history with the elusive “GSP +”

Sri Lanka has enjoyed the standard GSP scheme since the it’s inception, and it began to benefit from GSP+ in July 2005. In August 2010, the EU suspended Sri Lanka’s GSP+ status based on the findings of a Commission investigation that identified shortcomings in the implementation of three UN human rights conventions*. Following much negotiation, Sri Lanka reclaimed its GSP+ status in 2017. However, currently the EU commission is considering a temporary withdrawal of the country’s status due to concerns regarding the Prevention of Terrorism Act and general human rights concerns.



What would be the impact?

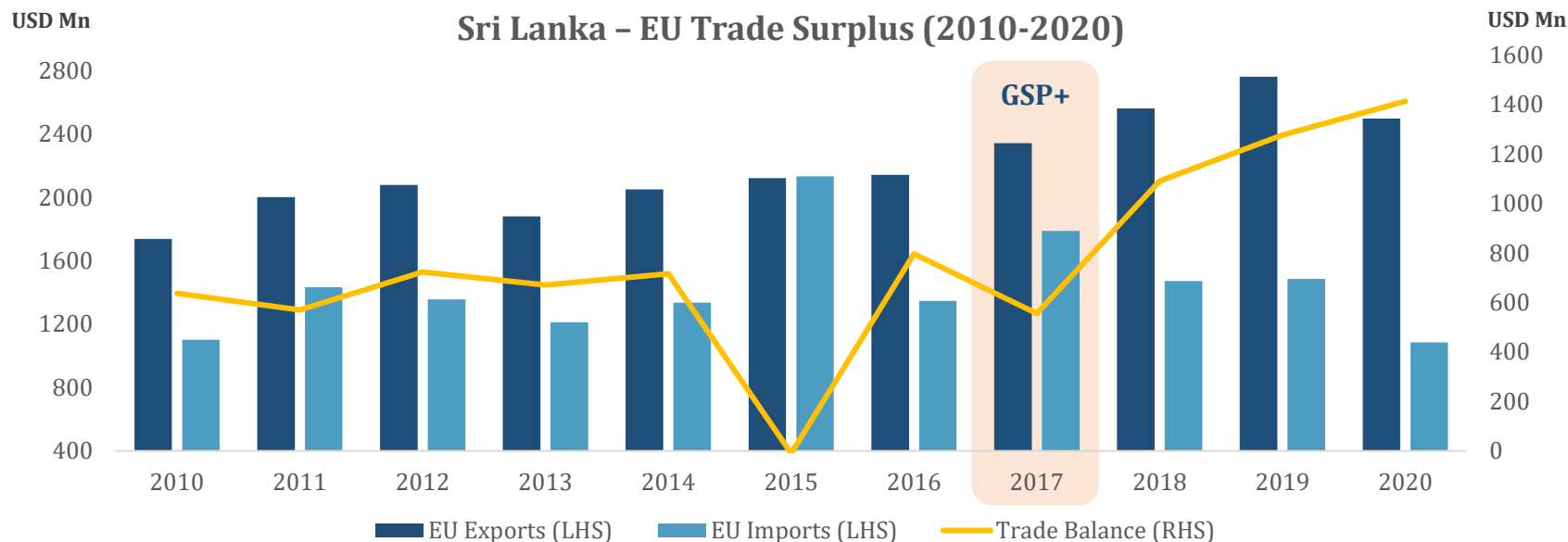
Whilst the GSP plus helps significantly boost the country’s export performance, the loosing of it would not create a major vacuum on a broader level besides the loss of a strong potential trade surplus with the EU.

On a micro level, individual businesses engaged in the export of Apparel, Agriculture, Fisheries and other industrial products would face a potential margin contraction due to the loss of concessions and lower industry growth.

**The International Covenant on Civil and Political Rights (ICCPR), the Convention Against Torture (CAT), and the Convention on the Rights of the Child (CRC)*

The currency impact: A potential USD 700mn p.a. reversal

With the inclusion of Sri Lanka under the GSP plus scheme, the average trade surplus shot up by 117% during 2018-2020 c.f. the average trade surplus since losing the GSP plus status in 2010, rising from USD 581mn to USD 1,259mn (EUR 485mn to EUR 1,049mn). Export growth remained flat from 2012 – 2016, whilst growing at a 3-year CAGR of 9% from 2017-2019, before witnessing an inevitable decline due to the COVID-19 pandemic.



The industry impact: A speedbump for corporates

The losing of a unique tax arbitrage via the GSP plus would inevitably hurt local exporters who would now be faced with a high tax regime c.f. with its peer countries who continue to enjoy the benefit. This would make their products more expensive to the European consumer resulting in a demand slump or a margin contraction by way of a haircut on the pricing structure. However, it should be noted that there are no major players in the CSE who would be impacted by this, with the exception of fabric manufacturers who may potentially face price negotiations from top apparel players.

THE “GSP +” IMPACT: A statistical breakdown



European Union, Trade with Sri Lanka

Trade flows by HS section 2017 - 2020

Source Eurostat Comext - Statistical regime 4

HS Sections	Imports Value Mio €				Exports Value Mio €			
	2017	2018	2019	2020	2017	2018	2019	2020
Total	1,952	2,134	2,301	2,081	1,490	1,226	1,238	904
I Live animals; animal products	53	78	88	95	12	13	15	18
II Vegetable products	169	173	175	166	22	31	47	28
III Animal or vegetable fats and oils	32	24	18	24	2	2	2	1
IV Foodstuffs, beverages, tobacco	91	127	130	156	83	82	54	44
V Mineral products	3	3	2	2	8	7	6	7
VI Products of the chemical or allied industries	31	27	26	23	139	124	141	149
VII Plastics, rubber and articles thereof	246	258	266	239	70	81	68	55
VIII Raw hides and skins, and saddlery	13	12	12	8	2	2	2	1
IX Wood, charcoal and cork and articles thereof	4	4	5	4	5	6	5	4
X Pulp of wood, paper and paperboard	2	3	3	3	49	42	44	40
XI Textiles and textile articles	1,010	1,106	1,253	1,088	139	151	163	159
XII Footwear, hats and other headgear	11	13	14	11	1	1	1	0
XIII Articles of stone, glass and ceramics	10	10	8	6	10	11	12	8
XIV Pearls, precious metals and articles thereof	46	69	53	39	40	24	32	7
XV Base metals and articles thereof	8	7	6	4	76	59	103	41
XVI Machinery and appliances	114	128	140	119	343	355	368	245
XVII Transport equipment	24	25	35	32	362	118	40	10
XVIII Optical and photographic instruments, etc.	14	15	14	14	70	67	84	54
XIX Arms and ammunition				0	0	0	1	0
XX Miscellaneous manufactured articles	46	50	50	43	15	14	17	10
XXI Works of art and antiques	0	0	0	0	0		0	0
XXII Other	24	3	2	5	42	35	34	22
AMA / NAMA Product Groups	2017	2018	2019	2020	2017	2018	2019	2020
Total	1,952	2,134	2,301	2,081	1,490	1,226	1,238	904
Agricultural products (WTO AoA)	308	335	332	353	121	131	119	93
Fishery products	53	78	88	95	1	1	1	1
Industrial products	1,591	1,721	1,880	1,634	1,367	1,094	1,118	810