



What is GSP?

The Generalized System of Preference (GSP) is a unilateral scheme wherein custom duty preferences or concessions are granted by developed countries to export of specified products from developing countries. The preferences are in the form of either elimination or reduction in customs duty when the list of eligible products from the beneficiary developing country (BDC) are exported to the developed country.

The major countries who grant GSP preferences to developing countries are

- i. Armenia
- ii. Australia
- iii. Azerbaijan
- iv. Belarus
- v. Canada
- vi. European Union (EU)
- vii. Japan

- viii. Kazakhstan
- ix. Kyrgyz Republic
- x. New Zealand
- xi. Norway
- xii. Russian Federation
- xiii. Switzerland
- xiv. Tajikistan
- xv. Turkmenistan
- xvi. Turkey
- xvii. United Kingdom (UK)
- xviii. United States (US) and
- xix. Uzbekistan

The GSP is a unilateral customs duty preference scheme i.e. there is no need for India or other beneficiary developing countries to provide reciprocal customs duty preferences for the developed country. Therefore, there is lesser leeway to negotiate for amending the parameters or structure of a GSP scheme.

Each of these developed countries has its own regulatory framework under which it provides the GSP tariff preferences. The GSP provided also varies in terms of the products on which preferences are provided and the developing countries exports to which the tariff preferences are granted.

In terms of trade volumes, the GSPs granted by the EU and the US are the most comprehensive and hence the most important for developing countries. Some of the GSP schemes also provide additional tariff preferences to a specified class of developing countries with most providing the largest coverage of GSP customs duty preferences to exports from Least Developed Countries (LDCs). Around 40% of India's exports to the EU are under the EU GSP while prior to

the US GSP withdrawal, around 10% of India's total exports to the US were under the GSP.

After BREXIT, UK has started its own GSP scheme from 1.1.2021. They have borrowed the elements of the EU GSP scheme in terms of the rules of origin and the margin of preferences available. However, the pre BREXIT situation would not exist despite the complete free trade agreement between EU and UK. This would mean that UK would be treated as a separate entity given its different tariff schedule from the EU and there would be specific rules of origin between the UK and EU. Non originating goods would be levied normal customs duty when it moves from the UK to EU border and vice versa.

How will GSP benefit exporters?

GSP provides customs duty reduction for exports made by beneficiary developing countries like India to GSP granting developed countries like the European Union (EU), UK and others. The GSP customs duty is lower than the normal customs duty (or MFN duty) of the developed country. In the case of exports to EU under the GSP, this could be either zero duty (in case of non-sensitive products) or a reduced duty (in case of sensitive products)

However, an exporter under the GSP is required to fulfil the rules of origin under the GSP scheme. The rules of origin are the criteria required to ensure that the product exported originates from the country of export and is not being diverted from another country. While the rules vary for each product, some of the commonly used criteria to determine the origin are whether the product or its inputs are wholly originating, whether there is a change in tariff classification of the imported input and the final product and what is the quantum of value addition that has occurred in the beneficiary country? The key

objective of these rules is to ensure that there is substantial processing and transformation occurring in the exporting country so as to ensure that it originates from that country.

For example, in the case of EU, if an Indian entity exports frozen sardines fish (HS Code 03035310) to the EU, the normal customs duty levied at the EU border is 23%. However, under the EU GSP, he is required to pay only 19.5%. Hence, if the landed price of say, any consignment of sardines at the EU port is say € 100, if the exporter avails of the EU GSP preferences, he would pay only €19.5 as customs duty instead of € 23.0 that he would normally pay and thereby save € 3.5 for the consignment. That makes him more competitive in the EU market. It would also ensure that any customs duty preferences given to competitors from other countries getting GSP is nullified and Indian exporters have a level playing field.

The rules of origin for frozen sardine's exports under the EU GSP is that it must have been wholly obtained (WO) from the beneficiary country. Hence, the sardines should have been fished in the territorial waters of India or it should have been caught outside the territorial waters by an Indian vessel.

Similarly, in the case of the UK, if an Indian entity exports stuffed toys (HS 95030041) to the UK, the normal customs duty is 4%. However, under the UK GSP, the preferential duty would be 0% for those originating from India. Hence for a GBP100 landed price, there would be no customs duty and he would hence save GBP4, thereby making him more competitive in that market.

The rules of origin would be that the non-originating material used in the manufacture of the stuffed toy would be from a different heading (at the HS 4-digit level) and the value of this non originating material would not be more

than 70% of the ex-works price of the stuffed toy (can be interpreted as 30% value addition in India).

Historical Evolution of GSP

The concept of GSP evolved in the United Nations Conference on Trade and Development (UNCTAD) and was adopted during the UNCTAD II Conference in New Delhi in 1968. The objective of the GSP is given in Resolution 21 (ii) which was adopted at the UNCTAD II Conference. The three objectives given in this Resolution for beneficiary developing countries (BDCs) are

- a) to increase their export earnings;
- b) to promote their industrialization; and
- c) to accelerate their rates of economic growth

The legal provision for the grant of GSP was negotiated during the erstwhile GATT (General Agreement on Tariffs and Trade) and adopted on 28 November, 1978. This is known as the “*Enabling Clause*” which in legal parlance is called the “*Differential and More Favorable Treatment Reciprocity and Fuller Participation of Developing Countries*”.

The specific reference to the GSP is given in para 2(a) of the Enabling Clause: and is as under:

Preferential tariff treatment accorded by developed contracting parties to products originating in developing countries in accordance with the Generalized System of Preferences