FESI position on the new Generalised Scheme of Preferences Regulation

Brussels, December 2020

Ahead of the presentation of the European Commission's proposal on the Generalized Scheme of Preferences, FESI would like to draw the attention on some key points that it thinks should be taken into consideration. **GSP, GSP+ and EBA programmes are all still relevant and offer the right degrees of incentives towards sustainable development**. Furthermore, FESI recommends:

1. The extension of the single transformation rule for textile and apparel to all GSP beneficiary countries.
2. Classifying product falling in Chapters 61, 62 and 64 of the Combined Nomenclature as "not-sensitive". Furthermore, the even more limited duty reduction specific for textile products is unnecessary.
3. Removing the different graduation threshold for textile products.
4. Publishing at regular intervals the statistical data needed for exporters and importers to become aware of the risk of graduation.
5. Not to remove the advantages that existed under the GSP if a country sings an FTA with the EU.
6. Withdrawing GSP preferences only as a very last resort, following extensive warnings, cooperation and assistance to allow for constructive engagement to address shortcomings.
7. 24 months as the minimum advance notice that economic operators in our sector need to properly plan their sourcing.

FESI, the **Federation of the European Sporting Goods Industry**, is following with great interest the current debate on the new Regulation for a preferential tariff scheme between the EU and developing countries and strongly welcomes the European Commission's ambition to improve the system currently in place.

FESI firmly believes that the Generalised Scheme of Preferences (GSP), including the GSP+ and EBA regimes, contributes to the competitiveness of products from and to the sustainable development of developing countries and has proven to help the latter becoming more competitive, reduce poverty, build their domestic industries, increase employment and improve good governance. Free fair trade and open markets provide the best conditions for sustainable economic growth and decreasing levels of poverty in developing countries.

In addition, these programmes have encouraged European companies to invest in developing countries while bringing their European values, e.g. social and environmental standards, with them. Therefore, the GSP programmes did not only drive economic growth, but also helped bringing sustainable business practices to poverty-stricken countries, such as high social and labour standards (health care, education and training etc.) and environmental protection (use of renewable energy, waste reduction, energy and water saving etc.), which would further drive development and poverty eradication in those countries. Moreover, owing to several leadership programmes, which have been developed and organised by sporting goods companies with the objective of encouraging sustainable strategies in global supply chains, our industry has acquired several key learnings. One is that local ownership and capacity is to be built and strengthened to drive sustainable development. Capacity-building of national labour inspection systems is, for example, still a top priority.

The EU is currently reviewing its GSP Regulation for the period starting from 2024. FESI believes that the GSP, GSP+ and EBA programmes are all still relevant and offer the right degrees of incentives towards sustainable development. The EU GSP regime must be fair, transparent, manageable and legally predictable. Therefore, FESI strongly welcomed the 10-year-cycle of the GSP Regulation currently in force and invites the Commission to repeat it for the period 2024-2033. FESI welcomed several important improvements to the GSP that have enhanced the operability of the system. The sporting goods industry would like to take this opportunity to share some key recommendations on the new GSP Regulation.

The GSP Regulation and Sustainable Development

The EU GSP delivers significant economic benefits and improve the livelihoods of people working in many sectors. **It drives sustainable development and poverty eradication in developing countries**. The sporting goods industry is fully aware that challenges still exist to the full enjoyment of labour rights and environmental protection in developing countries and aims to be an industry leader on addressing them. Sporting goods companies are actively engaging with their suppliers' factories, both directly and in cooperation with independent organisations (e.g. ILO, World Bank) and international programmes and partnerships to consistently upgrade the working environment. This industry engagement is part of a global effort where national governments and international organisations play a crucial role.

At the same time, the EU GSP does not – and shall not – offer instant solutions to complex issues linked to sustainable development. Hence **engaging with partner countries in a continuous manner to help them develop and implement international standards shall remain a priority**. State-to-state engagement and development aid programmes are equally important for improving human and labour rights and environmental standards.

GSP+

FESI believes that the **GSP+ programme is still relevant and offers the right degree of additional incentives** for certain countries to ratify and implement further international conventions. FESI welcomes the suggestion to update the list of conventions on core human and labour rights and environmental protection as long as the system remains sufficiently predictable and transparent. Furthermore, FESI recommends the Commission be **transparent in monitoring** the implementation of these conventions and support partner countries in implementing them.

Incentives for sustainable products

Sporting goods companies are heavily invested in making sustainably produced products. **Where possible, additional incentives should be provided to GSP countries that have invested in environmentally friendly technologies and products**. For example, where given benchmarks are achieved, the products concerned could be considered 'non-sensitive' or perhaps higher graduation thresholds could be applied for sectors that employ environmentally friendly practices.

FESI could support an additional duty reduction for sustainable products; nonetheless, the criteria used to define sustainable products will be crucial. Plus, this should not lead to restrictions or a lower duty reduction for products that do not meet all sustainability requirements. Especially least developed countries may not be able to implement all sustainability standards. Furthermore, trade measures differentiating between products may not be WTO compatible.

In addition, footwear and apparel imports are already burdened with some of the highest tariffs in the EU, and across the world, especially when compared to other consumer products. Adding additional customs duties on these imports will only put an increased burden on both developing countries and consumers.

Rules of Origin

As fabrics become more technologically advanced, it is becoming increasingly difficult to establish the complete production infrastructure in a single GSP beneficiary country. The rules of origin for GSP have at times been a significant obstacle in the apparel industry where the requirement of a double transformation for textile is mainly used. FESI welcomes the regional cumulation under the GSP. In addition, FESI appreciates that GSP Rules of Origin currently require only a single transformation for LDCs, as it gives more flexibility for local manufacturers to source raw materials elsewhere. Nonetheless, this does not apply to other beneficiaries. Therefore, FESI encourages the adoption of clearer and simpler rules of origin, in line with current business practices. In that context, FESI calls for the **extension of the single transformation rule for textile and apparel to all GSP beneficiary countries**. Depending on the introduction of single transformation for all GSP beneficiaries cumulation rules could be simplified too, leading to a more transparent scheme.

Product Sensitivity

For the GSP to bring value for developing countries and to be used by companies in the sporting goods industry, the scheme must offer significant duty reduction on those products that developing countries produce. This is essential to maximize the development impact. This has not always been the case. Often products that are the main source of income for developing countries are classified as sensitive. Therefore, one of the areas that could be improved is the scope of the products included in the general scheme. The EU classifies footwear and apparel as sensitive, which puts a discriminatory cap on the duty reduction of these products. The absence of a definition and criteria of what is considered "sensitive" and "not-sensitive" creates a lack of transparency. Since this distinction was maintained in the GSP Regulation currently in force, FESI recommends **classifying product falling in Chapters 61, 62 and 64 of the Combined Nomenclature as "not-sensitive"**. As a minimum, objective benchmarks should be adopted and be made accessible to all stakeholders to justify the classification of products as sensitive. FESI remains concerned that textile and

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footwear are still regarded as sensitive products, where the duty reduction for footwear amounts to 3.5 percentage points or 30%, and where the duty reduction for apparel only amounts to 20%.

Furthermore, FESI is of the opinion that the **even more limited duty reduction specific for textile products is unnecessary**. No distinction should be made between textiles and other products. The textile industry is a crucial sector in many developing countries and a cornerstone of their economic development plans. Textiles demand labour-intensive work creating significant employment in GSP beneficiary countries while providing consumer products not only for export but also for local demand and thereby creating a path for sustainable economic growth. The abolition of the distinction will render the system more beneficial to those countries.

The competitiveness of European business in the textiles sector is based around brand-building, the speed and flexibility to react to changes in market trends, using technologically advanced materials and fibres in production design.

While there might still be some interest in maintaining this policy, it must be made clear that its effect can be to protect uncompetitive European business from legitimate competition. If the system is to be maintained, then it should be limited to certain sectors that will provide the building blocks for future competitiveness and not be based on historic business models.

Graduation

Product Graduation

For the footwear and textiles sector, it is questionable whether graduation will result in preferences to be taken over by other GSP beneficiaries. Therefore, and because the textiles sector is already classified as "sensitive", which already provides additional security, it is striking that the textiles sector is treated differently than other sectors in the current GSP. FESI therefore recommends **removing the different graduation threshold for textile products.**

The **creation of additional product sections** could allow greater specificity in graduating only those products on which developing countries are no longer so dependent. However, the achievement of this objective requires two measures:

- (i) determining the GSP beneficiary country's dependency on exports of the product section in terms of the share of the section in its total exports; and
- (ii) the inclusion in the calculation of only those imports which actually benefit from GSP.

Country graduation

FESI appreciates that graduation does not apply to EBA and GSP+ countries. Countries benefitting from EBA are LDCs and as such they are gaining important competitive advantages via the GSP. The risk of graduation coming too early for developing countries which have focused their industrial development resources on certain sectors shall be avoided. Furthermore, FESI believes that the removal of the graduation threshold for GSP+ beneficiary countries has been an important incentive to comply with all GSP+ Conventions.

If the Commission were to propose a reduction of GSP beneficiary countries, this will have an instant knock-on effect in increasing the GSP % share of all countries remaining in the system. This could have potentially drastic consequences in certain sections where beneficiaries who had until now been well below graduation are instantly pushed close to or even beyond the new levels to be applied.

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Transparency

To ensure a proper functioning of the graduation mechanism, FESI believes that it is essential that the principles of transparency and predictability are upheld. FESI invites the EU Commission to **publish at regular intervals the statistical data needed for exporters and importers to become aware of the risk of graduation**.

Free Trade Agreements

It is important to point out that the **advantages that existed under the GSP should not be removed by a Free Trade Agreement**. The latter should provide for either the equivalent or enhanced preferences for the countries concerned. GSP and GSP+ beneficiaries must comply with the double transformation rule for apparel but enjoy regional cumulation. A country like Vietnam will thus be put in a least favourable situation once the agreement enters into force as Vietnam will have to comply with the double transformation rule with very limited possibility of cumulation. GSP and FTAs can have different product coverage and grant different preferential treatment. Therefore, they can complement each other and should be able to co-exist.

Withdrawal of GSP Benefits

A withdrawal of GSP benefits targets businesses and sectors at a whole, and not necessarily those actors that are violating human rights, or those actors that are allowing violations to take place. As such, a withdrawal may likely and ultimately harm the most vulnerable in a society and/or those who are already suffering of human rights violations. For the sporting goods industry, the loss of preferences hurts the competitiveness of the garment and footwear sector, which lowers the country's employment and living standards, especially for women. Country's manufacturers will most probably see a decrease in the demand of their garments and footwear, with fewer jobs for the country's workers. The threat of withdrawal may only have a limited positive impact on the area of labour, as economic operators can use their presence to encourage the government to uphold the standards required by the EU and European consumers. However, the threat of a withdrawal or a withdrawal per se does not have a positive impact on human rights. As we witnessed in the case of Cambodia, the mere threat of a withdrawal had had a chilling effect on foreign companies' investment in the country. Concerns can be made regarding the competitive drive allowing the minimum wage for the sector's workers to increase; the country's dependence on capital and consumers from other countries that have much lower standards for social and human rights might increase. Therefore, other instruments should be given preference, such as targeted sanctions against the individual violators.

Any decision to temporary withdraw GSP benefits will have long-term consequences. While businesses usually have long-term investments in GSP countries, the GSP benefits do play an important role for investment decisions. A withdrawal of GSP benefits could not only lead to delays of investments and production, it could also trigger companies to permanently move production to other locations as they seek predictability and a long-term strategy. When the tariff preferences are reinstated, investments in the sector through new partnerships and knowledge-transfers with new suppliers could potentially be further delayed due to the necessary due diligence which underpins the sporting goods industry's responsible supply chains.

FESI agrees that if there is sufficient information which indicates that a beneficiary country is violating core human and/or labour rights, violations that are both serious and systematic, the EU should immediately engage with the country. However, **FESI strongly recommends the use of means others than the withdrawal**

of GSP benefits, as the latter will ultimately have severe negative consequences on the most vulnerable people in the partner country. **Withdrawal of preferences ought to be seen as the very last resort and should only follow extensive warnings, cooperation and assistance to allow for constructive engagement to address shortcomings.** Moreover, if a withdrawal is necessary, the withdrawal should continue to be either in full or partial. In case of a partial withdrawal, the choice should continue to be between the GSP rate and the MFN rate. The reformed GSP should not allow for another duty rate to be chosen, as this would risk politicising the instrument, as well as causing increased and unnecessary uncertainty for economic operators and workers.

Notice and Transition Periods

Due to the complexity of logistics and supply chain management, a transition period should be applied from the time of the entry into force for the preferences to be withdrawn. **24 months is the minimum advance notice that economic operators in our sector need to properly plan their sourcing** and imports and to be able to adapt to changes, whether they affect product coverage, country eligibility, graduation or product sensitivity, that impact sourcing patterns of sporting goods companies.

About FESI

Founded in 1960 FESI - the Federation of the European Sporting Goods Industry represents the interests of approximately 1.800 sporting goods manufacturers (85% of the European market) through its National Sporting Goods Industry Federations and its directly affiliated member companies. 70-75% of FESI's membership is made up of Small and Medium Sized Enterprises. In total, the European Sporting Goods Industry employs over 700.000 EU citizens and has an annual turnover of some 81 billion euro.