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The European Union's Generalized System of Preferences (GSP) and the Prospect of a Unified Database

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***Abstract*—**Free access for Georgian goods to the EU markets is one of the important factors for Georgia's economic development, attraction of investments and raising the standard of living. The European Union is the most important trade partner for Georgia. Great experience has been accumulated with respect to removing trade barriers between Georgia and the European Union. Despite it, certain problems still persist.

In the present article, we have reviewed the systems of preferences with the European Union, the EU's Generalized System of Preferences (GSP) and the essence of ongoing reform; we have assessed weak and strong sides of relations established between the European Union and Georgia in this regard; analyzed Georgia's export and import over the past years; also reviewed the prospect of a unified database; established existing and anticipated positive and negative factors. Based on the analysis, we have provided the relevant recommendations.

***Keywords*—**EU-Georgia trade, EU's GSP reform, Georgia's export-import, REX system.

I. Introduction

FREE access for Georgian goods to the EU markets is one of the important factors for Georgia's economic development, attraction of investments and raising the standard of living.

The foundation for the EU-Georgia relations has been laid as far back as upon the disintegration of the Soviet Union and restoration of Georgia's state independence. The European Union was constantly pledging its support to the economic, social and political reforms ongoing in Georgia. The European Union was one of the first to have rendered a significant assistance to Georgia during the hard years of transition.

Over the past years Georgia has been enjoying certain preferences with the European Union.

The goal of the present study is to review the system of preferences with the European Union; to analyze the European Union's Generalized System of Preferences (GSP); to research the essence of ongoing GSP reform; to assess the EU-Georgia relationship in this respect; to analyze the statistics of Georgian export and import to the European Union, as well as existing and anticipated positive and negative factors; to present relevant recommendations based on the analysis as well as to review the prospect of a unified database.

Fields of study: international trade sector – EU system of preferences, reform of the Generalized System of Preferences, EU-Georgia relations in this regard, Georgia's import and export to the European Union and a unified database with the European Union.

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II. Methodology

The document has been prepared using general and specific research methods, in particular: analysis, synthesis, induction, deduction, scientific comparison, statistical methods, as well as expert assessment. In order to ascertain the consistent patterns between analytical and statistical assessments, we have used Georgia's export-import database released by National Statistics Office of Georgia over the past years; on the basis of the mentioned methods, we have studied the following issues: we have reviewed the System of Preferences with the European Union as well as focused on the key essence of reform of the EU's Generalized System of Preferences; analyzed its role in the sustainable development of the country as well as in increasing its welfare; highlighted the leading role of the unified database in terms of EU integration.

III. Discussion

A. EU-Georgia System of Preferences

Large figures and tables may span both columns. Let's discuss the EU-Georgia System of Preferences by its stages.

Partnership and Cooperation Agreement (PCA) was concluded in 1996 and entered into force in 1999 for an initial period of ten years and is now automatically extended on a yearly basis.

In December 2005 the EU granted Georgia General System of Preferences + (GSP+). We will discuss GSP + below. In 2003-2004 the European Commission proposed a new foreign policy for the European Union - the European Neighbourhood Policy (ENP) - with the objective of avoiding the emergence of new dividing lines between the enlarged EU and its neighbors and instead strengthening the prosperity, stability and security of all concerned. The inclusion of Georgia in the European Neighbourhood Policy (ENP) on 14 June 2004 marked a significant step forward in EU – Georgian relations (including in terms of economic relations). The EU – Georgia ENP Action Plan was adopted on 14 November 2006.

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In 2007, the study was conducted in frames of the United Nations Development Programme (UNDP) on assessment of the impact of potential free trade agreement between EU and Georgia. According to the study, under free trade conditions between Georgia and the European Union, it is quite possible to achieve positive economic and political results, especially in a long-term perspective.

In 2008 the EU prolonged Georgia's GSP+ support for sustainable development and good governance for a further three years, till 2011. Next discussion about the issue was initially planned for December 2011 and in May 2011 the European Commission adopted a decision according to which Georgia (and similar countries) obtained a new mandate and its term of GSP+ eligibility was prolonged to 2013 [1].

In May 2008 Polish Center for Social and Economic Research (CASE) completed the EU-commissioned study aimed to evaluate the economic feasibility and implications of free trade agreements (FTAs) between the EU and Georgia. According to the study, Deep and Comprehensive Free Trade Agreement with the European Union will bring positive effects to Georgia.

Let's review the European Union's Generalized System of Preferences (GSP) and the ongoing reforms.

B. Generalized System of Preferences (GSP)

Define The purpose of the Generalized System of Preferences (GSP) is to help developing countries export their goods to the EU markets by using tariff preferences. This enables exporting countries to get involved in international trade more actively and to obtain international trade revenue. This is an autonomous measure on the part of the European Union. It means that there is no expectation or requirement in exchange for granting tariff preferences.

The principle of GSP was agreed at the United Nations Conference on Trade and Development (UNCTAD), and is a facility granted to developing countries ("beneficiary countries") by certain developed countries ("donor countries") [2].

GSP covers three separate regimes [3]:

- The standard GSP scheme, which currently provides 176 developing countries and territories with preferential access to the European Union;
- The special incentive arrangement known as "GSP+". It offers additional tariff reductions to support vulnerable developing countries in the implementation of international conventions in the areas of sustainable development and good governance; and
- "Everything but Arms" (EBA) arrangement, under which all products from Least Developed Countries (LDCs) are not subject to any import duties in the EU.

C. Reform of the Generalized System of Preferences (GSP)

Presently, the reform of the Generalized System of Preferences is underway. The objectives of the proposal are to:

- Better focus on those countries in need;
- Further promote core principles of sustainable development and good governance;
- Enhance legal certainty and stability.

It should be noted that not all developing countries have the same needs: the last thirty years have seen the emergence of more advanced developing countries, which are now globally competitive. On the other hand, there are a lot of poor countries affected by global economic crisis and competition from more developed countries.

Despite this, most advanced emerging economies are the biggest beneficiaries of GSP preferences, accounting for around 40% of preferential imports under GSP. There is significant competition between GSP beneficiaries. Hence the need to concentrate preferences on those that most need them: low and lower middle income countries.

What Is Being Proposed by GSP System Reform?

First and foremost, preferences are concentrated on fewer countries. The main country categories which will no longer benefit from the GSP scheme are as follows:

- Countries which have been classified by the World Bank as high or upper middle income economies for the past three years, based on Gross National Income (GNI) per capita.
- Countries which enjoy another trade arrangement with the EU;
- Overseas Countries and Territories (OCTs), ranging from the Antarctica to American Samoa, which have an alternative market access arrangement for developed markets.

Countries in the first and second category remain "eligible", but are no longer "beneficiaries" of the GSP scheme. This means that in case their situation changes (if they are no longer classified as high or middle upper income countries by the World Bank or if their trade arrangement expires) they can become beneficiaries of the scheme again.

What Will Change on Sector and Product Coverage?

In terms of product coverage, the GSP already provides for very generous coverage, from around 90% for the general GSP scheme to the total absence of any duty or quota on any product for EBA. Product coverage will remain unchanged: an expansion in products or preferences would only come at the expense of EBA or GSP+ countries.

Graduation Mechanism

Graduation means that imports of particular groups of products and originating in a given GSP beneficiary country lose GSP preferences. Under the 2008 scheme, graduation applied when the average imports of a section from a country exceeded 15% of GSP imports of the same products from all GSP beneficiary countries during three years. It concerns therefore imports that are competitive on the EU market and so no longer need the GSP to boost their exports to the EU.

Under the New Scheme, the Graduation Principles Will Change as Follows:

- ✓ Product sections used for graduation are expanded from 21 to 32. This ensures that graduation is more objective;
- ✓ Graduation thresholds increase from 15 % to 17.5 %;
- ✓ Graduation does not apply to GSP+ countries: these are vulnerable countries with a non-diversified export base.

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The graduation principles by product sections will depend on the latest available statistical data.

The Commission has the objective to further promote core human and labor rights, and principles of sustainable development and good governance. To achieve these aims, the EU will provide for more incentives for countries to join the GSP+ scheme, while at the same time enhancing its leverage to ensure those rights and principles are respected.

Incentives to join GSP+ include the fact that there will be less competition from more advanced emerging economies. Moreover, GSP+ countries will no longer be graduated. The vulnerability criterion is one of two economic conditions a country needs to fulfill in order to be eligible for GSP+. Under the current proposal, it will be opened to allow more countries to benefit, and applications will be taken into consideration at any time (rather than once every 1.5 year, as was the case until now).

Other Improvements

The proposal also introduces balanced improvements to the conditions for withdrawal from the GSP scheme. Procedures that trigger the safeguard clauses have also been improved.

What Happens Next?

The proposed Regulation now goes to the European Parliament and Council of Europe for discussion, amendment and approval.

The Regulation will apparently apply as of 1 January 2014. Once approved by the Council of Ministers and the European Parliament, the Regulation will be published 6 months in advance to the date of its application.

The current GSP scheme came to an end in December 2011. The Commission has put forward a Roll-Over Regulation, extending the present system until the end of 2013, to avoid GSP lapsing while the institutions discuss the new GSP proposal.

Georgia's Attitude to GSP+ System

Georgia has been a beneficiary of the EU Generalized System of Preferences since 1995. In November 1998, Georgia applied for additional preferences under the European Union's GSP Scheme, which are included in the arrangement for protection of labor rights of the European Union's GSP Scheme. The Commission, after studying Georgia's application and making appropriate enquiries, made a decision on granting Georgia additional preferences, which, due to various reasons, has not, regrettably, so far been realized.

On June 27, 2005, the EU Council adopted Regulation 980/2005, which put into action from July 1 2005 the GSP+ system of additional preferences under the European Union's GSP Scheme and extended it, among other countries, to Georgia as well.

Georgia, along with other beneficiaries, has met the following three criteria:

- ✓ The value of imports for the five largest sections of its GSP-covered imports to the Community represented more than 75 % of the total GSP covered imports;
- ✓ Georgia's GSP-covered imports to the Community represented less than 1 % in value of total GSP-covered imports to the Community;
- ✓ Georgia has ratified and effectively implemented 16 core international conventions on human and labor rights, as well as 11 international conventions on environmental protection and good governance.

The new GSP+ system of the European Union gives up to 7200 Georgian products a zero customs rate access to the EU market, which will increase competitiveness of Georgian goods and further contribute to growth of Georgian export.

TABLE I
GEORGIA'S FOREIGN TRADE (INCLUDING WITH THE EU MEMBER STATES) IN 2009-2012

	2009	*2010*	*2011*	*2012*
Import - total	4,500,24 4.1	5,257,12 2.4	7,057,75 9.7	7,842,10 8.9
Including the EU member states	1,335,50 6.6	1,467,16 2.8	2,053,08 0.8	2,427,13 7.3
%	30	28	29	31
Export - total	1,133,62 2.4	1,677,47 2.1	2,189,13 5.8	2,377,45 5.0
Including the EU member states	237,546. 8	309,513. 4	424,294. 8	353,068. 3
%	21	19	19	15

Regretfully, Georgia fails to enjoy GSP+ preferences to its full extent. In 2012 only 34 Georgian goods used this arrangement. In 2012, almost 73% of total goods exported under this arrangement came to nuts and mineral fertilizers; in 2011 this figure stood at 84% and in 2010 – it exceeded 70%.

Generally, 145 goods used this arrangement. Furthermore, the EU scheme enables Georgia to export products whose total value does not exceed EUR 6000 only by using invoice declaration.

D.EU-Georgia Deep and Comprehensive Free Trade Agreement (DCFTA)

The European Union and Georgia have completed negotiations for a Deep and Comprehensive Free Trade Area. As soon as it goes into effect, Georgia will be able to export products, and, what is most important, services to the European Union under free trade treatment. It should also be noted that the agreement envisages not only liberalization of import tariffs, but also removal of technical barriers in trade. Access to the EU market, which is one of the world largest and richest markets, is a powerful impulse for the development of Georgian business and export. In expert opinion, this agreement will significantly increase Georgia's attractiveness for foreign direct investments. Deep and Comprehensive Free Trade Agreement will go into effect within about a year. The agreement will enable Georgian entrepreneurs, on condition of satisfactory turnover, to gain free access to the world largest market, which presently unites 28 countries and over 500 million consumers. Free movement of products and services will promote the growth of Georgia's export potential.

E. Statistics of Georgia-EU Trade Relations

The European Union is the most important trade partner of Georgia.

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In 2012 Georgia's foreign trade turnover increased by 11% y/y up to USD 10219 million. Export increased by 9% to USD 2377 million; import increased by 11% to USD 7842 million. Refer to the Table I [6].

In 2010 Georgia exported its goods under GSP+ arrangement to 23 EU member states. In 2009 Georgia exported its goods to 21 countries under the same arrangement, and in 2008 – to 18 countries. Furthermore, the list of Georgia's top five trade partners has significantly changed: in 2010 Italy, Bulgaria and Netherlands replaced the United Kingdom, France and Romania in the list. Thus, a geographical coverage of GSP+ arrangement has significantly expanded over the last two years.

Georgian legislation concerning export tariffs sets that export or re-export of goods from Georgia is duty-free. From January 1, 2011 the new Tax Code of Georgia took effect which also includes the provisions regulating customs. Tax Code established business friendly customs procedures. Customs Tariffs Reform significantly eased and sharply reduced the costs connected to the foreign trade [3].

F. EU-Georgia Registered Exporters System

In prospect, it is planned to create EU-Georgia Registered Exporters System (REX), which will further promote Georgia's integration into the European Union.

A new self-certification system by exporters will replace the system of certification of origin by public authorities as of 1 January 2017. A so-called registered exporter system (REX) will be introduced for that purpose. From 2017 onwards exporters will directly provide their customers with statements on origin. Exporters will be registered with the competent authorities of the beneficiary countries in order to facilitate targeted post-export controls. To ensure timely implementation of REX, the European Commission's services will contact in due course beneficiary countries' authorities with a view to guiding and assisting them in the implementation of the required IT system. Indeed, each beneficiary country will need to establish an electronic record of registered exporters, the contents of which will be communicated to the European Commission by that beneficiary country's competent governmental authority.

The European Commission will establish a central database of registered exporters, through which operators will be able to check before declaring goods for release for free circulation that their supplier is a registered exporter in the beneficiary country concerned.

Similarly, European Union operators making exports for the purpose of bilateral cumulation of origin will be registered with the competent authorities in the Member States.

An additional three year period for the implementation of REX may be provided for countries which will not be able to meet the deadline of 1 January 2017.

IV. Conclusion and Recommendations

The above analysis enables us to make the following conclusions:

- ✓ Modern trade policy is characterized by the spread of increasing systems of preferences that represents an important component for deepening the world economic integration and settlement of economic and political tasks
- ✓ Use of the system of preferences with respect to commodity import provides exporters with serious advantages over their competitors and significantly reduces any possibilities of customs duty evasion
- ✓ The European Union is the most important trade partner for Georgia
- ✓ Georgia has taken significant steps in terms of cooperation with the European Union
- ✓ Georgia managed to meet the EU requirements and joined GSP+ scheme[4]
- ✓ Joining the European Union's GSP+ scheme has evidently increased the competitiveness of Georgian goods and has further promoted the growth of Georgian exports
- ✓ The European Union and Georgia have completed negotiations for a Deep and Comprehensive Free Trade Area (DCFTA). As soon as it goes into effect, Georgia will be able to export products, and, what is most important, services to the European Union under free trade treatment
- ✓ Free movement of goods and services will promote the growth of Georgia's export potential.

On the basis of the above analysis and conclusions, we have developed the following recommendations:

- ➢ Great experience has been accumulated with respect to removing trade barriers between Georgia and the European Union, Although, this has not been yet reflected in significant export stimulation, the process has been launched that provides the ground for optimism
- ➢ Actually, free access of Georgian products to the EU markets is hampered by customs procedures, non-tariff barriers, standards, as well as quality control mechanisms. Therefore, approximation between Georgia and the European Union in these spheres provides a real opportunity for minimization of the mentioned barriers
- ➢ In addition, we should take into account that unfortunately, the level of development in Georgia significantly lags behind the level of European development. Without significant economic growth we will not be able to overtake the European Union's average level; therefore, first and foremost, it is essential to bring Georgian legislation fully in line with the European legislation so that not to cause harm to Georgia's economic potential
- ➢ Georgia needs to adopt EU regulations step-by-step and with great caution
- ➢ Georgia needs to introduce more effective systems of quality control before the free trade agreement goes into effect [5]
- ➢ Introduction of EU-Georgia unified database will yield positive results
- ➢ Enactment of the Deep and Comprehensive Free Trade Area with the European Union will remove tariff and non-

tariff barriers for Georgia's access to the EU markets; thus, under free trade conditions between Georgia and the European Union, it is expected to achieve positive economic and political results, especially in a long-term perspective.

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