The generalised system of preferences of the European Union, with special reference to Asean and Thailand

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1. Introduction

Through the WTO, multilateral co-operation agreements and bilateral development co-operation, the European Union endeavours to promote the integration of developing countries and economies in transition in the world economy. The Generalised System of Preferences (GSP) is one of the instruments used. Under the GSP, developing countries are granted unilateral and autonomous tariff reductions, that even can imply tariff free importation of manufactured goods and particular agricultural products. The EU is applying its GSP since 1971. As agreed by UNCTAD in 1969, the aim of the GSP is to support the industrialisation of developing countries by preferential treatment of their exports. The EU has regularly extended and renewed its GSP.¹

In 1992, according to data from the European Commission, 78.5 % of all dutiable imports from beneficiary countries were covered by the system and 35.5 % of imports could benefit from the preferences, representing 27,485.1 million ECU. Approximately 70 % of the preferences went to Asian countries. China alone accounted for 25 % of these preferences. It is striking that the least developed countries represented hardly 1.7 % of the total of preferences.

Since January, 1, 1995 a new GSP is applied, which brought important changes compared with the previous system. These changes were introduced in order to improve the stability and transparency of the system. The question remains, however, if these changes will also lead to improved relative positions of the developing countries in the world.

Figures from the European Commission on 1995 show that the share of dutiable imports in the EU that can benefit from the GSP has decreased to 72.1 %. In the same year, the share of effective GSP benefiting imports in the eligible imports, i.e. the degree of utilisation, amounted to 60 %. The following Table 1 depicts the ten countries that benefited most of the GSP of the EU in 1996, in comparison to 1995.

Table 1: Ten most important beneficiaries of the EU GSP in 1996, in comparison to 1995

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>32 % (29.4 %)</td>
<td>77.9 %</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>11.6 % (9.9 %)</td>
<td>83.8 %</td>
</tr>
<tr>
<td>3</td>
<td>Indonesia</td>
<td>8.9 % (7.5 %)</td>
<td>76.8 %</td>
</tr>
<tr>
<td>4</td>
<td>Thailand</td>
<td>7.7 % (6.6 %)</td>
<td>63.2 %</td>
</tr>
<tr>
<td>5</td>
<td>Malaysia</td>
<td>6.8 % (5.5 %)</td>
<td>40.5 %</td>
</tr>
<tr>
<td>6</td>
<td>Brazil</td>
<td>4.7 % (4.9 %)</td>
<td>73.3 %</td>
</tr>
<tr>
<td>7</td>
<td>Pakistan</td>
<td>3.6 % (3.0 %)</td>
<td>86.9 %</td>
</tr>
<tr>
<td>8</td>
<td>Colombia</td>
<td>2.3 % (2.6 %)</td>
<td>89.9 %</td>
</tr>
<tr>
<td>9</td>
<td>Mexico</td>
<td>2.2 % (1.7 %)</td>
<td>48.7 %</td>
</tr>
<tr>
<td>10</td>
<td>South-Korea</td>
<td>1.9 % (0.7 %)</td>
<td>62.4 %</td>
</tr>
</tbody>
</table>

Source : European Commission

(*) The share in GSP benefiting EU imports in between brackets

From this table it will appear that the ASEAN countries figure prominently among the top ten beneficiaries on the third, fourth and fifth place respectively. In 1995, Singapore used to be on the eighth

¹ For a good overview, the reader is referred to Lawan Thanadsillapakul (1996) : “The EU’s General System of Preferences Scheme and its Impact on ASEAN Trade”, Journal of European Studies, Vol., No.2, July-December 1996. The present paper builds further on this article, focusing in particular on more recent developments.
place with 3.5 % share in the GSP benefiting imports of the EU, but fell to the twentieth place in 1996 with a share of hardly 0.8 %, due to the new graduation mechanisms of the reformed GSP of the European Union.

In this paper we go through to main characteristics of the new Generalised System of Preferences of the European Union as compared to the previous system, and look into the potential and actual benefits of the GSP to the ASEAN countries. Finally, the working of the new GSP will be illustrated by a case study of a conflict in 1997 between Thailand and the European Union about the graduation mechanisms.

2. **Limitations of the previous GSP and principles of the new GSP of the EU**

Since the application of the preferences by the EU, important changes in the international and European environment have occurred that deeply influenced the usefulness and effectiveness of the GSP. These factors are as follows:

1. **Erosion of the preferential margins**: As a result of various factors such as the Tokyo Round negotiations of GATT, the generalisation of free trade agreements (e.g. the EU-EFTA agreement) and specific preferences granted by the EU to ACP and Mediterranean countries being more beneficial than these under the GSP, the margins of preference have significantly eroded. Notwithstanding this erosion, the European Commission still held that the GSP was an important instrument.

2. **Heterogeneity of beneficiary countries**: The developing world is no longer a homogeneous group of countries. Continuing economic growth in East- and South-East Asia during the 1980s and early 1990s has generated in many of the countries of that region a GDP per capita that amounts to 1500 USD or more. Some Asian countries today are reaching GDP per capita figures that are equal or even higher, than the corresponding figures of EU member states of Southern Europe. Still, many developing countries belong to the poorest of the low-income category. The EU states that this heterogeneity needs another approach, and therefore, a GSP that allows more preferences to the poorest countries.

3. **The European Single Market and the Agreements with Eastern-Europe**: The European industrial fabric has underwent an important restructuring because of the creation of the European Single Market in 1992. Sectors such as the textiles industry in the richer EU member states, for instance, has been dramatically affected by increased competition from the southern member states and from the countries of Eastern Europe, with which the EU has concluded co-operation agreements since the start of the present decade. As a result, the European Commission did not want the EU to be confronted with additional intense competition in these sectors, from the developing countries. On the contrary, the Commission felt that the new GSP had to take into account the vulnerability of weaker sectors and regions in the EU. In a number of instances, the former preferential tariff quota’s had been allocated between EU member states according to specific criteria, so that

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2 South-Korea had experienced a similar drop from the third to the tenth place.
these could be managed at the national level. However, this allocation of quota’s was no longer possible with the dismantling of the internal borders and the creation of the Single Market.

4. Lack of stability: The former GSP of the EU was applied during periods of one year and it showed, therefore, a lack of stability. The complex systems of quantitative restrictions (the preferential tariff quota’s and duty-free tariff ceilings) caused high administrative costs and created uncertainty with exporters and producers as to preferential market access.

Taking these limitations into account, the EU adopted a new GSP to which the following principles apply:

1. Neutrality: The new GSP should be neutral with respect to the impact of preferential margins on the potential volume of preferential trade. The new GSP should not give rise to larger trade liberalisation than agreed during the Uruguay Round, but neither should it lead to less trade liberalisation. However, a number of stimulating measures and preferences are added that are in agreement with the goals of the EU’s development co-operation.

2. Simplification: The quantitative restrictions of the previous GSP are substituted by a tariff system that differentiates according to the sensitiveness of industrial sectors. Lists of products and product groups are established with preferential margins that are decreasing with the degree of sensitiveness of the imports.

3. Stability: The new GSP lasts for three years, in order to warrant a larger stability than the previous system.

4. Transparency: The new GSP contains a specific product/country safeguard clause, which can be invoked when EU companies are suffering serious injury, or are threatened to suffer such, by particular GSP imports.

5. Graduation: Graduation implies the reduction of preferences of which more developed countries are benefiting. The new GSP contains a sector/country graduation mechanism. The criterion for using this mechanism is the degree of specialisation of a country and its level of development (see further below in section 3).

6. Solidarity mechanism: The graduation of sectors/countries is supplemented with a solidarity mechanism in the exceptional case that the share of exports of a GSP product to the EU from a beneficiary country amounts to more than 25% of the total imports of the same product from all beneficiary countries. For the product at issue, the country will then be excluded from the GSP preferences, irrespective of its development level. In the case study on Thailand’s graduation for frozen shrimps, presented in section 6, this situation will be illustrated.

7. Progressive application of the graduation and solidarity mechanisms: The graduation and solidarity mechanisms are not introduced simultaneously, as the sectors in the beneficiary countries and the EU need time to adjust to the new GSP in such a way that global neutrality is warranted. Therefore, the normal preference margin will be applied during the first year, but it will be reduced to 50% in the second year and to nil in the third year. This will also be illustrated by the case study on Thailand of section 6.

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3 These are the African, Carribean and Pacific countries that are benefiting from the so-called Lomé Convention of the EU.
8. Suspension of the GSP: In specific cases the tariff preferences can be completely or partly suspended. These cases are e.g., fraud and lack of administrative cooperation with the EU, unfair trade practices including discrimination of the Union, slavery practices in whatever form, exportation of products manufactured by prison labour, insufficient controls regarding the exportation or transit of drugs, or regarding money laundering, and the non-compliance with the obligations undertaken at the Uruguay Round regarding market access. Suspension, however, is not automatic, but only after having heard the parties.

9. Special incentives: The GSP of the EU has been supplemented with special incentives in order to bring about social and ecological improvements (see further in section 3).

10. Anti-drug trafficking measures: The new GSP contains special provisions for the Andes group of countries and Venezuela to support their struggle against the illegal trafficking of drugs, provided of course that they continue their efforts successfully. Progress will be assessed by evaluation and dialogue.

3. New graduation rules and special incentives

In the new GSP, the level of development of a country is determined using a development index (DI) that indicates the general level of industrial development compared to that of the EU. The index is based on the following formula, which combines income per capita and exports of manufactured/agricultural goods:

\[
DI_i = \frac{\log \left( \frac{Y_i}{POP_i} \right) + \log \left( \frac{Y_{EU}}{POP_{EU}} \right)}{2} + \log \left( \frac{X_i}{X_{EU}} \right)
\]

with:
- \(Y_i\) = national income in the beneficiary country \(i\)
- \(Y_{EU}\) = national income in the EU
- \(POP_i\) = population in the beneficiary country \(i\)
- \(POP_{EU}\) = population in the EU
- \(X_i\) = the value of the exports of manufactured/agricultural products from the beneficiary country \(i\)
- \(X_{EU}\) = the value of the exports of manufactured/agricultural products from the EU.

According to this formula, the level of industrial development of a country is equal to that in the EU if the development index equals zero.

The formula for the specialisation index of country \(k\) in product \(i\), on the other hand, is as follows:

\[
SI_{i,k} = \frac{\sum_k M_{i,k}}{\sum_i \sum_k M_{i,k}}
\]

with: \(M_{i,k}\) = imports in the EU of product \(i\) from country \(k\).
The specialisation index is thus the ratio between the share of country k in the imports in the EU of product i, and the overall share of country k in the total imports of the EU.

Combination of the development index (DI) of a country and the specialisation index (SI) for the respective products provides the following graduation possibilities:

- \( \text{DI} > 1 \) and \( \text{SI} > 1 \)
- \(-1 > \text{DI} > -1,23 \) and \( \text{SI} > 1,5 \)
- \(-1,23 > \text{DI} > -1,7 \) and \( \text{SI} > 5 \)
- \(-1,7 > \text{DI} > -2 \) and \( \text{SI} > 7 \)

It clearly follows that the less a country is developed, the more the EU accepts a relatively important share in its imports from that country. It should also be mentioned that countries with a specialisation index of less than -2 are not threatened by graduation.

Following a special and motivated request, the EU can apply a supplementary preferential margin of 20% to the imports from a country that has pledged to respect specific international standards. The operation of these special incentives is based on certification. Only products for which a beneficiary country has certified that the production took place under conditions that conform these international standards, can avail to these incentives. The administrative co-operation between the EU and the certifying country must allow inspection of the reliability of these certifications. Inspection is similar to that regarding certificates of origin.

Two clauses can be distinguished:

(a) The social clause

The introduction of a social clause in the GSP of the EU enables the granting of additional preferences to countries that respect specified social minimum standards. As the GSP is an autonomous and unilateral instrument, there is more room of manoeuvre for pushing in favour of fundamental labour standards. In the new GSP, the additional preferences are considered as a compensation for the additional expenses of countries which apply and respect the relevant standards. Article 7 of the GSP refers to the Conventions No 87 and 98 of the International Labour Organisation (ILO) regarding the freedom of association and of collective bargaining, and to ILO Convention No 138 on the minimum age for the employment of children. The effective implementation is suspended until 1998 in order to allow countries to adapt their internal policies.

(b) The environmental clause

This arrangement favours products, the characteristics or the methods of production of which are recognised internationally as leading to the achievement of international environmental standards laid down in international agreements (e.g., regarding the ozone layer and climatic condition). For the time being, the environmental clause will only be applied to the sector of manufactured tropical wood, and reference is made to the criteria of a sustainable management of the tropical forests. An arrangement similar to the
social clause is introduced for countries that respect the standards laid down by the International Tropical Timber Organisation.

4. The GSP for industrial and textile products

This GSP applies to products from Chapters 25 to 97 of the common customs nomenclature, provided these products originated in developing countries. Within certain limits total suspension of customs duties can be granted. However, the GSP is not covering:

- the products mentioned in Annex IX of the Regulation (i.e. a number of mineral products, metal ores and alloys),
- products with a general exemption of customs duties.

Originally, the EU applied its GSP in a differentiated way taking into account the country of origin and the product:

- for sensitive products, preferences were abolished, and for the most competitive countries preferences were reduced with 50%,
- for the poorest developing countries no quotas were applied.

This system was abolished, however, as it was inconsistent with the commitments made at the GATT Uruguay Round (1986-1994).

The new GSP contains a specific safeguard clause products/countries for sensitive products, in order to cope with considerable and unexpected imports and to provide an additional mechanism of preferences differentiation. The clause can only be invoked in case of serious injury or threat of serious injury to the EU sectors.

According to the new GSP the Most Favoured Nation customs duties are:

- reduced to 85% for very sensitive products, i.e. textile products (Chapter 50 to 63 of the common customs nomenclature) and ferrous alloys,
- reduced to 70% for sensitive products (various chemical products, leather and leather products, shoes, cars and vans, TV sets, etc.),
- reduced to 35% for semi-sensitive products (various chemical products, various machines and their parts),
- completely suspended for non-sensitive products (such as mineral combustibles, rubber, paper and carton, various organic and anorganic chemicals). The MFN duties are also completely suspended for the least developed countries (Annex IV of the Regulation) and for the countries that actively combat drugs-trafficking (Colombia, Venezuela, Ecuador, Peru and Bolivia).

As mentioned before, the new GSP contains a graduation mechanism for countries that apparently are no longer in need of trade preferences. This mechanism is not a general one for countries or products, but differentiated and based on criteria related to sensitivity of products for the EU industry and

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to the competitiveness of the exporting developing countries (i.e. on the development index and the specialisation index). The products/countries graduation aims also at improving the export potentials of the least developed countries. The new GSP of the EU for manufactured and textile products was enacted on January 1, 1995.

5. **The GSP for agricultural products**

The new European GSP for agricultural products is built on the same principles as the new GSP for industrial products. Therefore, the same mechanisms are provided and the same tariff reductions are applied according to the sensitiveness of the products:

- 15% MFN tariff reduction for very sensitive products,
- 30% MFN tariff reduction for sensitive products,
- 65% MFN tariff reduction for less sensitive products,
- 100% MFN tariff reduction for non-sensitive products.

Some corrections are needed in specific cases, such as for fishery products, in order to stay consistent with the common fishery policy of the EU.

Compared to the new GSP for industrial products, that for agricultural products shows no substantial changes with respect to the least developed countries and the special arrangement in favour of the Central-American countries and the countries of the Andes group, related to anti-drugs policies. Regarding special incentives, the following changes apply, however:

- a general increase of the customs duty on shrimps (of 4.5% to 5.4% in 1996), such that this product had to be brought into the category of special arrangements, in order to keep neutrality in terms of EU market,
- a tuning of the concessions for the exports from Central-American countries, to these of the Andes group countries,
- application of the preferences to fishery products from Central-American countries to these from Panama, as a result of the positive attitude of Panama regarding inspection of Panamese vessels.

The new GSP of the EU for agricultural products was enacted on January 1, 1997.

6. **The GSP of the EU, ASEAN and Thailand**

(a) **Evolution of the GSP benefits and their utilisation**

The ASEAN countries are among these that are benefiting most from the EU’s GSP. Among the most benefiting seven countries in 1995 there are four ASEAN countries, and in 1996 three of them figure in the top-5 beneficiaries. In 1995, China could benefit most with 19.5 billion ECU of EU imports eligible for the GSP, followed by South Korea with 7 billion ECU, Malaysia with 6.9 billion ECU, Singapore with 6.5 billion ECU, India with 5.8 billion ECU, Thailand with 5 billion ECU and Indonesia with 4.9

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billion ECU. The Philippines exported only 1.9 billion ECU to the EU that were eligible for GSP preferences. In total, 25.3 billion ECU of imports in the EU from ASEAN could reclaim GSP benefits, making the ASEAN countries as a group the largest potential beneficiaries. For reasons of comparability, we will restrict the following analysis to Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, and not to Vietnam (membership since 1995), Laos and Myanmar (membership since 1997).

Table 2: Percentage distribution of preferential and MFN EU imports from ASEAN\(^1\) (1991-1996)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total GSP imports</th>
<th>GSP imports of agricultural products</th>
<th>GSP imports of industrial products</th>
<th>GSP imports of textile products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>11.6</td>
<td>81.3</td>
<td>8.4</td>
<td>56.9</td>
</tr>
<tr>
<td>1992</td>
<td>10.7</td>
<td>80.5</td>
<td>7.8</td>
<td>57.9</td>
</tr>
<tr>
<td>1993</td>
<td>10.5</td>
<td>84.7</td>
<td>7.0</td>
<td>64.3</td>
</tr>
<tr>
<td>1994</td>
<td>10.6</td>
<td>81.1</td>
<td>7.0</td>
<td>62.5</td>
</tr>
<tr>
<td>1995</td>
<td>10.7</td>
<td>76.9</td>
<td>6.8</td>
<td>60.5</td>
</tr>
<tr>
<td>1996</td>
<td>14.7</td>
<td>57.7</td>
<td>6.0</td>
<td>42.8</td>
</tr>
</tbody>
</table>

Source: European Commission, DG I

\(^1\) Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand

Table 2 shows the percentage distribution of EU imports from ASEAN according to MFN or eligible preferential treatment. It appears clearly that until 1995, approximately 80% of total EU imports belongs to product categories that can claim preferences. In 1996, this share dropped dramatically to 57.7%. Table 2 also shows that in 1995, the first year of the new GSP for industrial and textile products, the share in EU imports of these products from ASEAN fell with 2.6 and 2.2% points respectively. This gives a first indication of the relatively more restrictive character of the EU’s new GSP. Also for agricultural products, the percentage share declined. The share of all product categories eligible for GSP preferences in the EU dropped from 81.1% in 1994 to 57.7% in 1996.

In order to determine to what extent ASEAN effectively benefited from the GSP preferences, we should, however, not look at eligible but rather at effective GSP imports. Table 3 shows the ratio between both, i.e. the degree of utilisation of the EU’s GSP by ASEAN during the period 1991-1995.

Table 3: Degree of utilisation by ASEAN\(^1\) of the GSP preferences of the EU (1991-1996)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total GSP imports</th>
<th>GSP agricultural imports</th>
<th>GSP industrial imports</th>
<th>GSP textile imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>42.2</td>
<td>73.0</td>
<td>39.8</td>
<td>34.6</td>
</tr>
<tr>
<td>1992</td>
<td>43.2</td>
<td>72.0</td>
<td>41.6</td>
<td>34.3</td>
</tr>
<tr>
<td>1993</td>
<td>44.0</td>
<td>68.7</td>
<td>43.1</td>
<td>35.6</td>
</tr>
<tr>
<td>1994</td>
<td>44.4</td>
<td>65.8</td>
<td>43.0</td>
<td>39.0</td>
</tr>
<tr>
<td>1995</td>
<td>48.0</td>
<td>77.0</td>
<td>42.7</td>
<td>60.7</td>
</tr>
<tr>
<td>1996</td>
<td>55.1</td>
<td>76.2</td>
<td>51.2</td>
<td>59.6</td>
</tr>
</tbody>
</table>

Source: European Commission, DG I

\(^1\) Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand

The systematic increase of the degree of utilisation in the period 1991-1996 is striking, although an average degree of utilisation of 55% evidently remains dismally low. This low utilisation is due to two factors. On the one hand, a more developed ASEAN country exporting products that are more sensitive for the EU, will reclaim less GSP benefits. In the previous GSP of the EU, this was the consequence of the tariff quota’s. In the present GSP, however, the reason is that the margin of preference is lower, the higher the “sensitivity” of the product (see above). On the other hand, it was observed
above that the degree of GSP utilisation of non-sensitive products is also small, which has to be attributed to the poor compliance of the import formalities and to the low EU import duties, and therefore, the low incentive coming from the offered preferences.\(^6\)

\(\text{(b) The shrimps conflict between the EU and Thailand}\)

Using statistical data of 1991, the European Commission calculated that the development index of Thailand was \(-1.22\). This index implies, as mentioned before, that the specialisation index for GSP products can be at most 1.5. For products showing a higher specialisation index, the graduation mechanism will be applied (see Annex II, Part 2, III of the Council Regulation 1256/96).

From the Commission’s calculations it appeared that Thailand’s specialisation index for fishery products even amounted to 5.22, which prompted a Commission decision of 20 December 1996 to halve Thailand’s GSP benefits for a.o. shrimps as from 1 January 1997, and to abolish these benefits as from 1 January 1999, in conformity with the provisions of the Council Regulation 1256/96. As a result, the EU import duties on shrimps from Thailand were increased from 4-4.5 % in 1996 to 8.1-9.7 % as from 1997, and to 12-14 % as from 1999.\(^7\)

The immediate reaction in Thailand was to point to the disastrous consequences for the entire sector, which in the recent past had also been confronted with reduced output, a.o. due to diseases. Alarming forecasts were published. Early January 1997, the President of the Fishery and Supporting Industries Committee of the Thai Chamber of Commerce stated that the shrimps exports to the EU would fall with 30 % compared to 1996.\(^8\)

The first official reaction from Thailand was to start lobbying with some EU member states. In January 1997, the Prime Minister of Thailand discussed the issue with the German Minister for Development Co-operation, who suggested also to contact Spain and Portugal. Early February 1997, the Thai Minister of Commerce visited the European Union, in order to change Brussels’s mind, but had to return empty-handed.\(^9\) The reason why this avenue was followed at all seems to be that the European Commission had pointed out that initiatives of withdrawal or relaxation of the measures could only be taken at the request of member states. Evidently, the Commission could hardly do more, taken into account its competence. However, the internal decision-making process made such intervention from the member states rather unlikely. In fact, this signal given by the European Commission unintentionally created confusion in the Thai government.

Another official approach from Thai side was to challenge the statistical data used by the European Commission. Mr. Kobsak Chutikul, Director General of the Economics Department of the Ministry of


Foreign Affairs of Thailand, stated that the European Commission should use only statistics on the real exports to the EU and not data on the product flows to Rotterdam, as these could also have a third country destination.\footnote{Achara Pongvutitham & Rita Patiyaasevi (1997) : “Thailand, EU to hold talks”, The Nation, 15 February 1997.} On February 20, 1997, a bilateral meeting was convened in Brussels to compare the European and Thai statistics. According to inside information at our disposal, it appeared that Thailand had not included the fish-meal exports in its statistics. After the meeting no more attempts were made from Thai side to influence the statistical sources.

Thailand also tried for a restoration of the trade preferences by insisting at registration on the list of Latin American countries that wage war against drug trafficking.\footnote{Nitsara Srihanam (1997b) : “Europe rebuffs Thailand on trade privileges”, The Nation, 4 February 1997.} According to the Thai Minister of Finance, this route was tried out at the suggestion of the EU, with due reference to the worsening human rights and ecological situation in Thailand.\footnote{Woranuj Maneerungsee (1997b) : “Animal feed group helps shrimp raisers”, Bangkok Post, 20 May 1997.} However, at the ASEAN-EU meeting of 13-14 February 1997, no results were produced in this respect, although such a measure was possible. According to our sources in the European Commission, there was no EU intention to do so, the more so as this would have solicited similar requests from other countries.

An alternative route that the Thai Minister of Commerce wanted to pursue was the enacting by the EU of a tariff quota based on the GSP preferences of 1996. It is said that the Thai Minister had made such a proposal in Brussels at the end of January 1997.\footnote{P.Pongpipattanapan (1997) : “EU likely to restore GSP privileges after forthcoming ASEAN-EU meeting”, Thailand Times, 8 February 1997.} If this is the case, it will hardly come as a surprise that the Minister went back empty-handed, as one of the reasons for the new GSP of the EU was to abandon the previous system of tariff quota’s. If the EU would have given in here, the clock had been put back regarding the EU’s Uruguay Round commitments, but it also had established a precedent that would have opened the door for other exceptions.

From Thai side also many unofficial attempts were made to put pressure on the EC by threats of retaliation. The press in Thailand rumoured that the EU measures were dictated by the need to protect the French shrimps sector and its interests in Madagascar.\footnote{Somporn Thapanachai (1997) : “Thailand steps up lobbying EU for larger import quota”, Thailand Times, 21 January 1997.} Mid-May 1997 this rumour was discussed at a joint meeting of the Shrimp Raisers Club, the Thai Frozen Food Association and the Thai Animal Feed Association.\footnote{Suraphol Pratuangtham (1997) : “EU import duties on Thai shrimp products are unfair”, The Nation, 20 March 1997.} In addition, it was announced in the press that the Thai Animal Feed Association would request its members to ban imports from the EU of additives, vitamins or ingredients for feed for the local aqua-culture, and to rather source these products from Asia, the US or non-EU European countries. This campaign was apparently launched by the CP Group, Thailand’s largest agro-industrial group.

Such pressure could evidently be of help in securing EU compensation for injury inflicted. However, as the GSP is an autonomous system by definition, i.e. not negotiable, nor based on reciprocity, such compensation could only be hoped for. It was therefore of paramount importance for Thailand to cre-
ate a strong bargaining position. Already in January 1997, it was stated publicly that, apart from a tariff quota on the basis of the GSP benefits of 1996 (see above), Thailand wanted from the EU 1.1 billion Baht (44 million USD at that time) of aid for the development of its shrimps sector. According to our sources at the European Commission, no financial compensation has ever been contemplated.

Finally, it should be noticed that the phased graduation of Thailand’s GSP benefits is not limited to shrimps, but also relates to other products such as frozen squid, processed crab, sugar, fruit, pineapple juice, flowers, as well as various industrial products like rubber products, leather products, textiles, furniture, etc. Calculations showed that by 1999, total Thai exports to the EU would be reduced by 56 million USD, due to the graduation measures.

7. Conclusions

From the previous pages, it appeared that the ASEAN countries as a group are the largest beneficiary of the Generalised System of Preferences of the European Union. However, although important for ASEAN exports to the EU of industrial products, the GSP benefits were marginal for agricultural and textile products. This is evidently due to EU protection of its agriculture and textiles sector.

The new Generalised System of Preferences of the European Union that was enacted in 1995 (industrial and textile products) and 1997 (agricultural products) is likely to cause injury to the interests of particular exporters from the ASEAN countries. True, it is still too early to conclude on the basis of the available statistical evidence that the preferential treatment is reduced, but there are some indications, such as the reduction of the percentage of EU imports from ASEAN countries covered by the GSP in 1995.

Moreover, the 1997 shrimps conflict between Thailand and the EU is probably a case in point. Thailand’s graduation from GSP for these products caused much concern, but the Thai negotiators went badly informed and insufficiently prepared to the negotiations with the European Commission, which made it easier for the latter to stay firm. As a matter of fact, much was at stake for both parties, but Thailand remained unsuccessful in its attempts to change the minds in Brussels.

The question remains whether in the longer run, and taking into account bargaining positions in future multilateral negotiations, countries such as Thailand still have a sufficient real interest in claiming GSP benefits at all.

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17 Nitsara Srihanam (1997c) : “Exports to EU to fall by Bt 1.4 bn if GSP tax conce”, The Nation, 29 April 1997.