



THE REVISION OF THE EU GENERALISED SCHEME OF PREFERENCES



Brussels. November 2021

EU footwear manufacturers call for a transparent EU GSP scheme that alleviates poverty and builds up sustainable economies based on diversified production as a result of the implementation of efficient and realistic safeguards.

The current EU Generalised Scheme of Preferences (GSP) Regulation 978/2012 will expire at the end of 2023. In September 2021, the European Commission published the proposal for the post-2023 scheme. In this paper, the European Confederation of the Footwear Industry (CEC) outlines its recommendations and concerns to equip the future GSP Regulation with the adequate tools and measures to ensure the diversification of exported products from the GSP beneficiary countries.

The CEC is the voice of the European footwear industry in Brussels. The organisation gathers both footwear national associations and federations of the European Union, representing approximately 80% of EU footwear production. In 2018, the manufacture of footwear and footwear components (EU27, NACE 152) consisted of 19.700 enterprises that employed 272.000 people and generated EUR 26.982 million turnover (Eurostat, 2021). The CEC has been following closely the discussion on the revision of the EU GSP Regulation and has actively engaged in discussions with EU and national representatives on this topic.

The CEC recognises that the GSP Regulation is an instrument designed to help developing countries eradicate poverty, create jobs, diversify the economy and promote their economic and social development. The revised GSP scheme should also align with the objectives of the renewed EU trade strategy “**Trade Policy Review – An Open, Sustainable and Assertive Trade Policy**” and with the **EU Industrial Strategy**, especially taking into account the identified ecosystems. Both the EU Member States and developing countries need a scheme of preferences that supports the recovery from the COVID-19 pandemic, contributes to poverty eradication and encourages exports diversification.

In view of the upcoming debates on the Commission proposal for a revised GSP Regulation, EU footwear manufacturers call for:

I. Effective protection of human and labour rights as well as of the environment

II. Export diversification: a top priority for a successful GSP scheme

- **The potential of the revised GSP system in contributing to poverty eradication is not fully exploited without having export diversification as a main objective**
- **A product graduation mechanism reducing beneficiary countries' dependency on a few products and stimulating economic growth**
- **A responsive automatic safeguard mechanism extended to cover footwear imports into the EU from GSP and GSP+ beneficiary countries that will ultimately foster export diversification and economic growth**

III. Effective enforcement, transparency and monitoring

I. EFFECTIVE PROTECTION OF HUMAN AND LABOUR RIGHTS AS WELL AS OF THE ENVIRONMENT

The new GSP scheme should be ambitious and protect human and labour rights as well as the environment. The new EU GSP Regulation could play an important role in ensuring that EU's financial, economic, social and environmental interests are protected. It should contribute to improving all workers' rights and conditions. The new system should ensure greater predictability that could be achieved with the help of benchmarks that monitor the progress made especially in tackling poverty and in improving labour conditions.

The CEC welcomed the extension of the negative conditionality for all beneficiaries to environment and climate and good governance conventions/agreements, in addition to the core human and labour rights conventions. Furthermore, the CEC appreciated the update of the list of conventions, including as well the Paris agreement. However, the EU must encourage full participation in improving respect for human rights, labour rights, environmental rights and public health in the world hence the positive conditionality to ratify all the conventions in Annex VIII should be extended to all beneficiary countries to enhance the potential of the scheme for sustainable development and good governance.

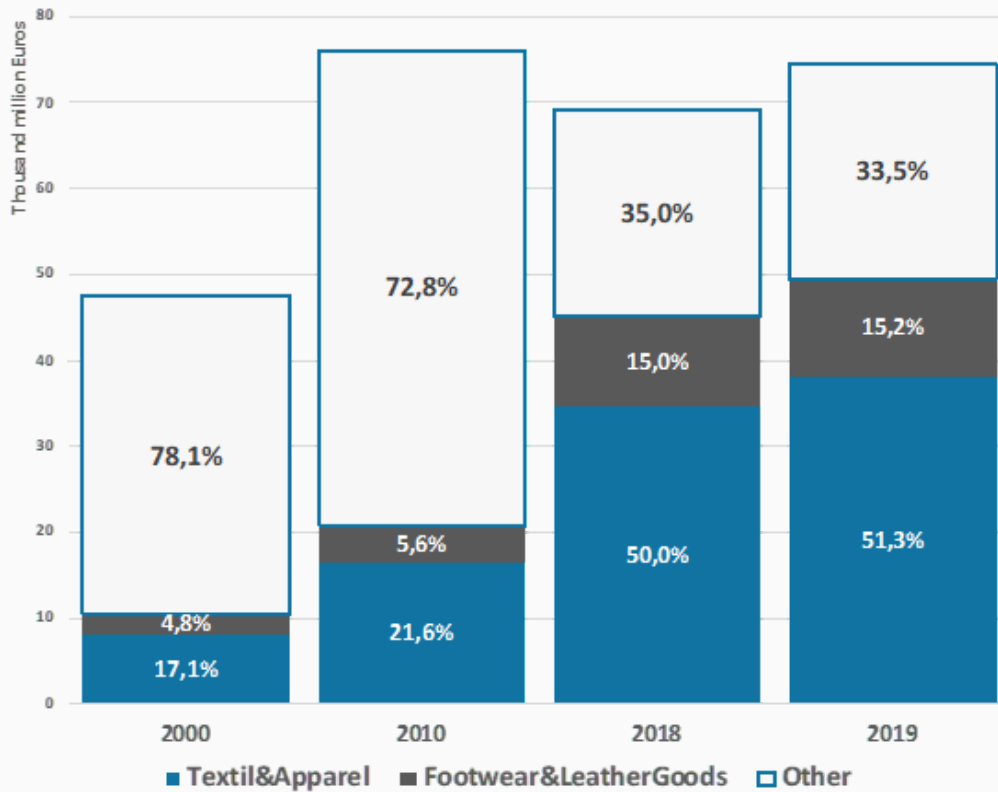
II. EXPORT DIVERSIFICATION: A TOP PRIORITY FOR A SUCCESSFUL GSP SCHEME

- **The potential of the revised GSP system in contributing to poverty eradication is not fully exploited without having export diversification as a main objective**

The current scheme has limitations in its efforts to eradicate poverty in countries most in need because it is contributing to product specialisation instead of supporting export diversification of developing countries as a result of ineffective and unrealistic safeguards. Indeed, the EU GSP beneficiary countries have become global leaders in footwear production and exports. In 2019, 2/3 of EU imports from GSP beneficiaries correspond exclusively to Apparel and Footwear. In 2019, 39% in quantity and 40% in value of total Extra EU28 imports came from GSP beneficiaries.

The value share of EU Apparel and Footwear imports from GSP beneficiaries has increased from 21,9% in 2000 to 66,5% in 2019. In 2019, 4 GSP beneficiaries (Indonesia, India, Bangladesh, Pakistan) were among the top 10 footwear manufacturers in the global market (*World Footwear Yearbook 2020*).

The value share of EU Apparel and Footwear Imports from GSP beneficiaries



By maintaining diversification as a secondary objective in the post-2023 system, the CEC underlines that the potential of the revised GSP system in contributing to poverty eradication is not fully exploited.

Export concentration has been detrimental to the economic growth performance of developing countries in the past decades. **Diversifying exports is crucial for reducing dependencies on a few export goods and for maintaining exports stability in the long run.** It is indeed true that the number of export products increases with the degree of an economy's openness to trade. However, the trade developments in the last decade showed that the link between trade openness and export diversification is not automatic and it needs a further boost.

Many GSP beneficiary countries that have specialised in exporting certain goods (i.e., textile, apparel and footwear), are not able to transfer those assets and skills to the production of different goods. As the 2019 **European Parliament Resolution** underlined, the current GSP scheme, notably for certain EBA countries, has not led to any change, and, in some cases caused a deterioration in their export diversification profiles at product level. Furthermore, a significant decrease in export diversification at all sector levels for Standard GSP beneficiaries has been observed.

European footwear manufacturers call on EU decision-makers to take further measures to enhance the diversification of exports from GSP beneficiary countries. Such countries should be encouraged to introduce effective and swift measures aiming at product and export diversification. Together with openness to trade, EU GSP beneficiary countries need support to develop a strong industrial base and to create an infrastructure that facilitates access to knowledge and information to foster export diversification.

Moreover, the EU GSP scheme needs appropriate methodologies and indicators for monitoring and evaluating the GSP impact to provide policy-makers with accurate information on sustainable development, good governance and fundamental rights and to facilitate EU decision-making to address its challenges.

Furthermore, **effective and realistic safeguards are an essential tool to foster export diversification:**

- **A product graduation mechanism reducing beneficiary countries' dependency on a few products and stimulating economic growth**

The upcoming GSP scheme should define a product graduation mechanism that aims at reducing dependency on a few products, especially on textile, apparel and footwear, and is targeted, comprehensive, and addresses the challenges that most impacted sectors face while ensuring that EU financial and economic interests are upheld.

The current graduation mechanism has failed to promote product diversification and was unable to identify highly competitive origins. Unfortunately, the new Regulation proposal states essentially the same formula for product graduation with the only modification of lowering the thresholds by 10 percentage points (to 47% and 37% respectively). This change has in practice no consequences for the textile, apparel and footwear sectors. No cases of product graduation will result following the revision unless the threshold is further lowered by 5 additional percentage points (32% for textile and footwear).

In addition, the absence of targeted and effective safeguards contradicts the EU's financial and economic interests and values considering that the products entering the EU market with favourable conditions are extremely competitive in terms of price because they are often produced with low quality, environmental and social standards.

When offering preferences for sensitive products, there is an essential need to allow them to benefit from special treatment in order to prevent harm to certain sectors.

Furthermore, the CEC highlights that the textile, apparel and footwear sectors, are closely linked in regards to many industrial aspects, in particular when it comes to trade and production. Placing textile/apparel and footwear sectors under the Textiles ecosystem in the framework of the new EU Industrial Strategy confirms their similarities. A comparable treatment under the GSP regulation (i.e., applicability of the same safeguard clauses and thresholds) would provide a harmonised approach for tackling their shared challenges. It is essential to connect the applicability of safeguard clauses provided in the EU GSP with the effects of the lack thereof, the main one being poor export diversification. Without effective safeguards, the GSP beneficiary countries will continue building up their footwear industry and become the world's major footwear producers as it has happened with Vietnam or Indonesia.

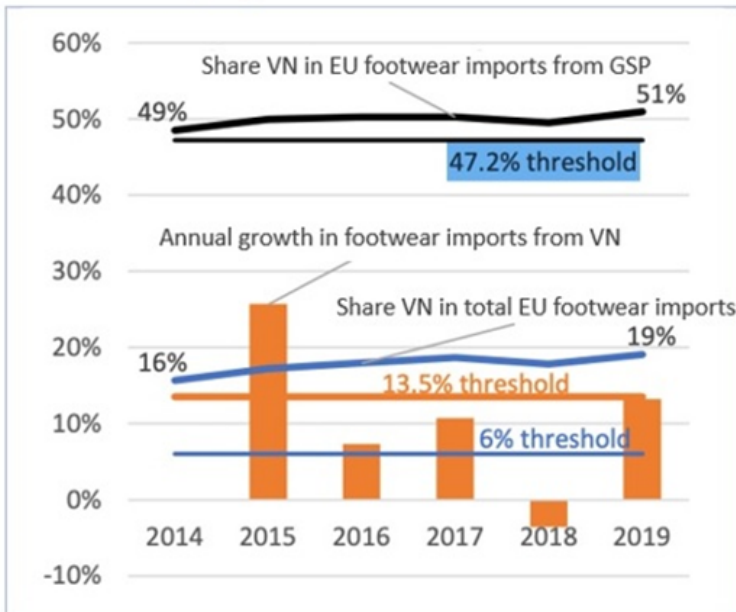
- **A responsive automatic safeguard mechanism extended to cover footwear imports into the EU from GSP and GSP+ beneficiary countries that will ultimately foster export diversification and economic growth**

It is vital that the automatic safeguard mechanism is extended to cover footwear products imported into the EU from GSP and GSP+. The CEC regrets that footwear products have not been included in the automatic safeguard mechanism proposed despite it being the second-largest product section under the GSP with EUR 8.4bn, after clothing (2021 GSP Hub report). In 2019, Apparel and footwear were the products most imported under preferential tariffs from standard GSP beneficiaries. In top 20 products imported by the EU under the GSP tariff regimes, 15 products are textile, apparel or footwear.

Furthermore, the CEC echoes the outcome of the case study no. 13 (*2021 Report in support of an impact assessment*) according to which the automatic safeguard mechanism could provide protection in potential future cases similar to Vietnam (i.e., EU footwear imports from Indonesia), where exports grew considerably in a short time. The current EU GSP system failed to safeguard the EU footwear industry.

Vietnam could have met the criteria that would have triggered automatic safeguards on footwear. Over the period 2014 to 2019, its total footwear imports share was between 16% and 19%, well above the 6% threshold.

EU27 footwear import growth and shares from Vietnam 2014-2019



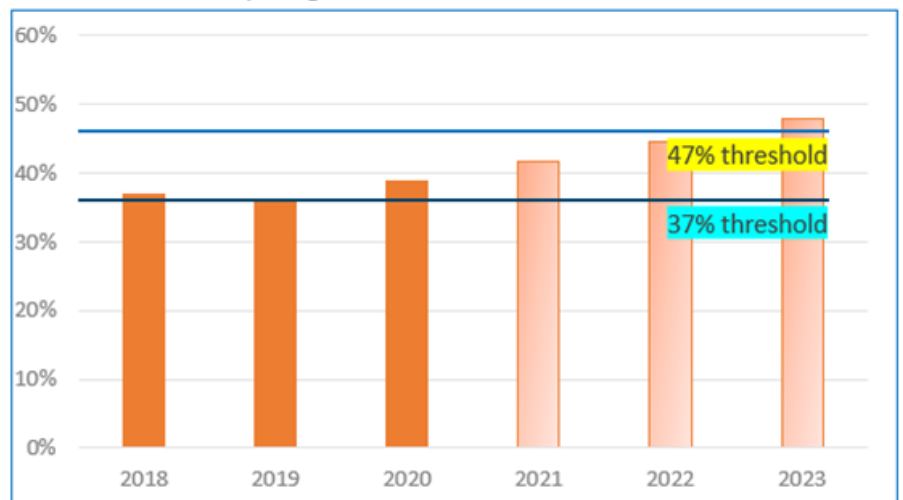
Its share in EU footwear imports was above 47.2% (although not above 57%), and its annual growth rate above 13.5% in 2015, and slightly below the threshold in 2019 (13.2%).

Only an effective automatic safeguard mechanism will foster export diversification and economic growth in beneficiary countries while guaranteeing fair

trade in case of mass imports which are frequently the result of labour and environmental rights violations.

The automatic safeguard mechanism could apply in the near future to Indonesia, as footwear imports from this country are expected to remain above the 37% threshold proposed for textile if the share or growth criterion were met. Indeed, Indonesia reached upper middle-income status in 2020

EU27 footwear import growth and shares from Indonesia 2018-2023



and may be out of the Standard GSP by 2024. However, as of July 2021, the World Bank downgraded Indonesia to lower middle-case income status which slows down its graduation from Standard GSP. Although Indonesia’s government expects to regain the upper middle-income status by end of the year, its position in the global footwear trade should be carefully considered to prevent a similar scenario as that of Vietnam.

III. EFFECTIVE ENFORCEMENT, TRANSPARENCY AND MONITORING

In line with the 2019 **European Parliament Resolution** on the implementation of the EU GSP, the CEC underlines the prerequisite for a more rigorous monitoring process, in particular the control over the implementation of the core conventions and over the real local impact

of the scheme, especially regarding the respect of fundamental rights.

The CEC welcomes the Commission's plan to introduce systematic reviews of the implementation of the GSP scheme though more concrete tools are needed. Such a process should be accompanied by constant dialogue between the EU and the beneficiary countries in order to increase transparency and effectiveness of the scheme. The future Regulation should ensure that timely, comprehensive and reliable information for GSP+ monitoring is available and obtain the guarantee that European importers promote such values and are responsible for enhancing social and environmental standards in their supply chains.



Against this background, the CEC calls on the EU decision-makers to explore the different avenues to alleviate poverty in EU GSP beneficiary countries with the ultimate objective to build up sustainable economies that do not depend on a few sectors. Furthermore, the revised EU GSP scheme should reinforce the EU's financial and economic interests by providing effective and enforceable safeguards to sensitive products under the trade developments in the last decade and with the current global context.

Such safeguards will at the same time improve the implementation of social and environmental rights and would facilitate product export diversification in beneficiary countries while contributing to economic growth.

Moreover, the CEC calls for equivalent safeguard clauses (including the same thresholds) provided under the EU GSP Regulation for the textile, apparel and footwear sectors taking into account their similarities and their inclusion in the Textiles ecosystem under the EU Industrial Strategy. A comparable treatment for textile, apparel and footwear sectors is essential for a harmonised approach for tackling their shared challenges and supporting their recovery from the COVID-19 pandemic in both the EU and the GSP beneficiary countries.

