



| TRADE DEVELOPMENT AUTHORITY OF PAKISTAN |
| MINISTRY OF COMMERCE |



**Highlights of the GSP Schemes of which
Pakistan is a Beneficiary**

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For any queries or feedback regarding this document, please contact the contributing team members at the Trade Development Authority of Pakistan:

Mr. Kamal Shahryar, Adviser GSP

kamal.shahryar@tdap.gov.pk

Mr. Arbab M. Murad, Research

Associate arbab.murad@tdap.gov.pk

Trade Development Authority of Pakistan, Ministry of Commerce

Highlights of the GSP Schemes of which Pakistan is a Beneficiary

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1. GSP Scheme of the European Union

Pakistan has been enjoying the GSP Plus status under the GSP Scheme of the European Union, which started in January 2014. The GSP Plus status is renewed every 2 years upon the European Union's satisfactory assessment regarding Pakistan's implementation of 27 core international conventions related to human rights, labor rights, protection of the environment and good governance. The third biennial assessment report got Pakistan its GSP Plus status extended till 31st December 2021. GSP Plus Program slashes the tariffs to 0% on 66% of tariff lines for vulnerable low and lower-middle income countries if they implement 27 international conventions.

Rules of Origin

There are two main categories of eligible products: (i) Wholly obtained products, which are mostly the products of agricultural, livestock and mineral origin (ii) Sufficiently worked or processed products. There are criteria to determine if a product qualifies as of Pakistan Origin.

- a) Change of Heading Criterion: This means that during the manufacturing process, the final product which will be exported to the EU should gain a specific 4-digit level HS Code, which is different from the HS Codes of all the imported contents used in the manufacturing process.
- b) Ad Valorem or Value Addition Criterion: This means during the manufacturing process, the exporter should do the value addition over the imported inputs in such a way that the total value of the imported inputs comprise less than a particular percentage (say 40%) of the ex-works price of the final product to be exported to the European Union.
- c) Specific Processes Criterion: This requires that some specific process or a group of more than one such processes should be carried out over the imported inputs during the manufacturing done inside Pakistan.

REX System for EU GSP Scheme

EU GSP Scheme allows exporters to use the European Union's REX System which has replaced the 'Certificate of Origin' which was based on Form A. Thereby exporters who are registered in REX System can send 'Invoice Declaration' along with each of their consignment by writing/printing a 'Statement on Origin' on their respective Invoices. Further details regarding the REX System are available under the heading "REX System for EU-GSP".

2. The GSP Scheme of Switzerland

The Swiss Generalized System of Preferences (GSP) was revised in 2009 introducing duty-free quota-free (DFQF) market access for products originating from LDCs. Furthermore, the countries that could benefit from the Swiss GSP were reconsidered, and tariff preferences for agricultural goods for all beneficiary countries were significantly enlarged. On 1 May 2011, the revised Federal Ordinance on the rules of origin for the Swiss GSP entered into force, providing origin criteria identical to those of the EU's GSP for products of chapters 25-97 of the Harmonized System (HS). Finally, the list of beneficiary countries and territories was modified on 1 July 2011.

Beneficiary Countries:

In principle, all developing countries are eligible for the Swiss GSP, except for countries and territories that have attained a high level of development. The GSP benefits are not available to members of the Organization for Economic Cooperation and Development (OECD) and those that have concluded a free trade agreement with Switzerland.

Rules of Origin:

The products must comply with the eligibility criteria of the Swiss GSP Scheme given below:

Requirements for Sufficiently Worked or Processed Goods: The Swiss GSP Scheme follows the Rules of Origin criterion of the European Union for chapters 25 to 97 such as:

- Value Addition Criteria: The exporters have to do value addition on imported inputs in a way that the value of imported inputs becomes less than 40% (or the % as mentioned in each case separately) of ex-works price of the final product.
- Specific Processes Criteria: The raw materials have to go through some listed 'specific processes' which are the manufacturing processes required for final products to be deemed as of Pakistan Origin.
- Change of HS Code Criteria: The raw materials used to manufacture the final product should go into manufacturing process in a way that the HS Code (4 digit level) of the final product is different from the HS codes of the inputs used.

REX System:

Swiss GSP Scheme allows exporters to use the European Union's REX System which has replaced the 'Certificate of Origin' which was based on Form A. exporters who are registered in REX System can send 'Invoice Declaration' along with each of their consignment by writing/printing a 'Statement on Origin' on their respective Invoices.

3. GSP Scheme of Norway

The Norwegian Generalized System of Preferences (GSP) for import of goods from developing countries allows lower rates of tariffs to be imposed on eligible goods. The new GSP Plus category of deeper preferences for lower middle-income countries with a population of less than 75 million people was started from 1 January 2013. This new preferential arrangement, named the “GSP plus”, is granted better market access than the ordinary GSP countries. However, “GSP plus” countries are not granted duty free and market free access along the same lines as the least developed and low income countries (so called “GSP zero” countries). One of the intentions behind the establishment of the “GSP plus” group was to soften the transition for countries graduating (“moving up”) from the low-income country group, where they had free access to the Norwegian market, to the middle-income country group where only the ordinary GSP preferences apply.

Beneficiary Countries:

Within the Norwegian GSP scheme, the following categories of countries and areas in accordance with the OECD’s Development Assistance Committee (DAC) List are subject to different preferential tariff treatment:

- (a) GSP Zero: least developed countries (LDCs) and other low-income countries (LICs) with a population of less than 75 million inhabitants.
- (b) GSP Plus: lower medium-income countries (LMICs) with a population of less than 75 million inhabitants.
- (c) Ordinary GSP: the remaining countries according to OECD’s DAC list.

The GSP-scheme has been implemented for approximately 90 countries and territories, of which about 35 are ranked among the LDCs. Countries under the GSP zero scheme benefit from better preferential treatment than other countries included in the system, ie “GSP plus” or ordinary GSP countries. Unlike the European Union, Pakistan is not given status of GSP Plus by the Norway. It gets ‘Ordinary GSP’ status only.

Rules of Origin:

Most of the rules of origin are same those of the European Union.

Product coverage:

The list of tariff lines and applicable rates of duty including the lists of products and each preferential rate covered under the Norwegian GSP scheme are provided in the Norwegian Customs Tariff 2019. Norwegian customs authorities also provide its online version at the following link:

<https://tolltariffen.toll.no/tolltariff/headings/07.01?language=en>

4. GSP Scheme of the Republic of Turkey

Turkey has granted tariff preferences to beneficiary countries as of 1 January 2002, as a result of the customs union between Turkey and the European Community. In order to be deemed a beneficiary of the GSP scheme of Turkey, an eligible country must undertake to comply or ensure compliance with the rules of origin under the GSP scheme of the Republic of Turkey and to provide the administrative cooperation necessary to ensure their correct implementation.

Product Coverage:

LDCs have duty-free and quota-free access to Turkish markets for all industrial products under chapters 25 to 97 (except chapter 93) of the Harmonized System, and for some agricultural products covered by the customs union between Turkey and the European Union. While all customs duties on products covered by the GSP scheme of Turkey have been suspended for the countries benefiting from special incentive arrangements in accordance with the GSP scheme of the European Union. Customs duties have been suspended or reduced in accordance with the sensitivities of the products covered by GSP schemes for developing countries. Unlike the EU GSP Scheme, Pakistan has not been categorized under Turkey's Special Incentive Scheme that includes Bolivia, Cape Verde, and Mongolia. Rather, Pakistan has been placed under the "Developing Country" category with HS Chapters 42 & 43 (articles of leather) and HS Chapters 50-63 (textiles) excluded from the GSP coverage.

Rules of Origin:

In order to determine the Originality of a product exported to the Republic of Turkey, following Rules of Origin should be followed.

Wholly Obtained Products: Some of the important wholly obtained goods include all agricultural products, live animals and products of live animals like meat, and minerals like copper etc. produced inside a country.

Products Sufficiently Worked or Processed Products: If imported inputs are used to manufacture a finished product, the rules of origin require such non-originating materials to be sufficiently worked or processed in order to be considered as originating in a beneficiary country.

Documentary Evidence

Effective from 1st July 2019, the Republic of Turkey has allowed the REX System (Registered Exporters System) to be used by replacing the traditional Certificate of Origin (Form A) system. However, at the time of making REX Invoice Declarations, exporters are required to mention the Rules of Origin of Republic of Turkey at the place when they mention EU.

5. GSP Scheme of the United Kingdom

The United Kingdom left the European Union fully on 31st December 2020 after completion of its 11 months transition period upon which it has adopted the UK GSP Frameworks. Since 1st January 2021, the REX System of the EU can't be used for the UK and exports to the UK are required to have a Certificate of Origin (COO) based on a downloadable Form A. Pakistan has been given preferential treatment in its exports to the UK as per UK's Enhanced Framework that is equivalent to the GSP Plus category of the EU's GSP scheme.

Enhanced Framework:

This framework is for countries that are: Classified by the World Bank as low-income and lower-middle income countries and economically vulnerable due to a lack of export diversification and a low level of integration with the international trading system. They must also implement 27 conventions relating to: (i) Human and Labour Rights; (ii) Environment; and (iii) Good Governance.

Rules of Origin:

The UK GSP Scheme has adopted the European Union's Rules of Origin for the time being. The exporters should look for any changes in this regard from time to time.

Product Coverage for Pakistan:

Pakistan is a beneficiary of the Enhanced Framework (EF) of the UK GSP Scheme the detailed table for enhanced framework customs duty rates can be accessed by visiting the below link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/947426/UK-Generalised-Scheme-of-Preferences.ods

Preferential rate and eligibility by GSP framework

| | Least Developed Countries Framework | General Framework | Enhanced Framework |
|----------------------|---|---|---|
| Eligibility criteria | Least Developed countries classified by the UN. | Low-Income and Lower-Middle Income countries as classified by the World Bank. | Low-income and lower-middle income Countries which are classified as economically vulnerable and have satisfied requirements relating to the 27 international conventions |
| Preferences | 0% import tariffs on all products excluding arms and ammunition | Reduced tariffs on two-thirds of product lines | Tariffs are removed on two-thirds of product lines |

6. GSP scheme of the USA

The U.S. Generalized System of Preferences (GSP) provides preferential duty-free treatment for over 3,500 products for developing countries and additional 1,500 products for least developing countries. On March 23, 2018, the President signed legislation authorizing the GSP program through December 31, 2020, retroactive to January 1, 2018.

Rules of Origin Requirements

For an imported article to be GSP-eligible, it must be the growth, product, or manufacture of a Beneficiary Developing Country (BDC) and the sum of the cost or value of materials produced in the BDC plus the direct costs of processing must equal at least 35 percent of the appraised value of the article at the time of entry into the United States.

Moreover, the imported material is only eligible if it undergoes a double substantial transformation, which means that the imported material undergoes substantial transformation in the beneficiary developing country (BDC) resulting into a new and different constituent material with a new name, character, and use.

Further, inputs from member countries of GSP-eligible regional associations will be treated as single country inputs for purposes of determining origin.

Graduation of a Beneficiary Country from GSP

Graduation is the removal of a country's GSP eligibility on the basis of factors related to national income or competitiveness. The US President may remove a BDC from the GSP program if the country is sufficiently developed or competitive or may suspend or limit the BDC's access to one or more products.

Further, there are two different measures for **Competitive Need limitations (CNLs) requirement**: when U.S. imports a product from a BDC during any calendar year:

- Account for **50 percent** or more of the value of total U.S. imports of that product; or
- Exceed a certain dollar value; the limit was \$175 million in 2016 and was **\$180 million in 2017**. (In accordance with the GSP statute, the dollar-value limit is increased by \$5 million annually)

Documents Requirement

The documents that Customs and Border Protection (CBP) may request vary case-by-case basis. Examples of the types of documents that should be available to establish and document a GSP claim are:

GSP Declaration (see 19 CFR 10.173)

Bill of Materials

Invoices

Purchase Orders

Production records kept in the ordinary course of business

Payroll information to document labor costs

Factory profile

Affidavit with supporting documentation

The documentation necessary to substantiate a GSP claim must be kept readily accessible, should CBP request it. Records may be requested from the importer of the products for which GSP is claimed, from the foreign exporter, or both. The substantiating documentation must be kept for a period of five years.

7. GSP Scheme of Canada

Canada's General Preferential Tariff (GPT) or Canada's GSP scheme came into force on 1 July 1974, and it has been extended several times. Most recently, it was extended until 31 December 2024.

Product Coverage

Canada grants tariff preferences for selected agricultural and industrial products, some products, such as certain textiles and apparel, footwear, and chemical products are excluded from GPT. The GPT rates range from duty free to reductions in the most-favored-nation rate. See *Customs Tariff*¹.

Table 01: Number of covered Products in Canada's GPT

| | | All products | Agricultural goods | Non-Agricultural goods |
|---|--------------------------------------|--------------|--------------------|------------------------|
| Tariff schedule | Total number of tariff lines | 7304 | 1 276 | 6028 |
| | Of which: Number of duty-free lines | 5232 | 704 | 4528 |
| Generalized System of Preferences (GSP) | Number of preferential; tariff lines | 1231 | 193 | 1038 |
| | Of which: Number of duty-free lines | 449 | 56 | 393 |
| Least developed countries duties | Number of preferential tariff lines | 1518 | 411 | 1107 |
| | Of which: Number of duty-free lines | 1518 | 411 | 1107 |

Source: World Trade Organization. Available at: <http://ptadb.wto.org/ptaTradeInfo.aspx>

Rules of origin

To qualify for the GPT treatment at least 60 per cent of the ex-factory price of goods as packed for shipment to Canada must originate in one or more GPT beneficiary countries or Canada.

All GPT beneficiary countries are regarded as one single area. Therefore, to calculate GPT originating content, all value-added and manufacturing processes performed in the GPT area may be cumulated as the originating content. Also, any Canadian originating content can be regarded as GPT content. The goods must be finished in the GPT beneficiary country in the form in which they are imported into Canada.

Documentary evidence on proof of origin

The goods for which GPT is claimed shall be invoiced separately from other goods, and they must be accompanied by a GSP Certificate of Origin Form A or an Exporter's Statement of Origin as documentary evidence on proof of origin. Canada does not require the GSP Certificate of Origin Form A to be stamped and signed by an authority designated by the beneficiary country.

Certain exemption for Handicraft Products

Canada grants duty-free entry for handicraft products classified under Tariff Item No. 9987.00.00 of the Canadian *Customs Tariff*. Detailed information on duty-free handicraft products is set out in the *Customs Tariff*, Tariff item No. 9987.00.00 of Schedule.

¹ <https://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2020/01-99/01-99-t2020-2-eng.pdf>

8. GSP Scheme of Australia

In 1966, Australia became the first country to introduce tariff preferences for developing countries, known as the Australian System of Tariff Preferences. Australia gives preferences to 145 countries and 31 places (territories and other economies). The countries have been placed under 5 preference categories.

Product Coverage

The preferential tariffs available under each of the five preference categories vary. For example, Australia offers duty-and-quota-free access to all products originating in the least developed countries, while granting preferential tariffs to developing countries on 802 products (Harmonized System 8-digit basis). Pakistan is placed under Preference Category 4.

Table 02: List of products covered under the Australian system of preference, 2016

| | | All goods | Agricultural goods | Non-agricultural goods |
|--|--|-----------|--------------------|------------------------|
| Tariff schedule | Total number of tariff lines | 6 184 | 838 | 5 346 |
| | of which: number of most favoured nation duty-free lines | 2 943 | 612 | 2 331 |
| GSP scheme for developing countries (part 3) | Number of preferential tariff lines | 3 142 | 226 | 2 916 |
| | of which: number of duty-free lines | 3 129 | 221 | 2 908 |
| GSP scheme for developing countries (part 4) | Number of preferential tariff lines | 802 | 126 | 676 |
| GSP scheme for developing countries (part 5) | Number of preferential tariff lines | 181 | 43 | 138 |
| | of which: number of duty-free lines | 164 | 27 | 137 |
| Duties for least developed countries (part 2) | Number of preferential tariff lines | 3 241 | 226 | 3 015 |
| | of which: number of duty-free lines | 3 241 | 226 | 3 015 |
| Preferential duty rate for Forum Island countries (part 1) | Number of preferential tariff lines | 3 241 | 226 | 3 015 |
| | of which: number of duty-free lines | 3 233 | 226 | 3 007 |

Source: World Trade Organization, 2017b, database on preferential trade arrangements.

*Highlighted is the tariff preference category under which preferential tariffs are available to Pakistan

Rules of origin

Goods are considered to originate in a preference country if they are wholly obtained in that country. Goods are wholly obtained if they are unmanufactured raw products. For preference claim on goods that have not been wholly produced, the goods must comply with two rules-of-origin requirements:

(a) The last process in the manufacture of the goods must be performed in the country claiming preference.

(b) At least half (50 per cent) of the total factory or ex-works costs of the goods must consist of the value of labor and/or materials of one or more beneficiary developing, or Australia.

Further, there is no direct shipment requirement in the ASTP, so that goods can be shipped across countries within the qualifying area without losing their originating status.

Documents Requirements

Australia accepts certificates of origin or declarations of origin made by the overseas manufacturer of goods imported into Australia to support a preference claim.

Certificates of origin provided to support a claim of origin must meet the requirements of Form A (Combined declaration and certificate of origin). Exporters have the option of either completing a declaration of origin on the face of the normal commercial invoice for the goods; or using the normal commercial invoice and a completed Form A.

9. GSP Scheme of Japan

The Japanese legislation implementing a system of tariff preferences in favor of developing countries entered into effect on 1 August 1971. The GSP of Japan has been extended several times. It grants preferential tariff treatment to 128 developing countries and 5 territories (See GSP Handbook of UNCTAD Annex 1 for detail²).

Product Coverage

Japan grants General Preferential Tariff (GPT) treatment for selected agricultural and fishery products (**HS chapters 1–24**) in 353 items and selected industrial products (**HS chapters 25–97**) in 3031 items. List of preferential tariffs under Japan's GSP, 2019 also refers to the link for each TL for Pakistan³

| | | All products | Agricultural goods | Non-Agricultural goods |
|---|--------------------------------------|--------------|--------------------|------------------------|
| Tariff schedule | Total number of tariff lines | 9202 | 1857 | 7345 |
| | Of which: Number of duty-free lines | 3723 | 451 | 3272 |
| Generalized System of Preferences (GSP) | Number of preferential; tariff lines | 3031 | 353 | 2678 |
| | Of which: Number of duty-free lines | 1643 | 158 | 1485 |
| Least developed countries duties | Number of preferential tariff lines | 3641 | 1188 | 2453 |
| | Of which; Number of duty-free lines | 3641 | 1188 | 2453 |

Source: World Trade Organization. Available at: <http://ptadb.wto.org/ptaTradeInfo.aspx>

Rules of origin

In order for goods exported from a preference-receiving country to be eligible for preferential tariff treatment, they must be recognized as originating in that country under the origin criteria of the GSP of Japan and transported to Japan in accordance with its rules for transportation.

As a general rule, working or processing operations will be considered sufficient when the resulting goods are classified under an HS tariff heading (4 digits), other than that covering each of the non-originating materials or parts used in the production. However, there are two exceptions to this rule. Firstly, any working or processing falling within the category of minimal processes will not be considered sufficient even if there is a change in the HS heading. Secondly, some goods are required to satisfy specific conditions in order to obtain originating status without a change in Harmonized System heading (please see UNCTAD Japan GSP Handbook - Annex 3, minimal processes which are not accepted as obtaining original status; and Annex 4, list of conditions to qualify as an originating good, respectively).

Documents Requirements

Japan accepts certificates of origin from overseas manufacturers of goods imported into Japan to support a preference claim. Certificates of origin provide a claim of origin and must meet the requirements of Form A and duly signed by the issuing authority of the exporting government authorities registered as an issuing authority. However, consignments of customs value not exceeding 200,000 Yen or goods whose origins are evident are exempted from documentary requirements

² https://unctad.org/system/files/official-document/itcdtsbmisc42rev6_en.pdf

³ <http://tao.wto.org/report/tariffines.aspx?country=392&year=2020&ui=1&duty=40>

10. GSP Scheme of Russian, Belarus & Kazakhstan

The Customs Union (CU) of Russia, Belarus and Kazakhstan grants preferential tariff treatment under their GSP scheme to 103 developing countries, including Pakistan; and 49 least-developed countries.

Product Coverage

Preferential tariff regime is unified both for developing and for the least developed beneficiaries. CU approved the list of approximately 2800 goods (10-digit HS Code) originating from developing and LDCs countries on which preferential tariffs shall be granted for their importation into the customs territory of CU.

Tariff reductions on the most favored nation (MFN) rate under the GSP of CU depend on the origin of preferential products. All products covered by the scheme and originated in the least developed countries are granted duty-free access to the united market of Russia, Belarus and Kazakhstan. Preferential products from developing countries have a 25 % discount on the MFN duty.

Rules of Origin

In order for goods exported from a preference-receiving country to be eligible for the preferential tariff treatment, they must be recognized as originating in that country under the origin criteria of the GSP scheme, and directly transported to Russia, Belarus or Kazakhstan. The GSP scheme of CU requires the Certificate of Origin (combined declaration and certificate) Form A as documentary evidence. The goods are regarded as originating in a developing country when: a) these are wholly produced in said country; or b) the goods are sufficiently finished or processed in the country with the goods of third country or unknown origin not exceeding 50% of the value of the goods exported.

Documentary Certificate

A person moving the goods needs to have a certificate of origin in the format "A". The certificate has a validity of 12 months after the date of issuance thereof. The certificate is required to be submitted to customs authorities in a printed form, free from corrections, in Russian and English. However, for small consignments of goods (whose customs value does not exceed US\$ 5000) the presentation of a certificate of origin is not required.