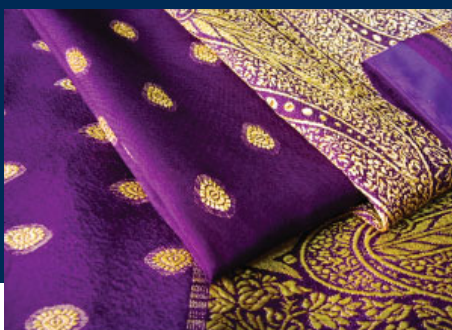


ENHANCING PAKISTAN'S TRADING BENEFITS FROM THE PROPOSED EU GSP PLUS SCHEME

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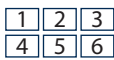
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ENHANCING PAKISTAN'S TRADING
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ABBREVIATIONS

000	Thousand(s)
ACP	African Caribbean Pacific Partnership
ATP	Autonomous Trade Preferences
AZO	Azobenzene or diphenyldiazene compounds used in dyes and pigments
Bln	Billion
BOD	Biochemical oxygen demand
CARIS	Center for Advanced Research in
CEACR	Committee of Experts on the Application of Conventions and Recommendations (ILO)
CEDAW	Committee on the Elimination of Discrimination against Women
CERD	Committee on the Elimination of Racial Discrimination
CESCR	Committee on Economic, Social and Cultural Rights
Ch	Chapter Number of the Harmonized System of Tariffs
CITES	Convention on International Trade in Endangered Species of Wild Flora and Fauna
CN	Combined Nomenclature used in the EU Tariff Code
COD	Chemical oxygen demand
COMTRADE	United Nations Commodity Trade Statistics Database
COTANCE	Confederation of National Associations of Tanners and Dressers of Europe
EBA	“Everything but Arms”
EC	European Commission
ECDPM	European Center for Development Policy Management
Eco-label	Standards certification awarded by the EU Environment Directorate General
EPA	Environmental Protection Agency (Pakistan)
EU	European Union
Eurostat	European Statistical System of the European Commission
FPCCI	Federation of Pakistan Chambers of Commerce and Industry
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs in Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GOTS	Global Organic Textile Standards
GSP	The European Union’s Generalized System of Preferences
GSP+	Incentive Arrangement for Sustainable Development and Good Governance (GSP Plus)
HAACP	Hazard Analysis and Critical Control Points (for Food Safety and Pharmaceuticals)
HS	Harmonized Systems Code (HS Codes) for Tariffs
HSE	Health, Safety and Environment
ILO	International Labour Organization
INCB	International Narcotics Control Board
IPR	Intellectual Property Rights

ISO	International Standards Organization
LDCs	Least Developed Countries
MRLs	Maximum Residue Levels
MEA	Multilateral Environmental Agreement
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nation
MNC	Multi-National Corporation
MAST	Multi-Agency Support Team
NAPHI	National Plant and Health Inspection
NEQS	National Environmental Quality Standards (Pakistan)
NGO	Non-Governmental Organization
NTBs	Non-Tariff Barriers
OHSAS	Occupational Health and Safety Advisory Services Certification
PAK	Pakistan
PEPA	Pakistan Environmental Protection Act
PET	Polyethylene terephthalate
PEST	Plastics Exposure Scenario Team
PSQCA	Pakistan Standards and Quality Control Authority
REACH	Registration, Evaluation and Authorization of Chemical Substances – EC1907/2006)
RUDs	Reservations, Understandings and Declarations
SA 8000	Social Accountability Standard
SME	Small and Medium Enterprises
SMEDA	Small and Medium Enterprises Development Authority, Government of Pakistan
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TDAP	Trade Development Authority of Pakistan
TRIPs	Trade Related Aspects of Intellectual Property Rights
TRTA	Trade Related Technical Assistance
TSS	Total Suspended Solids
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on for Climate Change
UNIDO	United Nations Industrial Development Organization
US	United State of America
US\$	United States Dollar
USAID	United States Agency for International Development
VSS	Voluntary Social Standards (also known as “private standards”)
WTO	World Trade Organization

INTRODUCTION

The Generalized System of Preferences (GSP) is a facility granted to developing countries ("beneficiary countries") by certain developed countries ("donor countries"). They are non-reciprocal preferential treatments that are unilaterally extended, without negotiation with the beneficiary and are extended in three arrangements:

- Standard GSP: in which tariff benefits are extended through a combination of duty-free access for "non-sensitive" items and preferential tariffs for "sensitive" items;
- Everything But Arms (EBA): an arrangement extended to 50 Least Developed Countries, in which all products, excluding arms, are eligible for duty free access into the EU with no quantity restrictions, except possible safeguard measures that apply to all three arrangements.
- GSP+: an arrangement for "trade vulnerable countries" in which tariff benefits are extended to all eligible items, but "sensitive" categories, such as textiles, agricultural and fisheries products are subject to quantity restrictions (less than 6% of total EU imports from GSP countries of such products).

Effective from January 2014, the "vulnerability" criteria for the GSP+ eligibility is a combination of a country's: (i) export values to the European Union (EU) being less than 2% of the EU's total imports from GSP eligible countries; (ii) seven or less products making up more than 75% of the exports; (iii) and ratification and implementation of 27 international conventions, 16 of which relate to human rights and labour rights; and 11 to various governance issues such as environment, anti-terrorism and anti-narcotics trafficking.

To reflect the different aspects of the GSP+ eligibility, the study is therefore constructed in two main areas: a quantitative analysis covering the trade, sector, product and market analysis; and a qualitative analysis covering legislation and standards. Views from stakeholders in Pakistan and in the EU have also been solicited on the different areas of analysis.

This study has analysed that Pakistan's volume of exports to the EU does not reflect its potential. The performance gap arises from various domestic inconsistencies, one of the outcomes of which is the inability to diversify the country's basket of export commodities. As a result, Pakistan's exports to the EU are supply-driven rather than demand driven.

Except for goods covered by Chapters 61 and 62 of the Harmonized System Code (HS), (knitted and woven apparel), the top six categories that constitute almost 90% of Pakistan's exports to the EU do not find a place in the top 45 EU import categories. This mismatch extends also to GSP exports, where only three of Pakistan's top 20 exports to the EU find a place in the EU's top 10 GSP imports, against eight from India and six from Sri Lanka.

The findings of the analysis conclude that, for obtaining maximum benefits from GSP+, Pakistan's greatest strengths in exports to the European Union, its textiles and clothing sectors are also its biggest problem in benefitting from GSP+. Textiles and clothing are the backbone of Pakistan's exports to the EU, comprising 75% of the value; but these have the least tariff relief under GSP, as a consequence of which only 20% of Pakistan's GSP exports enter the EU duty free and will continue to do so unless new product lines are developed in textiles, clothing and leather made-ups and the quality of products in other sectors elevated to international standards.

Due to the market penetration terms of the new regulation (the 6% threshold), the major portion of existing textile exports will continue to enter the EU against payment of standard GSP or MFN tariffs, depending on their quantity.

The study has identified sectors that will qualify for preferences under GSP+. The sectors other than textiles have been selected as "potential" on the basis of possessing demonstrated export capability, either in the EU or world market, combined with tariff benefits available through GSP+ duty free import entry, and are as follows:

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- Textiles: Except for Ch 55 (manmade fibres), where practically all the currently exported products have more than 6% market share, duty-free market access remains available on all other lines, including in Ch 52 (cotton yarn and fabrics), Ch 63 (textile made-ups), Ch 62 (clothing, woven) and Ch 61 (clothing, knitted) which by themselves constitute 67% of all exports to EU. In these lines, there is potential to increase sales by up to US\$ 278 million (13.5% of existing imports) at zero duty.
- Footwear: The footwear sector (Ch 64) stands to benefit greatly from GSP+ duty free access. Most Favoured Nation (MFN) duties in the EU on footwear are 8%, which is a big margin in a highly price-competitive export market (over US\$ 50 billion.) In recent years, footwear exports to the EU from Brazil, Thailand and Vietnam have declined respectively by 35%, 18% and 14% due to withdrawal of duty preferences. In the same period, Nicaragua (GSP+) and Bangladesh have used duty free access to drive their exports of footwear (Nicaragua from zero to US\$ 12.5 million in less than three years, Bangladesh by 94% in five years.)
- Ethanol: EU autonomous trade preferences for 2012-2013 have allowed a quota of 75,000 tons import of ethanol from Pakistan. Under the new GSP+, the specific duty on ethanol will not apply for quantities imported up to 113.5% of exports made in 2013. Controlled sales will enable ethanol exporters to re-build their market in the EU without inviting the negative experience of 2005 (when safeguard measures were imposed and put a brake on the export momentum.
- Plastic products: The plastic products sector (HS Ch 39) has a 6.5% duty. Products such as polyethylene terephthalate (PET) and polystyrene have an US\$ 6.9 billion market in the EU. Imports from Pakistan have proved to be competitive.
- Fruits, nuts: For the fruit and nuts sector (Ch 08) GSP+ will provide duty advantage of between 5%-16%, plus specific duties on some items. The potential market may be gauged from the fact that, against Pakistan's US\$ 65.8 million worth exports to the EU, India has exports of US\$ 460.5 million.
- Pakistan's jewellery: For the jeweller sector (Ch 71) exports to the rest of the world are rising much faster than to the EU, where the expatriate/Pakistani origin has more spending power than other areas. Removal of India's jewellery exports from the US GSP in 2008 led to a doubling of Pakistani jewellery exports to the US within two years. India's Ch 71 exports have graduated out of the EU GSP, creating an additional market opportunity.

The study also conducted an analysis of some of Pakistan's key competitor countries, which concludes that demand-driven export strategies were more effective at gaining better market access than tariff preferences. The case of India and other standard GSP/non-GSP countries is cited as having built and successfully held on to their export markets in the EU, particularly in textiles and clothing, notwithstanding competition from countries that have zero-duty import preferences through EBA or bilateral, regional and free trade agreements, or autonomous preferences.

This success is attributed to the fact that countries such as India, China, Brazil, Hong Kong SAR, also newly-industrializing countries such as Thailand and Malaysia and transition economies such as Vietnam have strong industrial base, skilled manpower and managerial capabilities, which make it difficult for lower income countries, even with duty free/quota free access, to compete against them.

Recommendations have been made towards addressing production gaps, gaps in standards compliance, marketing technology transfers and capacity building for all the identified products.

A main conclusion of the study is that the key challenges to increasing Pakistan's exports to the EU lie within the border. Pakistan needs to analyse further why countries such as Turkey, Morocco, Tunisia, Vietnam and Bangladesh have greater market share in the EU, not to mention India and China, which have taken the competition to another level.

To capitalize on the opportunities available through GSP+, the responsibility of the private sector and private sector associations has been emphasized for coordinated sector level action and to study the above "competitor" economies to address the gaps. The textile sector needs to improve its knowledge of

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the market, to ascertain areas where they have not acted and why countries without domestic raw cotton, yarn and fabric production are able to outsell and out-price Pakistan in the EU market.

Likewise, the non-textile sectors may take the initiative to close the gaps in quality control and testing, in conforming to traceability and Global GAP standards, storage and packaging of produce that prevent exports from Pakistan to sophisticated and prosperous markets.

An analysis has been done on the new GSP+ scheme's conditionality requirements on sustainable development and good governance and implications for beneficiary countries. Simultaneously a review has been conducted on Pakistan's status vis-à-vis the 27 conventions required for GSP+ qualification and the challenges to be faced for meeting the eligibility criteria.

The study highlights that, subsequent to the 18th Amendment to the Constitution of Pakistan in 2010, several subjects having relevance to the conditions of GSP+ qualification have devolved from the federal government to the federating provinces.

It also highlights that at the present time, while the federal government is authorized to negotiate foreign treaties and deal with matters such as those related to the reporting and monitoring of the 27 conventions, on-ground implementation is the preserve of the provincial governments. This dichotomy necessitates the creation at the federal level of a facilitation and supervision body that can coordinate with the provincial governments in such matters to ensure that the rules and regulations enacted have uniformity and cohesion across the country.

The analysis has led to a number of recommendations including developing a mechanism for coordination on legislating, monitoring and implementation of international conventions and maintaining liaison in the area of international monitoring being done for compliance with GSP+ scheme conditions. Other measures, to assure that in-country implementation and monitoring are effective, include capacity-building at all plural-stakeholder levels, sector levels, monitoring, judicial commissions, and creation of a panel of trade consultants and legal experts to advise on GSP+ conditionality.

The study has also identified certain aspects of Regulation (EU) No 978/2012 relating to "binding" undertakings, which will require clarity in light of the United Nations Convention on treaties and further that the proposed reasons for withdrawal of preferences for "serious violations" may come under discussion for clarity.

Finally, a review of Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS) requirements has been carried out for the products and sectors identified in the trade analysis. These include, but are not limited to, a number of product- and production-related technical, social and environmental measures in the textile, leather and ethanol sectors in particular and SPS, Hazard Analysis and Critical Control (HAACP) measures and the impact of Registration, Evaluation and Authorization of Chemical Substances (REACH). Some general recommendations for addressing the gaps include enhanced capacity building and awareness-raising among industry stakeholders, particularly small and medium enterprises (SMEs), through Federation of Pakistan Chambers of Commerce and Industry (FPCCI), relevant chambers of commerce, technology exchanges at regional level for synergy and support services to industries in marketing and branding.

PAKISTAN'S EXPORTS TO THE EU AND REVIEW OF THE EU GSP SCHEME



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Pakistan's recent exports to the EU

The EU is not only Pakistan's largest export destination and trading partner; it is also engaged with Pakistan in multiple levels of social and economic development activities. Revisions in the EU's import tariff preferences (GSP) scheme, to become effective from January 2014, contain provisions that provide Pakistan with an opportunity to merge its EU exports with an identified development agenda for enhanced economic activity through social development.

Pakistan's exports to the EU have climbed steadily, but not spectacularly, since 2003, with the share of EU in Pakistan's global exports noticeably declining by 9% over this period:

Pak exports to:	2003	2004	2005	2006	2007	2008	2009	2010	2011	Growth 03-10
EU	3.684	4.409	4.071	4.500	5.099	5.838	5.048	5.932	7.096	92.6%
Growth y/y		22.2%	(-7.5%)	10.5%	13.3%	14.5%	(-13.5%)	11.5%	26.0%	
World	11.930	13.379	16.050	16.932	17.838	17.554	20.279	21.413	25.343	112.4%
Growth y/y		12.1%	20.0%	5.5%	5.3%	(1.6%)	15.4%	5.6%	18.3%	
EU share/Pak Total exports	30.8%	32.9%	25.3%	26.5%	28.6%	33.2%	24.9%	26.3%	28%	(-9.1%)

Source: Comtrade

In this nine-year period, Pakistan's exports to the world have risen by 112.4%, i.e. at 12.5% per annum, slightly higher than the 10.3% annual growth in exports to the EU. As a result, exports to the EU as a share of Pakistan's total global exports have declined from 30.8% in 2003 to 28.4% in 2011, a decline of 9.1% (and a decline of 16% since 2008); nevertheless, the EU still remains Pakistan's largest export market.

Given its natural resource base, manpower and entrepreneurial skills and the size of the European import market (2011 imports from extra-EU 27 were US\$1.54 trillion), Pakistan's exports to the EU do not reflect their potential volume. The performance gap arises from various domestic inconsistencies, one of which is the inability to diversify the country's basket of export commodities. As a result, Pakistan's exports to the EU are observed to be supply-driven rather than demand driven. Except for goods covered by Ch 61 and 62 (knitted and woven apparel), the top six categories that constitute almost 90% of Pakistan's exports to the EU do not find a place in the top 45 EU import categories. This mismatch extends also to GSP exports, where only three of Pakistan's top 20 exports to the EU find a place in the EU's top 10 GSP imports, against eight from India and six from Sri Lanka.

Other least developed and lower middle income countries, with less production facilities, have used the GSP tariff preferences to identify sectors where they can compete for markets in developed countries. For example, Mauritius (see Table 2) was dependent on sugar for 85% of its exports in 1975, but by 1999 four other sectors (clothing, jewellery and watch dials, seafood, preserved foods) made up 75% of its exports and the share of sugar in total exports had declined to 14%. Bangladesh has used duty-free/quota free access to build up a US\$ 14 billion diversified clothing sector market in the EU and in the process has developed a domestic yarn and fabrics production base that meets 60% of its clothing sector requirements.

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Lome I 1975-1981	Lome II 1981-1985	Lome III 1985-1990	Lome IV 1990-1999	Cotonou 2000-2007
Sugar 84.6%	Sugar 64.9%	Sugar 58.6%	Sugar 20.3%	Sugar 14.0%
	Textiles and Clothing 18.8%	Textiles and Clothing 23.8%	Textiles and Clothing 64.0%	Textiles and Clothing 68.6%
		Jewellery Watch Dials 12.0%	Jewellery and Watch Dials 13.0%	Jewellery and Watch Dials 12.0%
			Fish/Canned Tuna 3.0%	Fish and Canned Tuna Preserved Fish 5%

Source: Mauritius and Jamaica as Case Studies of the Lomé Sugar Protocol (Pellervo Economic Research Institute, Finland)

The prospects of qualifying as a GSP+ beneficiary offer Pakistan a chance to break new ground, not only from the perspective of export diversification, but also progress in labour working conditions and gender equity. Success in the latter areas will facilitate Pakistan's integration into the rules-based global economy, dominated by the inter-linked elements of buyer-driven compliance and cross-border supply chains.

In the past five years, Pakistan's share of the EU's overall import market has risen from 0.009% in 2007 to 0.011% in 2011 (See Annex A), an increase of 22%; and from 0.035% to 0.04% of Extra EU-27 imports (an increase of 15%).

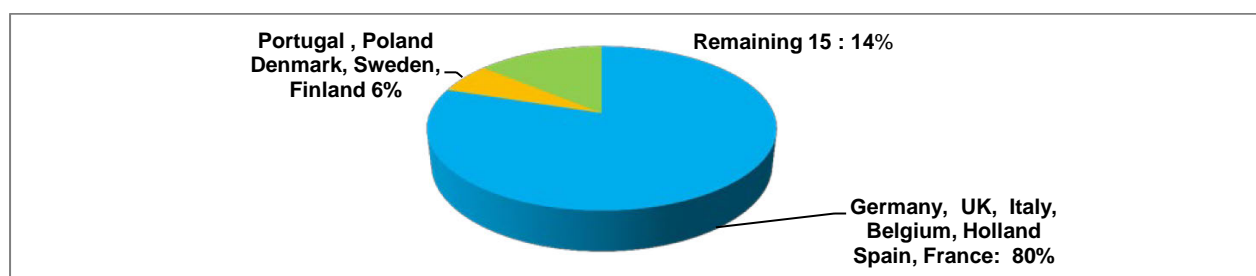
The export growth has been achieved largely due to events in 2009, when the EU's global imports fell by 25%, but its imports from Pakistan declined only by 13.4%, approximately half the overall decline. This came about as a combination of two interlinked domestic factors: (i) Pakistan's banking industry, which is not fully linked within the global financial system, did not face the same liquidity crisis as its overseas counterparts and was able to continue financing activity to exporters; (ii) the country's export manufacturing sector, being less reliant than others on imported raw materials, suffered fewer shocks and disruptions from the global trade crisis compared to suppliers in many competing countries.

Consequently, Pakistani exporters were able to maintain order deliveries to their EU customers in difficult times and their resilience appears to have paid off, with a total 40% increase in exports to EU in 2010 and 2011. It is a noteworthy achievement considering that 90% of Pakistan's exports to the EU consist of textiles and clothing and leather apparel, in which competitors such as Turkey, Morocco, Tunisia and Bangladesh enjoy duty-free access to the EU market against peak duties paid by Pakistani merchandise.

The chief characteristics of Pakistan's exports to the EU are summarized below:

- 88% of exports fall within two commodity categories, textiles and leather, a feature that has not changed for a decade and led to the GSP+ "vulnerability" in product diversification.
- 80% of Pakistan's exports are directed to seven countries – Germany, the United Kingdom, Italy

Figure 1: Geographical Distribution of Pakistan's Exports to the EU:



- Belgium, the Netherlands, Spain and France and 6% to another five (Portugal, Poland, Denmark, Sweden and Finland.) In this connection, it needs to be mentioned that, while Pakistan's exports to the remaining 15 EU member states comprise only 14%, the above-named twelve countries together make up 88% of the EU's economy and 89% of total EU imports. Consequently, while Pakistani exports have not fully penetrated geographically into the EU, this is not the case with penetration into EU's import market volume or its economic heartland. Details of Pakistan's exports to the EU-27 disaggregated by country can be seen in Annex 2.
- In textile and clothing products, Pakistan's main competitors in the EU market are India, Bangladesh, China and Turkey. Apart from India, the other three countries rank among Pakistan's top 10 export destinations, creating an anomalous situation where Pakistan supplies textile raw materials (yarns and fabrics) to countries whose finished textiles and clothing products enjoy duty free advantage in Pakistan's main export market. In particular, exports to Bangladesh have doubled since 2010, following the facility of "regional cumulation" in respect of origin of goods.
- Pakistan's exports to the EU are supply-driven rather demand-driven. The top 6 sectors that constitute almost 90% of Pakistan's exports to EU do not find a place, except for Chapters 61 and 62, in the top 45 EU import products. As will be observed from the products analysis in Section, Challenges Faced by the Sectors for Export under GSP Plus, this demand-supply mismatch extends also to products imported under GSP.

Table 3: Ranking of Pakistan's top 6 product exports to EU in EU's global import ranking

HS Code Chapter	Description	*Rank in Pakistan exports to EU	*Rank in EU Global Imports
62	Articles of apparel, accessories, not knit or crochet	1	12
61	Articles of apparel, accessories, knit or crochet	2	14
42	Articles of leather, animal gut, harness, travel goods	3	47
55	Manmade staple fibres	4	65
52	Cotton	5	66
41	Raw hides and skins (other than furskins) and leather	6	61

Source: Author's own analysis based on Comtrade 2011 data

These characteristics will have a strong influence on shaping the domestic response for proper exploitation of the GSP+ market access opportunity.

For further information regarding the macro-economic statistics, of the EU or Pakistan, which is beyond the scope of this study but still of interest, can be seen in Annex 1, 2, and 3.

Introducing EU GSP

On October 25, 2012, the European Parliament passed "Regulation (EU) No 978/2012 of the European Parliament and of the Council, applying a scheme of generalized tariff preferences and repealing Council Regulation (EC) No 732/2008.

The changes in the scope of the GSP Scheme being introduced through this Regulation, which becomes effective from January 01, 2014, open new market access opportunities for Pakistan at a time when other newly industrialized countries are capturing global export markets, including in the EU, at a brisk rate. As stated by Pascal Lamy, Director-General, World Trade Organization, at a speech delivered to the Brookings Institute in 2012, "in addition to China, many new trading powers — Brazil, India, Mexico and Malaysia are all in the top 25 leading exporters table, and all posted export growth of 15% or better in 2011." -).

This section will briefly discuss the origins of the GSP through a literature review as a backdrop to discussing the GSP+ arrangement.

The GSP is a facility granted to developing countries ("beneficiary countries") by certain developed countries ("donor countries".) They are non-reciprocal preferential treatments that are unilaterally extended, without negotiation with the beneficiary. Because the GSP granted preferential access over WTO MFN rates, development economists anticipated that it would provide developing countries' economies with the competitive edge they needed to diversify and grow.¹

The intellectual foundations of the non-reciprocal preferences were first laid out in the 1960s, when several scholars noted that developing countries exports were becoming increasingly reliant on price-volatile, low-value-added exports such as agricultural and mineral commodities. The idea for a system of trade preferences to enhance two-way trade flows with developing countries was first deliberated in 1968 at a United Nations Conference on Trade and Development (UNCTAD) conference and a GSP scheme was developed in this context.²

Dr Supachai Panitchpakdi, current Secretary-General of UNCTAD and former Director-General of the WTO, summarizes the purpose behind GSP as follows:

The [GSP] was established on the basis of the economic theory that preferential tariff rates in developed- country markets could promote export-driven industry growth in developing countries. It was believed that this, in turn, would help free beneficiaries from heavy dependence on trade in primary products, the slow long-term growth and price instability of which contributed to chronic trade deficits. It was thought that only the larger markets of industrialized trading partners were big enough to provide the economic stimulus needed to attain these goals.

GSP was envisioned as part of a larger development strategy that included import-substitution policies, infant industry protection, and preferential access to developed countries' markets.

As stated by Magdalena Stok-Wódkowska:³

Although every state (and the EU) has its own set of rules for granting preferences, four general approaches are similar. Firstly, states define a list of goods covered by a lower tariff rate. Secondly, they define a list of states eligible for preferential tariffs, so called "beneficiary list". Thirdly – every system is based on strictly-defined rules of origin, which is in fact a crucial factor for granting preferences. Fourthly, most of states give special preferences to Least Developed Countries (LDCs), mostly by granting them zero rates and exemption from quantity thresholds.

¹ Çağlar Özden & Eric Reinhardt, *Unilateral Preference Programs: The Evidence*, in *Economic Development and Multilateral Trade Cooperation* 189, 191–92

² *GSP and Development: Increasing the Effectiveness of Nonreciprocal Preferences* - Matthew G. Snyder, *Michigan Journal of International Law* August 2012

³ Stok-Wódkowska, M. "Export from developing countries to the EU under GSP+ scheme in the time of crisis", Ph.D., Institute of International Law, Faculty of Law and Administration, Warsaw University; Paweł Folfas, Ph.D. candidate, Institute of International Economics, Warsaw School of Economics

Through the years, the GSP has been treated by developed states as unconditional development aid for chosen poorer countries. Recently, the EU and partly also the United States of America (USA) have been trying to achieve other goals through their GSP schemes. Some observers perceive that preferences are granted not only because a given developing country is poorer and needs some additional incentives to develop, but also because the given country shares some values important for the EU or the US. Thus, "conditional" preferences are extended in order to pursue objectives broader than purely economic aid. Such an attitude has been strongly criticized as a tool of protectionism, due to the rise of costs related to fulfilling requirements.⁴ This aspect is discussed further in the section on the conventions.

At present, 13 countries or groups of countries have established GSP schemes and, despite criticism over the discretionary and conditional nature of some of these countries' schemes, commentators acknowledge that non-reciprocal preferences have had a positive effect on the development and economic growth in beneficiary countries. According to UNCTAD, the following countries have implemented GSP schemes: Australia, Belarus, Bulgaria, Canada, Estonia, the EU, Japan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey, and the USA.

The EU's GSP scheme, which remains the most widely used of all developed-country GSP systems (EU imports under the GSP amounted to € 59.6 billion in 2009), has evolved from a single arrangement (Standard GSP) between 1971-2000, through a five-tiered system from 2002-2005 to a three-tiered system from 2006, which has been revised and extended in the new rules to apply from 2014.

The first European Union GSP scheme spanned an initial phase of 10 years (1971–1981) and was subsequently renewed for a second decade (1981–1991). During these periods, the EU GSP was reviewed each year, the reviews involving changes in product coverage, quotas, ceilings and their administration, beneficiaries and depth of tariff cuts for agricultural products. Pending the outcome of the Uruguay Round (of global trade negotiations), the 1981-1991 scheme was extended with various amendments until 1994, when the Community made another 10-year offer.

As a result, the third cycle of the EU GSP scheme covered the period 1995 - 2004 and was implemented in three phases: The first phase started on 1 January 1995, when the Community adopted basic legislative acts concerning industrial and agricultural products. "Country-sector graduation" was introduced in 1995 through an open policy of graduation, which continued to apply under the 1999 – 2001 scheme.

For the second phase, lasting from 1 July 1999 to 31 December 2001, the EU revised its GSP scheme on the basis of Council Regulation (EC) No. 2820/98.

For the period from 1 January 2002 to 31 December 2004, the EU put in place the third phase of the scheme by adopting Council Regulation (EC) No. 2501/2001. Arrangements under this phase of the scheme extended five categories of preferential benefits:

- (i) The general or standard arrangement;
- (ii) Special incentive arrangements for the protection of labour rights;
- (iii) Special incentive arrangements for the protection of the environment;
- (iv) Special arrangements to combat drug production and trafficking;
- (v) Special arrangements for LDCs: the EBA initiative.

Two categories of sensitivity were created under the 2002–2004 scheme: "Non-sensitive" and "Sensitive" products. Eligible non-sensitive products enjoyed a preferential zero rate of duty, while eligible sensitive products were accorded a reduction of 3.5 percentage points in the full ad valorem rate of customs duty payable. Based on guidelines drawn up in 2004, and following a WTO ruling (discussed in Section, GSP Plus) that these special incentive arrangements were "discriminatory," a third EU GSP scheme was adopted on 27 June 2005 under Council Regulation (EC) No. 980/2005 covering the period from 1 January 2006 to 31 December 2008. This simplified the scheme by reducing the number of arrangements from five to three, namely:

⁴ Ibid

GSP standard arrangement

The EU GSP was renewed again in January 2009, extending through 2011. A revised proposal published in November 2008 reflected concerns related to rules of origin and introduced more simplified rules, "Rules determining Origin" (that took effect in January 2010) and "Rules for Procedures" (which will take effect from January 2013).

In the communication "Developing countries, international trade and sustainable development: the function of the Community's GSP for the ten-year period from 2006 to 2015", the European Commission stated that a priority of the EU tariffs preferences is "firstly an aid for least developed countries (according to the UN criteria) and secondly simplification of the GSP scheme."

Although the Commission in 2005 admitted that previous conditional GSP had been inefficient (a very small number of developing countries benefitted from the program), it decided to continue to promote sustainable development and good governance through additional preferences.

The existing GSP scheme is described below:

Standard GSP: Previously available to 176 countries, the "Standard" GSP suspended tariffs for products, except agricultural, deemed "non-sensitive" (sensitive products are those where domestic production is considered vulnerable to unrestricted imports).

- Tariffs: The GSP covered products are split into non-sensitive and sensitive products:
- Non-sensitive products (just below 3,200 tariff lines and representing slightly more than half of the products covered) enjoy duty-free access.
- Sensitive products (a mixture of agricultural, textile, clothing, apparel, carpets and footwear items) benefit from a tariff reduction of 3.5 percentage points on ad valorem duties compared to the standard most favoured nation (MFN) tariff or a 30% reduction in duties that are calculated on a specific basis.
- For textiles and clothing, the reduction is 20% of the ad valorem MFN duty.

Products that showed increased imports of more than 15% per annum (12.5% in the case of textiles) for three consecutive years were "graduated" from the GSP scheme (i.e., the tariff preferences for that section were withdrawn).

Box 1: Changes effective 2014

Under the new Regulation, the number of beneficiary countries is reduced to a total of 85, of which 50 are LDCs and 35 (including Pakistan) are Low Middle Income Countries, based on GNP Per Capita income as classified for a period of three consecutive years by the World Bank. All upper middle-income countries (those having a GDP per capita above USD 4,000 per annum, as per World Bank classification), high income countries and countries that have an FTA or other Preferential Arrangement, offering terms similar to or better than GSP, with the EU will no longer benefit from unilateral GSP preferences, although they will remain eligible. * A list of beneficiaries under the repealed and new GSP Regulation is attached as Annex I.

Provisos: The thresholds for suspension of duty are increased for products whose imports increase by 17.5% of total imports from GSP countries for all eligible products (except ethanol); 13.5% share by volume or 14.5% share by value for textiles and clothing products (and ethanol) over the previous year.

GSP+ is an arrangement intended for "vulnerable" countries that are assessed to have special development needs, based on a combination of low market share in the EU (less than 1% of GSP-

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“covered” imports) and low product diversification (the top five exported items constitute more than 75% of exports to EU).

Qualification for GSP+ benefits is subject to the prospective beneficiaries ratifying and implementing 27 international conventions on sustainable development and good governance; remaining a GSP+ beneficiary is conditional to monitoring by EU of implementation and satisfactory reporting thereof.

Although preferences under the GSP scheme are extended unilaterally, qualification for GSP+ requires the prospective beneficiary to make a formal written application, on receipt of which the EU initiates the process of verification of compliance with the specified conventions and the qualitative vulnerability data.

The scope of GSP+ is discussed in further detail in the following section.

Tariff Benefits: GSP+ entails duty free import for all eligible items as listed in the regulation, except for “sensitive” products for which the *ad valorem* duty is reduced by a flat 3.5% from the MFN rate and for 20% of *ad valorem* rate on textiles and clothing products. As with the standard GSP, the existing GSP+ scheme withdraws preferences for products whose imports increase by more than 15% (12.5% in the case of textile and clothing) over the previous year.

Changes effective January 2014: Changes to the GSP+ scheme are discussed in the next section

EBA: This scheme was introduced in 2001 to address the special needs of the least developed countries and granted duty-free and quota-free (DFQF) access for almost all products to qualifying beneficiaries, including on such “sensitive” products as agricultural, dairy, livestock, food and alcoholic beverage products.

Regional Cumulation: Exports under GSP are further incentivized via “regional cumulation,” which allows flexibility in rules of origin criteria. The EU GSP and GSP+ programs permit partial cumulation on a regional basis for four economic regions:

Box 2: Regions qualifying for flexibility in Rules of Origin

ASEAN – Association of South East Asian Nations (Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam);

The Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua);

The Andean Group (Bolivia, Colombia, Ecuador, Peru and Venezuela);

SAARC - South Asia Association for Regional Cooperation (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka)

Source:(Summary of Major Trade Preference Programs Julia V. Sekkel, Research Assistant, Center for Global Development April, 2009)

Temporary “withdrawal” from the scheme: GSP benefits can be withdrawn temporarily for all three categories in cases of:

- i. Serious and systematic violations of principles laid down in international conventions, concerning labour rights, core human rights and the fight against terrorism:
- ii. Serious and systematic unfair trading practices, including the supply of raw materials, which have an adverse impact on EU industries. In this case the beneficiaries, including EBA countries, could be suspended from tariff preferences

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- iii. Serious and systematic infringement of the objectives adopted by EU member regional fisheries Organizations. The EU Common Fisheries Policy currently has four components: (a) Regulation of production, quality, grading, packaging and labeling; (b) Encouraging producers organizations intended to protect fishermen from sudden market changes; (c) Setting minimum fish prices and financing buying up of unsold fish; (d) Set rules for trade with non-EU countries.
- iv. Serious shortcomings in customs control on the exports of drugs and illicit substances.
- v. Economic emergencies - This is a new safeguard provision becoming effective in 2014. It results from experiences of the 2008 (and on-going) financial crisis under which action to suspend benefits can be initiated by the EC on receipt of a complaint from any "interested party" in the EU affected by preferential imports under GSP. This proviso and the other protection measures are discussed in detail in the next section.

Specific Safeguard clauses: A Specific Safeguard clause for agriculture, fisheries and textiles has been introduced, applicable when exports of such products to the EU increase by at least 15% in quantity (by volume) compared to the previous year.

GSP utilization by the EU:

Although the EU GSP is essentially a trade instrument aimed at helping developing countries achieve domestic development goals through increased trade via preferential access to the EU market, the scheme is not as widely used by EU importers as would be imagined. Imports using GSP preferences are valued € 59.6 billion in 2009 and constitute less than 10% of total exports made to the EU by GSP beneficiary countries.

Table 4: EU imports from GSP beneficiary countries by import regime: 2009, Values, in 000Euros \

	Total Imports	Covered Imports ▼	Eligible Imports ■	Preferential Imports ●	Preferential Imports %	Utilization Rate
Column No	1	2	3	4	(4)/(1)	(4)/(3)
Standard	596.660.215	226.031.408	91.356.623	48.055.286	8%	53%
GSP+	27.169.344	6.270.902	6.257.906	5.324.162	19.5%	85%
EBA	19.200.133	9.065.341	9.065.341	6.236.838	32.4%	68.7%
Totals	643.029.693	241.367.651	106.679.670	59.616.287	9%	55%

Source: Eurostat

- ▼ Covered Imports are imports of those products from GSP countries that are listed in the GSP regulation
- Eligible Imports are actual import of products for which the country of origin is entitled to GSP treatment
- Preferential imports are products placed under the customs procedure for GSP preferences

There are two principal reasons for this limited utilization of the GSP scheme. First, the EU already extends MFN=0 (zero import duty under the WTO MFN facility) on many items that are key exports of GSP beneficiary countries and importers prefer the MFN channel because it involves less documentation:

Table 5 Imports from GSP countries by GSP Regime

	DUTY FREE						POSITIVE DUTY				
	Total Duty Free Imports	MFN =0	GSP =0	GSP+ =0	EBA =0	Other Pref =0	MFN >0	GSP >0	GSP+ >0	EBA >0	Other Pref >0
GSP	70%	62	4			4	25	4			*
EBA	91%	52			33	7	8				*

GSP+	87%	69	18	11	2	*
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Source: European Center for Development Policy Management using figures from CARIS

Second, MFN duties are already extremely low in the EU and therefore the preference margins are not significant enough for beneficiary countries to gain advantage; any competitive edge can be eroded by other cost factors such as freight, quality control, packaging, etc. This limits the utilization of the scheme.

GSP+

This section is divided into three parts – the first traces the origins of the GSP+ scheme; the second part examines the changes brought about through Regulation No 978/2012 of the EU Parliament and their ramifications for Pakistan exports; and the third analyses aspects of the exports made by current GSP+ beneficiary countries.

Origins of GSP+

The first complete scheme of the conditional GSP was introduced by Council Regulation (EC) No 2501/2001 of 10 December 2001 by applying additional preferences for the period from 1 January 2002 to 31 December 2004, these being:

- Special Arrangements for LDCs (EBA);
- Special Incentives granted to some countries specified by the EU, namely: Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Pakistan, Panama, Peru and Venezuela under the “Drugs Arrangement,” to assist in combating drug production and trafficking;
- The “Labour Arrangement”, for the protection of labour rights;
- The “Environment Arrangements”, for promoting protection of the environment.

India challenged the regulation on the grounds that the special incentives and arrangements proposed by the EU resulted in some beneficiary countries receiving greater tariff reductions than others and requested consultation with the EU. India’s position was that the tariff preferences accorded under the new incentives nullified or impaired the benefits accruing under paragraphs 2(a), 3(a) and 3(c) of the Enabling Clause of the GSP scheme, but the EU decided not to entertain the objection on the grounds that the GSP scheme, being a unilateral extension of preferences, did not envisage negotiation with beneficiaries.

India next moved the WTO for formation of a panel to resolve the matter, arguing that the EU move to award special incentives was contrary to MFN provisions of the GATT 1994. When the WTO met on February 2003 to compose the Panel, India indicated it was not objecting to the special incentives granted to LDCs under EBA, and was limiting its challenge to only one aspect of the new scheme (the “Drugs Arrangement,”) because the EU had until then not notified any beneficiaries under the Environment Arrangement and only Moldova had benefited from the Labour Arrangement.⁵

India won its case at the WTO, but the EU went into arbitration and it was not until September 2004, 30 months after the consultation request, that the arbitrator gave the EU until 1 July 2005 to make its GSP scheme WTO-consistent and the “Drugs Arrangement” was eventually repealed on 27 June 2005.

In its place, the EC adopted a new scheme of specialized preferences through Council Regulation (EC) No 980/2005, to take effect from 1 January 2006 to 31 December 2008, but with provisions concerning the special incentive scheme for sustainable development and good governance to apply from 1 July 2005. The new scheme, named GSP+, granted enhanced non-reciprocal preferences for certain countries, with

⁵ As detailed in “The WTO dispute settlement system and developing countries” - Working draft by Biswajit Dhar and Abhik Majumdar, commissioned by ICTSD as part of ICTSD’s Asia Dialogue on WTO Dispute Settlement and Sustainable Development - ICTSD / CNDS Graduate School of Law, Universitas Sumatera Utara in collaboration with East Asian Legal Studies, University of Wisconsin, with the support of the Geneva International Academic Network.)

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eligibility for the program based on a combination of economic (export concentration of a few products, less than 1% market share of EU GSP imports) and non-economic (ratification of international conventions on human rights, labour standards, environment and sustainable development and good governance factors). The additional preferences were contingent upon prospective beneficiaries *applying* for the special incentives, which could only be filed during a relatively small window of time, were available for a 2-year period and could be revoked if a beneficiary failed to implement the specified conventions.⁶

Until 2010, sixteen countries: Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Sri Lanka, Mongolia, Nicaragua, Paraguay, Peru and Venezuela had qualified and were exporting to the EU under GSP+ preferences. In 2010, Sri Lanka became the first country to be suspended as a GSP beneficiary (on grounds of "systemic" human rights violations), Venezuela exited from the special arrangements the same year and, in 2011, Cape Verde became the first African country to apply for GSP+.

Changes brought about in the new GSP regulation:

The scheme of preferences promulgated on October 31, 2012, with preferences to apply from January 2014 has made wide-ranging changes to the existing GSP+ dispensation. A comparison with the existing GSP regime is charted below:

Changes in GSP Arrangement	
CURRENT GSP	NEW REGULATION
<p>176 countries and overseas territories, divided in 3 groups:</p> <ul style="list-style-type: none"> - 'Standard' GSP (basic preferences additional to MNF) - GSP+ (enhanced preferences conditional to ratifying and implementing international conventions relating to human and labour rights, environment and good governance) - Everything but Arms (EBA, duty-free quota-free access for all goods except arms to least developed countries) 	<p>89 countries in total as beneficiaries:</p> <ul style="list-style-type: none"> - 49 least developed countries under EBA - 40 Low income' and 'lower middle income' countries that can qualify for GSP and/or GSP+ <p>Not eligible:</p> <ul style="list-style-type: none"> - 33 Overseas countries and territories that already have preferential access - 34 countries which have other channels for similar or better preferential access (e.g., FTAs, RTAs) - 20 'High income' or 'upper middle income' partners, as listed by the World Bank
CURRENT GSP	NEW REGULATION
<ul style="list-style-type: none"> - Preferences based around 21 product sections - Preferences suspended if threshold of 15% of total imports by all GSP beneficiaries is reached - Lower threshold of 12.5% for textiles - Graduation applies to standard GSP and GSP+ 	<ul style="list-style-type: none"> - Product sections further split up to broad-base product classification - Thresholds increased to 17.5% (general) and to 14.5% (textiles) for stable development of competitive sectors - Graduation only applies to standard GSP
CURRENT GSP	NEW REGULATION
<p>Standard GSP</p> <ul style="list-style-type: none"> - Sensitive List: tariff reductions - Non-sensitive: duty-free <p>GSP+: just over 66% of tariff lines covered (zero tariffs) Sensitive and non-sensitive products duty-free</p> <p>EBA: 99.8% of tariff lines covered (zero tariffs)</p>	<ul style="list-style-type: none"> - No change in Standard GSP - GSP+ : Sensitive lines removed, all eligible products "non-sensitive" - EBA : No change
GSP+ CURRENT	GSP+ NEW
<ul style="list-style-type: none"> - Product/Sector Graduation applies to GSP+ - Vulnerability – import share criterion: country eligible if market share is less than 1% of imports from all GSP 	<ul style="list-style-type: none"> - Product Graduation no longer applies to GSP+ - Vulnerability – import share criterion: threshold

⁶ EC – Conditions for the Granting of Tariff Preferences to Developing Countries (WT/DS246), available at <http://docsonline.wto.org>

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<p>beneficiaries</p> <ul style="list-style-type: none"> - Vulnerability – non-diversification criterion: 5 largest product sections must cover at least 75% of total exports from country to EU - Entry window: every 1.5 years 	<p>increases from 1% to 2%</p> <ul style="list-style-type: none"> - Vulnerability – non-diversification criterion: number of sectors to cover at least 75% increases from 5 to 7 - No entry windows: can apply any time - New countries which can now apply: Philippines, Pakistan, Ukraine
27 CONVENTIONS CURRENT	27 CONVENTIONS NEW
<p>Qualification for GSP+</p> <ul style="list-style-type: none"> - Commitment to ratify and implement conventions, to report and to accept monitoring <p>Monitoring</p> <ul style="list-style-type: none"> - Reporting to Council every 3 years <p>Removal/suspension mechanism</p> <ul style="list-style-type: none"> - Onus on EU to show that beneficiary country is in breach of conventions - Applicable legal benchmark of 'effective implementation' undefined - Based on reports by international monitoring bodies (e.g. UN, ILO) - Undefined role for other parties (e.g., civil society) 	<p>Qualification for GSP+</p> <ul style="list-style-type: none"> - Binding commitment to ratify conventions, to accept monitoring, and to cooperate - Commitment to accept without reservations conventions' reporting requirements - Country has not formulated a reservation which is \ prohibited by any of those conventions - No serious problems with implementation <p>Enhanced monitoring</p> <ul style="list-style-type: none"> - More scrutiny by Council and EP on the basis of Commission report, every 2 years <p>Removal/suspension mechanism</p> <ul style="list-style-type: none"> - Onus on the beneficiaries to prove positive record - Applicable legal benchmark of 'effective implementation' defined - More sources of information allowed (broader than UN, ILO,) - Specific role for "third parties" (e.g., civil society) <p>Conventions:</p> <ul style="list-style-type: none"> - Rejection of Apartheid no longer relevant and removed, substituted by "UN Framework Convention on Climate Change."
COMMON PROVISIONS - CURRENT	COMMON PROVISIONS – NEW
<p>Suspension Criteria:</p> <ul style="list-style-type: none"> - Serious and systematic violations of core human and labour rights conventions (on the basis of monitoring bodies) - Other grounds specified in the Regulation (e.g., unfair trading practices, non- compliance with customs rules) - Rules apply to standard GSP, GSP+ and EBA 	<p>Suspension Criteria:</p> <ul style="list-style-type: none"> - Same, but not exclusively on the basis of monitoring bodies; "third parties" included for monitoring - Clarification that unfair trading practices include those linked to raw materials - "Economic Emergency" clause inserted to trigger withdrawal of preferences - Rules apply to standard GSP, GSP+ and EBA
SAFEGUARDS: CURRENT	SAFEGUARDS:NEW
<p>General safeguards:</p> <ul style="list-style-type: none"> - EU producers have no right to request action; legal trigger ('serious difficulty') undefined. Clothing can not benefit from general safeguards—only from special safeguards (see below) <p>Specific safeguards possible for agriculture</p> <p>Special safeguards for clothing: in case import volumes increase by 20% over the year or exceed 12.5% of Union imports from beneficiary countries (same threshold as in graduation mechanism)</p>	<p>General safeguards:</p> <ul style="list-style-type: none"> - EU producers have right to seek action, legal trigger defined (safeguard applies if EU producers suffer deterioration of their situation). Clothing also can be subject to general safeguards <p>Specific safeguards for agriculture maintained</p> <p>Special safeguards for clothing maintained and extended to plain textiles and to ethanol</p> <ul style="list-style-type: none"> - Thresholds decreased to 13.5% for annual increase of

<p>- Not applicable for countries benefitting from EBA or whose share on total imports is below 8%</p>	<p>imported volumes, increased to 14.5% of share of imports from GSP beneficiary countries (new graduation threshold); - Not applicable to EBA or where share of total imports is below 6%</p>
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Source: Adapted from EU Commission Presentation October 31, 2012

Among the countries that qualify for GSP+ are Ukraine, the Philippines and Pakistan. A list of other countries that are qualified to apply is attached as Annex 4.

Ramifications for Pakistan

The new regulations impact in Pakistan in two areas:

Firstly, in quantitative measures:

Section 11, Article 29 Safeguard for Textiles, Agriculture Fishing: The result of lowering the threshold, from 8% to 6% for imports of clothing and extending this threshold to textiles, is that more than 60% of Pakistan's current export products to the EU will receive no duty-free preferences under GSP+ or the 20% reduction in ad valorem duty under standard GSP.

On the positive side, the removal of "Graduation" from GSP+ (Clause 22 of the Preamble) facilitates continued market capture for high-selling Pakistani textile, clothing and leather product categories, enabling them to expand their market share beyond 14.5% in value (or 13.5% by volume) per annum at nominal (2.4%) duty disadvantage, without "graduating" out of the GSP scheme, thus leaving the door open for promotion of duty-free imports of other categories of products within these sectors.

In addition, sectors with established markets in the EU, such as footwear (Ch. 64) and ethanol (Ch. 22, no longer on the sensitive list as opposed to high specific duty under general GSP) have market share well below 6% and face good growth opportunities, the former by 17.5% and the latter by 13.5% annual expansion, without attracting withdrawal of preferences or safeguard measures or graduation

Secondly, in qualitative aspects:

Chapter V Article 19 Temporary Withdrawal Provisions Common to all Arrangements (General, GSP+ and EBA):

Clause (c) serious shortcomings in customs controls on the export or transit of drugs (illicit substances or precursors), or failure to comply with international conventions on anti-terrorism and money laundering;

Available literature indicates that Financial Action Task Force, the global regulatory interlocutor on issues of money-laundering, has put Pakistan on the "watch list" in view of allegations of ineffective domestic regulations for compliance with global best practices.

Clause (d) serious and systematic unfair trading practices including those affecting the supply of raw materials, which have an adverse effect on EU industry and which have not been addressed by the beneficiary country. For those unfair trading practices, which are prohibited or actionable under the WTO Agreements, the application of this Article shall be based on a previous determination to that effect by the competent WTO body.

In regard to clause (d), the proviso restricting application of the Article (on unfair trading practices) to previous WTO determinations effectively closes avenues for consultation.

Delegated Acts: The new regulation provides enhanced delegated powers, as per the Lisbon Convention, to the Commission in respect of GSP. Therefore, all operational matters, especially issues concerned with suspension or withdrawal of preferences, launching investigations, tariff measures will be dealt with directly by the Commission instead of the EU Parliament, thereby ensuring speedier decision-making to the advantage of all concerned parties.

Safeguard and Surveillance Provisions Chapter VI, Article 22

General Safeguards: EU can begin investigations where there are imports of products from GSP beneficiaries in volumes/at prices that cause, or threaten to cause, serious difficulties to EU producers of the same or like items. The new element is that investigations can now be launched on the complaint of "interested parties" which include "those parties involved in the production, distribution and/or sale of the imports... of like or directly competing products".

In addition, Chapter VI, Article 24, Para 1, states "investigation of serious difficulties can be initiated on request by a member state, any legal person or association not having legal personality, acting on behalf of EU producers, or on the Commission's own initiative. These provisions could be misused by other exporters to subsidize marketing/dumping which would result in withdrawal of preferences on that product from all exporters, including GSP+ and EBA beneficiaries; the measures could be construed also as extending protection to private entities that are unable to compete fairly against legitimate imports from lower-cost producers in GSP beneficiary countries.

The 27 conventions: Pakistan has already ratified the listed conventions, but so have most other countries (Annex 5). Implementation, however, is another matter and it can be argued that Pakistan is not alone among its peers in having gaps between ratification and implementation. In response to consultant's questionnaire, a textile consultant in Sweden comments that "only Norway and Germany" (countries perceived to have exemplary governance structures and surplus finances) may have the capability and funds to comply with all the EU conditions for GSP+. The inclusion of civil society and legal persons or associations into the monitoring/objection process now opens up a GSP+ beneficiary state to new challenges, since implementation deficiencies can be exploited for motivations that are commercial rather than genuine concern for the environment or labour. In this regard four observations will be pertinent:

Pakistan's entry into a duty-free, social conditions-based GSP arrangement in 2002 was immediately challenged by textile competitor India; and in 2010, the EU's offer of autonomous tariff preferences (ATP) to offset losses caused by unprecedented natural disaster, was strongly opposed by lobbies within the EU and outside (textile competitors India, Bangladesh and Turkey being prominent), who succeeded in protracting the objections process so that the planned three -year ATP facility is reduced to just over one year.

EU stakeholder consultation leading to the new GSP regulations reveals strong opposition from the main European textile manufacturing lobby to Pakistan's entry as a GSP+ exporter.

This is because, among current GSP+ beneficiaries, although Honduras and El Salvador have strong levels of apparel exports, their main market is the US and the low values of their exports to the EU (see Table 12) do not cause alarm among domestic industry players. Of the possible new entrants to GSP+, Ukraine is not a potential major textiles and clothing competitor, while the Philippines' apparel exports are concentrated in the USA market. This leaves Pakistan, in particular its organized textiles and fabrics sector, as the potential market-capturing competitor, both for domestic EU manufacturers and other exporters. Therefore, especially in a time of continuing economic recession, robust trade defense measures can be expected from the European textiles and clothing manufacturing sectors, which, as illustrated below, have suffered sharp declines in employment through closure of manufacturing units due to the 2008 global trade collapse:

Table 6: EU 27 Textiles and Clothing Sectors: No. of enterprises and persons employed				
	2006	2007	2008	2009
<i>TEXTILES</i>				
No of Enterprises	79076	76852	63570	60121
Persons Employed	1.060.000	1.010.000	780.000	700.000
<i>CLOTHING</i>				
No of Enterprises	143.936	141.063	138.863	128.328
Persons Employed	1.390.000	1.300.000	1.320.000	1.130.000

Source : Eurostat (employment figures are stated as estimates)

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Sri Lanka's experience in the GSP+ regime is also instructive. Of the original GSP+ beneficiaries, only Sri Lanka had the manufacturing base combined with an export market for clothing in the EU. By 2008, its exports to the EU had risen by 37% (suffering a slight decline in 2009 during the global trade crisis) and its clothing exports competed strongly with other duty-free beneficiaries such as Bangladesh, Morocco, Tunisia and Turkey. In 2010, Sri Lanka was removed from GSP+ on the grounds of "systemic human rights violations," even though that same year its GSP status was restored in the United States after being approved on its human rights record.

Table 7: Sri Lanka exports to EU 2005-2009

000 Dollars	2005	2006	2007	2008	2009	2010	2011
Exports to EU	1,910,020	2,297,128	2,878,979	3,019,378	2,736,443	2,901,142	3,558,960
		GSP+	as GSP+	as GSP+	as GSP+		

Source: Comtrade

In assessing the likelihood of opposition to Pakistan's GSP+ application, it is recalled that several GSP beneficiaries, led by Thailand, Indonesia, and the Philippines, threatened to block the EU's waiver request to the WTO for its Cotonou Agreement with ACP (African, Caribbean, Pacific) countries unless they also received tariff concessions on canned tuna products.⁷

The EU's own Impact Assessment study (based on an earlier extensive CARIS research) on the newly-promulgated GSP notes that, "while there may be marginal loss of market for existing suppliers to the EU, Bangladesh in particular will have negative domestic repercussions in the area of industrial employment if Pakistan attains GSP+ status."

Consequently, the private sector trade associations should anticipate that the parties who opposed the ATP are likely to lobby strongly to oppose the threats they perceive from grant of additional preferences/market access to Pakistan. Public sector officials handling foreign trade issues should be prepared for "trade diplomacy" pressures, considering that Sri Lanka, Bangladesh, Turkey and China, which are the chief competitors in clothing exports, are major markets for Pakistan's textile raw materials exports.

Export to EU by GSP+ Countries

Details of exports by GSP+ countries in 2006 (the first year GSP+ came into force) and 2009 are given in Annex 6. For purposes of ready reference, exports to the EU by Pakistan, the two prospective GSP+ candidates (Philippines and Ukraine) and South Asia competing textile exporters India and Bangladesh are included in the table.

During the period 2005-2009, GSP+ beneficiaries grew their exports to the EU by 35%. This was more than twice the growth achieved in the same period by EBA countries (16.7%) and almost 3.5 times the growth rate of the standard GSP beneficiaries (9.7%), as shown in the below table:

Table 8: Import growth into the EU by category of beneficiary: 2005 compared with 2009

000 Euros	Total Imports		Growth 2005-09	Preferential Imports		Growth 2005-09
	2005	2009		2005	2009	
EBA	16.456.843	19.200.133	16.7%	3.335.892	6.236.838	87.0%
GSP	543.918.907	596.660.215	9.7%	38.403.299	48.055.286	25.1%
GSP+	20.100.156	27.169.344	35.2%	3.814.992	5.324.162	39.6%
Total	580.475.907	643.029.693	10.8%	45.554.161	59.616.287	30.1%

Source: European Commission, using Eurostat

One anomaly apparent from the above table is that, although total imports of GSP+ countries grew at twice the rate of EBA countries, their growth in preferential imports (39.6%) was less than half that of EBA

⁷ ICTSD, EC-ACP Cotonou Waiver Finally Granted, available at <http://ictsd.org/i/news/bridgesweekly/6664/>

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countries (87.0%). This anomaly is more puzzling when it is observed that imports from GSP+ countries using duty-free access, whether through MFN or GSP regimes, mirrored those made by EBA countries and that both categories had a very low utilization rate (under 24%) of GSP=0:

Imports by Tariff	Standard GSP	GSP+	EBA
MFN=0	64.5%	61.3%	62.9%
MFN>0	22.1%	13.2%	6.1%
GSP=0	3.8%	22.2%	23.4%
GSP>0	3.9%	2.40%	1.7%
Other Pref =0	4.7%	1.0%	6.0%
Other Pref>0	0.3%	X	X

Source: Sanoussi Bilal, Isabelle Ramdoo and Quentin de Roquefeuil "GSP Reform: April 2011 Principles, values and coherence", European Center for Development Policy Management. using CARIS (2010) data

Bilal, Ramdoo and de Roquefeuil⁸ offer two explanations for the low utilization rate of GSP preferences: (i) MFN duties are already extremely low in the EU and therefore the preference margins are not significant enough for importers in the EU to require the extra documentation necessary for GSP+ importation; (ii) The coverage of the GSP may not fit the needs of beneficiary countries, since their export structure is highly concentrated in products that are either already duty free under MFN or are not covered by the scheme (because the products are deemed to be "sensitive").

The second explanation was tested by examining the top10 products (at HS 2 digit) exported by each of seven South American GSP+ countries:

GSP Section	HS Chapter(s) covered by the section	GSP Section	HS Chapter(s) covered by the section
1-a	Ch 01-02, 04-05 EE Py Py	8-b	Ch 43
1-b	Ch 03 H N	9-a	Ch 44-45 B Py
2-a	Ch 06 C E G H	9-b	Ch 46
2-b	Ch 07-08 B CC GG HH N P	11-a	Ch 50-62 E N
2-c	Ch 09 B C E G H N P	11-b	Ch 63 E
2-d	Ch 10-13 B N Py	12-a	Ch 64-66 E N
3	Ch 15 C H N Py P	12-b	Ch 67
4-a	Ch 16 E G	13	Ch 68-70
4-b	Ch 17-23 B CC E GGG H N PyPy PP	14	Ch 71 P
4-c	Ch 24-25 G N	15-a	Ch 72-73
5	Ch 27 B N P	15-b	Ch 74 -76, 79, 81-83 C P
6-a	Ch 28-29	16	Ch 84-85 C E
6-b	Ch 31-38 H Py	17-a	Ch 86
7-a	Ch 39	17-b	Ch 87-89
7-b	Ch 40 G	18	Ch 90-92 C
8-a	Ch 41-42 B N Py	20	Ch 94-96

B= Bolivia ▼ C=Costs Rica E=Ecuador G=Guatemala H=Honduras ▼ N= Nicaragua Py=Paraguay P=Peru ▼
 ▼ Bolivia, Honduras and Peru Ch 26; Bolivia and Peru Ch 80 – products not eligible for GSP

⁸ Sanoussi Bilal, Isabelle Ramdoo and Quentin de Roquefeuil, "GSP Reform: April 2011 Principles, values and coherence" European Center for Development Policy Management

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Table 10 confirms that the highly concentrated level of export products from these countries to the EU, 45% of exports in just three GSP sections and 60% in five, all within Chapters 01-24 of the HS Code, which consist mainly of agricultural and primary mineral products that are either zero duty or on the "sensitive" list. Moreover, five of the products fell within Chapters 26 and 80, which are not on the eligible list (Sections eligible for new GSP+ are listed in Annex 7).

Already we have seen that, on the one hand, overall exports of GSP+ countries to the EU grew at twice the rate of growth of EBA countries; on the other hand, the growth using preferential imports was less than half the rate of growth recorded by EBA countries. Therefore, an answer was sought in the preferences. The CARIS study informs that GSP+ provides duty free access through 90% of eligible tariff lines and EBA provides duty free access through 99% of eligible tariff lines. Perhaps, exporters in South America either do not produce the commodities, or they are not competitive, in products that fall within the 9% tariff band where EBA enjoys additional duty-free preferences.

Noting that 80% of Pakistan's exports to the EU are concentrated in GSP Sections 11a and 11b, in which all products fall within non-duty free tariff lines (the 9% advantage enjoyed by EBA), we examine the export performance of Pakistan (during GSP "Drugs Arrangement"), Bangladesh (EBA) and India (GSP Standard) during 2002-05:

Years	2002	2003	2004	2005
<u>Pakistan</u> GSP+	3 048 754	3 103 954	3 393 966	3 103 820
India GSP	13 612 970	13 843 042	16 350 718	19 059 656
Bangladesh EBA	3 265 481	3 638 580	4 277 351	4 116 423

Source: Eurostat

These statistics show that Pakistan's exports to the EU increased by only 11% in three years of duty-free regime (2002-2004). By contrast, India's exports, at the normal GSP tariff schedule, increased by 20%, while exports from Bangladesh, as an EBA duty-free/quota free supplier, increased by 26%.

A key factor during this period (2002-204) was that textile exports to the EU (and other developed markets) were limited by quota restraints under the Multi-Fiber Agreement (MFA); therefore, the GSP+ duty-free import facility had little positive effect on Pakistan's textile-heavy exports to the EU. However, the EBA's duty-free/quota-free regime saw Bangladesh exports grow by more than twice the rate of Pakistan's growth and with hindsight one can discern that this growth would have been greater, if not restricted by the prevailing rules of origin and Bangladesh's under-developed manufacturing capacity at that time. India's export growth rate of 20% was occasioned by a more diversified export product that had less reliance on textiles and clothing.

2005 marked the first year of textile exports free of the MFA quota restraints and India can be seen to have prepared well for the opportunity, increasing its exports by almost 17% over 2004, while both Pakistan and Bangladesh suffered a decline in their exports. The subsequent growth of Pakistan exports to the EU by 123% during 2006-2011, some at standard GSP, but mostly at non-preferential rates, indicates that the catalyst for growth was the elimination of quantity restraints rather than the duty-free incentives under GSP+.

Therefore, going by the evidence that preferences do not provide market access in the same manner as product selection and room for growth without quantity restraint, it would appear that, without development of new products within Section 11a and Section 11b and other viable sectors, the prospects of growth of Pakistani exports under a GSP+ regime would not exceed the growth rates experienced by the South American countries and would not exceed the healthy 20% per annum growth currently being experienced.

Is there a competitiveness threat from South American GSP+ beneficiaries? A review of export achievement under GSP+ by South American countries reveals little information from which inferences can be drawn that are of interest to Pakistan regarding the role of GSP+ preferences in increasing exports to the EU, except to note that: (i) Peru is a competitor in the export of ethanol; and, (ii) no competitiveness threat emerges to Pakistan's main lines of exports (41, 42, 52, 61, 62 and 63):

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Table:12 Exports of Textiles and Clothing, Leather products and Ethanol by South American GSP + beneficiaries								
	Ch22	Ch41	Ch 42	Ch 52	Ch 61	Ch 62	Ch 63	Ch 64
Nicaragua	4.02	12.68			10.86			15.6
Peru	34.3	8.3		20.47	135.76			
Paraguay		26.2	2.4					
El Salvador					1.4		1.3	1.8
Bolivia					4.7			
Guatemala						8.9		
Costa Rica						1.6		
Honduras							0.5	

Source: Extracted from COMTRADE, figures for 2011 (US\$ million)

It is worth noting: (i) that 40% of Peru's exports to EU are products from Chapters 26 and 80, which are not eligible for preferences under GSP and GSP+, and; (ii) Nicaragua's exports of footwear (Ch 64) show a jump from US\$ 83,000 in 2009 to US\$ 12.02 million in 2011, indicating sound forward planning to capitalize on duty free access to the EU following the graduation of India, China and Vietnam, the major exporters to EU, from this sector.

IDENTIFYING PAKISTAN'S QUALIFIED AND POTENTIAL PRODUCTS



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This section is divided into two parts: the first analyzes data to identify “qualified” products eligible for preferences within sectors that have crossed the 6% threshold; the second reports on “potential” products, outside the textiles and leather sectors, which will benefit from zero duty imports against the current standard tariffs.

“Qualified” products are selected from the top-performing textiles (Chapters 52, 54, 55, 57, 60-63) and leather (Ch. 41 and 42), sectors which together account for 88% of current exports to the EU. “Potential” products are identified from sectors that have proven export capability in Pakistan's export to EU and the world and further rank among Pakistan's top 20 export products to the EU.

The Terms of Reference require analysis of the “qualified sectors for EU GSP plus scheme in order to identify sectors where Pakistan has an export interest and potential.” While this research was in progress, Regulation (EU) No 978/2012 in respect of the new GSP Scheme was issued by the European Union on October 30, 2012. In this document the provision of “sector graduation” has been removed from GSP+ and its objectives replaced by Article 29, which establishes a threshold whereby preferences will be withdrawn when imports of any eligible product exceed 6% of the EU's imports of that item in a calendar year. The relevant text is reproduced below:

Box 3: Text of Article 29 and Annex VI of Regulation (EU) No 978/2012

Article 29, Section XI, Safeguards for Textiles, Agriculture and Fisheries

1. “Without prejudice to Section I of this Chapter, on 1 January of each year, the Commission, on its own initiative and in accordance with the advisory procedure referred to in Article 39(2), shall adopt an implementing act in order to remove the tariff preferences referred to in Articles 7 and 12 with respect to the products from GSP sections S-11a and S-11b of Annex V or to products falling under Combined Nomenclature codes 2207 10 00, 2207 20 00, 2909 19 10, 3814 00 90, 3820 00 00, and 3824 90 97 where imports of such products, listed respectively in Annexes V or IX, whichever is applicable, originate in a beneficiary country and their total:

(a) Increases by at least 13,5% in quantity (by volume), as compared with the previous calendar year; or

(b) For products under GSP sections S-11a and S-11b of Annex V, exceeds the share referred to in point 2 of Annex VI of the value of Union imports of products in GSP sections S-11a and S-11b of Annex V from all countries and territories listed in Annex II during any period of 12 months.

Consequently, the focus of research has been shifted from sector to product identification. We begin by listing the HS Chapters that are excluded from the current and proposed 2014 GSP+ regulation, detailing Pakistan's exports of these products to EU and the world in 2011:

Table 13: HS Codes excluded from GSP+ preferences

Product Description	HS Chapter	Pakistan's Exports to EU	Pakistan's Exports to the World
Vegetable products n.e.s.	Ch 14	1.7	6.03
Ores, Slag, ash	Ch 26	0	164.9
Pharmaceutical products	Ch 30	0	150.6
Wood pulp, cellulose materials	Ch 47	0	1.0
Paper and paper board	Ch 48	0	29.8
Printed books, newspapers	Ch 49	0	5.0
Tin and articles thereof	Ch 80	0	0.1
Arms and ammunition	Ch 93	0	5.7

Source: Comtrade, figures for 2011 (in US\$ million)

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Mention is made here of HS Chapter 10 (Cereals). Although this sector is included among the eligible GSP+ sections, preferences are allowed for only one product heading (1008 90 90 - Quinoa) and disallowed for all other cereals. HS Chapter 10 (which includes rice) is Pakistan's third largest export sector, recording earnings of US\$ 2.8 billion in 2011, with rice exports to the EU in 2011 valued at US\$ 201.2 million. On the plus side, the exclusion of rice from GSP+, has no negative effect on market access, because export to the EU of the main sub-category, basmati rice, originating in Pakistan (or India) is already duty free.

The 6% threshold holds deep implications for the benefits that can be derived by Pakistan's textile-dependent exports from the GSP+ regime. With the removal of "sector graduation," product analysis in this Study is made on the assumption that, even where the 6% threshold has been crossed at HS 2 digit sector level, products at sub-sector 4, 6 or 8 digit levels can qualify for GSP+ duty free tariff preferences (except where they are subject to safe-guard actions) if their exports are less than 6% of EU imports of that item. Alternately, a sector at HS 2 digit may have import penetration below the 6% threshold, but consists of sub-headings at 4, 6 or 8 digit level that have crossed the 6% threshold and will not qualify for preferences.

An example from Pakistan's export statistics is used to illustrate the point:

At HS 2 level, Chapter 63 shows an export volume at 8.5% of total EU imports but sub-heading 630392 shows a market share of 2.7% and is assumed to qualify for duty-free entry.

	Pak Exports	EU Total Imports	Market Share
Ch 63	1665.1000	19,562.0	8.5%
630392	28.79	1054.99	2.7%

Table 14 below lists the top 20 sectors by HS2 classification, exported by Pakistan to the EU in 2011. (Note: The product selection for this study substitutes Ch 10, which is excluded from GSP+ with Ch 82, No. 21 ranked export from Pakistan to EU, and additionally includes Ch 71 which, although not among the top 20 exports to the EU, is at present Pakistan's fastest growing export category.)

Table: 14 (Figures in US\$ million)

Product Rank in Pakistan's Exports to EU	HS CODE	Pakistan's Exports to EU	EU Imports from World (including intra EU)	Pakistan's Exports as % of total EU Imports
Rank ▼	Totals ►	6943.1	6121391	0.12%
#1	Ch 63	1665.1	19562.7	8.5%
#2	Ch 62	1211.4	88897.2	1.4%
#3	Ch 52	964.8	10230.2	9.4%
#4	Ch 61	805.4	85816.5	0.9%
#5	Ch 42	433.6	23212.8	1.9%
#6	Ch 55	268.7	10560.7	2.5%
#7	Ch 10 ■	201.2	24375.9	0.08%
#8	Ch 74	147.1	61247.3	0.02%
#9	Ch 95	122.8	42575.3	0.03%
#10	Ch 41	122.2	11608.9	1.0%
#11	Ch 90	112.1	158748.5	0.07%
#12	Ch 39	82.6	220962.7	0.04%
#13	Ch 64	78.8	50159.2	0.16%
#14	Ch 57	66.4	6032.3	1.1%
#15	Ch 08	65.8	42986.1	----
#16	Ch 84	49.7	678663.2	--

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#17	Ch 05	49.3	4269.2	1.1%
#18	Ch 94	43.3	78426.8	----
#19	Ch 22	43.3	43786.1	----
#20	Ch 85	35.7	603840.2	----
#21	Ch 82	33.3	23947.1	0.14%
#22	Ch 71	32.1	105553.4	-----

Source: data extracted from Comtrade Trade Map ■ Exports of Ch 10 are not covered by GSP+ preferences

From this table, only two chapters, HS 63 (textile made-up products) and HS 52 (cotton yarn and fabrics) are seen to cross the 6% threshold at HS 2 level. Therefore, it becomes necessary to first identify within these sectors if any sub-headings at 4 digit level have export volumes below the 6% threshold. An analysis is done also of the remaining textile (HS 54, HS 55, HS 57) and clothing (HS 60, HS 61, HS 62) sectors, where exports at HS 2 level are below the 6% threshold, in order to segregate any sub-headings at HS4 level that exceed the threshold.

(Note: For the purposes of product identification, export figures for only 2011 are used as a reference point since, according to the new Regulation; volume percentage will be based on the figures available for the year previous to the application. Multiple year averages, as used for country/sector graduation, do not apply.)

The following products at HS 4 digit level emerge as “qualified products,” eligible for duty-free entry, from HS sectors 63 and 52, where the 6% threshold has been crossed at 2 digit level:

Table 15 : Qualified products (US\$ million)

Ch 63: Products at HS 4 digit eligible for duty-free import under GSP+:			
	Pakistan Exports	EU Imports	Market Share
Sub-heading HS 6302	19.76	801.64	2.47%
Sub-heading HS 6303	35.95	1414.12	2.55%
Sub-heading HS6304	19.33	1005.14	1.93%
Sub-heading HS 6307	56.82	3756.07	1.52%
Size of Market available for HS 63 Subheadings Qualifying for GSP+		6976.97	
Chapter 52 Products at HS 4 digit eligible for Duty Free imports under GSP+			
Sub-heading 5201	42.23	752.22	5.6%
Sub heading 5204	0.74	62.57	1.2%
Sub-heading 5205	15.44	627.77	2.4%
Sub-heading 5206	5.79	175.72	3.3%
Sub-heading 5207	0.36	98.64	0.3%
Sub-heading 5208	16.78	1134.82	1.4%
Sub-heading 5209	28.16	680.23	4.1%
Sub-heading 5210	6.01	309.04	1.9%
Sub-heading 5211	6.96	608.60	1.1%
Sub-heading 5212	2.07	212.30	0.09%
Size of Market available for HS 52 subheadings qualifying for GSP+		4661.91	
Chapter 54: Products at HS 4 digit eligible for Duty Free imports under GSP+			
Subheading 5407	2.40	935.56	
Chapter 55: Products at HS 4 digit eligible for Duty Free imports under GSP+			
Subheading 551339	0.680	12.19	5.6%

Source: Comtrade

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Next we examine product shares where sector exports are under the 6% threshold, to identify individual products with exports exceeding 6% of EU imports.

Chapter 61: Products at HS 6 level not qualified for Duty Free imports under GSP+				
610332	610791	61161020	61161080	61169200
Chapter 62: Products at HS 6 level not qualified for Duty Free imports under GSP+				
620422	620791			

Market shares of products not qualifying at HS4/HS6 level are detailed below:

Table 16: Products in which exports are over the 6% threshold (except Ch 52 and 63)*				
Description	Sector share of EU Imports	Pak exports to EU	EU Global Imports	Product market share
Textiles Ch 54	Negligible			
540781		16,000	33,958	47.1%
540782		5,834	87,991	6.6%
540784		2,016	20,237	9.9%
Textiles Ch 55	2.5%			
5509 5300		25,700	186,700	13.1%
551311		102.7	231.80	44%
551321		19.12	82.1	23%
551341		17.93	48.87	47%
551331		4.94	12.39	39%
551312		4.80	13.11	36%
551349		4.78	19.00	25%
551319		4.57	16.57	27%
551323		3.80	19.10	20%
551329		2.35	30.55	7.7%
551331		1.30	11.99	10.8%
Textiles Ch 57 (Carpets)	1.1%			
57011090		61.76	364.21	16.7%
57011010		4.73	21.88	21.6%
Clothing – Knits Ch 61	0.9%			
610332		12.37	133.30	9.3%
610791		3.53	41.04	8.6%
6116 1020		113.550	1,555.017	7.3%
6116 1080		59.87	883.27	6.8%
61169200		40.00	115.31	34.7%
Clothing – Woven Ch 62	1.4%			
620422		10.79	66.08	16.34%
620791		17.48	106.32	16.49%

Source: Comtrade 2011 data

*(All Pakistan exports in Ch 52 and 53 are above the 6% threshold except product codes listed in Table15)

Potential products

Products have been selected as “potential” on the basis of whether or not they possess demonstrated export capability, either in the EU or world market, combined with tariff benefits available through GSP+ duty free import entry. Sectors such as Ch 90 (surgical instruments) and Ch 95 (footballs, sports goods) are not considered as “potential” for this study because they already enter the EU duty free under MFN.

Similarly, products from Ch 05 (products of animal origin), Ch 25 (natural stone, salt), Ch 74 (copper and articles), Ch 85 (electrical equipment), Ch 87 and Ch 94 (furniture, bedding), which display good growth to EU and world markets, are also not listed here because their import is already duty free under MFN or at tariff schedules where standard 3.5% GSP preference below MFN would render them duty free or below the level of chargeable duty. The table below provides statistics over a three year time series to illustrate growth/decline of the “potential” products:

Table 17 Potential Products Qualified for GSP+ Duty Free imports										
Product Code	Pakistan Exports to EU US\$ million			MFN Tariff	Pakistan exports to the world US\$ million			EU imports from the world US\$ million		
	2009	2010	2011		2009	2010	2011	2009	2010	2011
Ch 22 – Ethyl alcohol and other spirits										
220710	40.8	3.2	41.4	19.2€	13.9	86.1	161.7	2359.7	2448.8	3627.5
220720	2.7	0	7.99	10.2€	93.9	86.7	87.1	459.4	495.4	550.2
Ch 39 – Plastics and articles thereof										
390760	91.3	75.8	25.3	6.5%	155.7	196.1	238.4	3235.6	3733.3	4666.7
390319	0.11	2.93	21.58	6.5%	13.4	22.9	62.6	1515.4	1962.5	2261.7
Ch 71 – Precious stones, metals, etc										
711292	0.38	0.28	11.37	Free				1796.6	2451.8	3233.1
711319	5.39	10.15	9.87	2.5%	470.8	576.9	440.9	5892.9	6995.2	9392.2
711299	5.22	9.78	7.73	Free				1913.1	2794.1	3768.4
Ch 64 – Footwear										
640399	39.00	37.25	49.06	8%	71.56	41.54	65.41	12597.1	12068.3	12841.1
640391	6.5	6.9	13.1	8%				4306.1	5303.8	6711.3
640359	2.1	2.9	2.4	8%	1.5	2.8	1.1	1890.8	1858.7	2111.5
640319	1.4	1.88	1.57	8%	9.1	15.4	2.3	903.8	872.2	859.2
640320	0.09	0.1	0.2	8%	13.2	.98	15.8	66.4	68.4	72.2
640340	0.07	0.14	0.15	8%				977.9	1195.4	1314.4
Ch 08 – Edible fruit, nuts, peel of citrus										
0804	27.3	25.7	13.55	7.7%	83.8	80.9	108.3	2758.5	2849.3	3154.5
0802	30.85	50.85	30.23	5.5%	2.1	5.4	2.1	4008.0	4569.5	5228.5
0805	2.7	3.5	2.9	16%■	69.4	106.1	138.6	5990.2	6264.1	6094.6
0806	0.27	1.1	1.9	2.4%				3779.4	3858.1	4430.7
0813	0.5	.05	0,6	9.6%	30,2	25.8	24.3	795.1	812.9	899.5
0801	0.6	0.04	0.03	Free	2.3	16.9	5.2	3276,3	3349.5	3975.3

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Ch 03 –Fish, crustaceans, mollusks, etc ■■	192.7	230.8	260.1	4983.5	5519.6	6160,1
Exports to EU are suspended						

Sources: Comtrade, Eurostat; EU 2012 Tariffs from official publication EU Regulation No 1006/2011

» Duty is per Hectoliter ■ There are specific duties in addition to *Ad Valorem* ■ ■ Tariffs range from 10% - 20%

The following pages contain brief analytical reviews of the potential products.

Ch 22 - Ethanol

Pakistan's exports of this product have changed from a product mix of 86% HS 220720 (denatured ethyl alcohol) and 14% HS 220710 (undenatured alcohol) in 2009 to 35% HS220720 and 65% HS220710 in 2011, with export values increasing from US\$ 107.6 to US\$ 246 million in these three years.

Table 18: Pakistan's Exports of Ethanol 2007-2011 (US\$ 000)

Importers	2007	2008	2009	2010	2011
World	155,636	230,957	121,561	187,455	272,750
Republic of Korea	25,913	62,287	16,721	50,910	102,281
Netherlands	42,657	52,878	23,208	13,198	37,602
Turkey	18,936	20,576	13,872	33,632	32,706
Afghanistan	9,240	10,727	13,260	14,143	23,245
Singapore	7,887	6,531	1,148	1,059	17,951
Philippines	2,762	13,640	14,477	43,327	11,963
UAE	2,179	25,856	5,634	8,523	8,925
Spain	10,939	9,507	7,613	0	7,147
Sri Lanka	2,253	3,667	2,752	4,208	6,840
Chinese Taipei	5,013	425	3,225	3,862	6,212
Italy	5,593	8,899	3,838	1,530	3,916
Belgium	5,847	1,477	0		3,588
Saudi Arabia	130	334	443	1,263	2,216
Indonesia	0	0	1,137	1,642	2,195
Thailand	0	542	1,107	1,134	2,031

Exports of the item are diversified, with South Korea emerging as the major buyer with approximately 50% off take; the rest is divided among EU and Far East countries. Exports to EU in 2011 were valued at US\$ 49 million (i.e., approximately 18% of total exports).

Ethyl Alcohol ranks as number 26 in the EU's overall imports, being valued at US\$ 39.337 billion in 2007, US\$ 44.68 billion in 2008, US\$ 38.55 billion in 2009, US\$ 38.65 billion in 2010 and US\$ 43.78 billion in 2011. For extra-EU imports in 2009, Brazil (49%), Guatemala (10%), Nicaragua (7%) and Egypt (4%) were the main suppliers.

Ethanol export is not only an agro-industrial success story for Pakistan, but also a testament to its private sector management efficiency, which has deployed the latest hardware for compliance with European and international standards for overland and oceanic transportation, responded rapidly to market developments by changing product mix matched with customer diversification, and ensuring high quality standards. It is reported that countries such as the Philippines and Egypt, themselves exporters of fuel ethanol, import Pakistan origin ethanol for domestic industrial use.

Pakistan's exports to the EU surged during 2002-2005, when the product entered the EU duty-free under the conditional GSP. In 2005, the Industrial Commission of Ethanol Producers in the EU initiated anti-

dumping action against Pakistan and Guatemala, also a conditional GSP beneficiary, alleging harm to the domestic industry, but dropped the action when the EU restored the duties on ethanol against GSP+ imports.

Protective measures by the EU remain a potential threat to the expansion of sales, as does the EU demand for removal of 25% export duty on sugarcane molasses, which is used as raw material for ethanol and in the EU for animal feed and other industrial food applications. Most recently, it was reported in the press that a visiting EU Parliament delegation has raised the issue with the Government of Pakistan. The combination of domestic consumption and export duty has resulted in a sharp drop in the export of molasses exports to Europe and elsewhere.

The EU autonomous trade preferences for 2012-2013 have allowed a quota of 75,000 tons of imported ethanol from Pakistan; at current prices, this opening is worth approximately US\$ 40 million in sales and the facilitation should help Pakistani exporters to re-establish their market.

GSP+ 2014 Brief for Ch 22:

Ethanol import has been placed along with textiles and clothing for safeguard action, by removal of preferences if imports increase by more than 13.5% over the previous year. On the plus side, Article 12 of the Preamble in Regulation (EU) No 978/2012 of 25 October 2012 states that “Preferences should be designed to promote further economic growth and, thereby, to respond positively to the need for sustainable development. Under the special incentive arrangement, the ad valorem tariffs should therefore be suspended for the beneficiary countries concerned. The specific duties should also be suspended, unless combined with an ad valorem duty.”

The 2012 CN Tariff schedule lists only a specific duty and no ad valorem duty, therefore ethanol export from Pakistan should have a competitive advantage for a volume equalling 113.5% of its 2013 exports to the EU. Long term demand for ethanol is strong, in light of the EU’s target of 20% use of alternate fuel by year 2020.

Ch 39: Plastic and articles thereof

This is one of the fastest growing exports from Pakistan, recording an increase of 191% during 2008-2011 with a geographically well-diversified customer base.

Table 19 : Pakistan exports of Ch 39 (Plastic and articles) to the world

Importers	Exported Value in 2007	Exported Value in 2008	Exported Value in 2009	Exported Value in 2010	Exported Value in 2011
World	186,524	296,463	305,797	408,132	543,883
Turkey	29,303	19,173	30,136	92,749	115,723
Afghanistan □	33,227	48,811	69,222	62,861	96,499
China	12,332	14,220	19,478	40,207	47,321
UAE	12,984	13,454	13,697	18,363	30,815
Egypt	2,573	1,615	2,566	5,681	27,481
United Kingdom	12,700	12,332	9,540	3,973	22,354
Belgium	3,374	8,305	6,238	19,438	20,863
Italy	19,490	73,163	56,355	41,101	20,075
USA	5,519	23,000	19,512	17,124	20,010
Bangladesh	1,046	2,129	10,387	9,981	16,661
Ukraine	332	2	373	8,684	16,506
India	2,641	3,560	7,092	18,624	8,932
Kuwait	4,808	5,166	2,485	5,678	7,882
South Africa	3,474	3,378	3,963	2,971	7,774

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Saudi Arabia	2,358	6,925	3,058	2,205	7,314
Brazil	0	49	83	981	6,038
Greece	490	485	175	1,655	5,563
Spain	2,356	6,358	5,118	4,490	4,762
Germany	1,111	2,929	881	4,302	4,331
Slovenia	0	2	365	281	4,061
Poland	712	2,038	3,234	19	2,423
Romania	2,336	4,701	5,698	4,521	2,268
France	11,818	15,406	8,680	2,849	1,284

Source: Comtrade, figures in US\$ 000

Exports to Afghanistan comprise mostly of finished articles made from plastic while exports to EU and other third country buyers are of Polyethylene terephthalate (PET) and polystyrene, which are industrial raw materials.

Exports of Ch 39 products provide added value to Pakistan's balance of payments because they help to offset the cost of imported raw material. In 2010-11, Pakistan imported US\$ 900 million of plastic resin raw materials used for making plastic compounds. PET is used mainly by the packaging industry (bottles to store food and beverages account for 30% of global demand) and by manufacturers of polyester fibres. Presently, the total combined annual production capacity of four leading plastic resins producers stands at a little over 0.5 million tons, indicating that production capacity exists to meet additional export demand. Both for exports and domestic use, PET has the advantage of being a "green" product as it is commonly recycled.

Table 20: Pakistan exports of Ch,39 to European Union 2009-11 (000 US Dollars)

Product code	Product label	European Union (EU 27) Imports from Pakistan			European Union (EU 27)'s Imports from World					
		Value in 2009	Value in 2010	Value in 2011	Value in 2009	Value in 2010	Value in 2011	Value in 2009	Value in 2010	Value in 2011
'390760	PET	91,330	75,853	25,34	155,76	196,120	238,398	3,235,686	3,766,299	4,666,710
'390319	Polystyrenene =s	114	2,935	21,58	13,407	22,978	62,587	1,515,452	1,962,577	2,261,726
'392620	Apparel and accessories (incl gloves) of plastic	5,790	8,016	10,93	1,021	395	906	1,029,555	1,121,970	1,287,487
'392690	Articles of plastics or of other materials	2,042	2,013	2,377	10,885	9,997	8,309	14,565,801	16,726,837	19,221,051

Although the EU is a large import market, (US\$ 4.66 billion for PET and US\$ 2.7 billion in 2011 for the other Ch 39 sub-headings exported by Pakistan) protection accorded to domestic EU manufacturers creates market access hurdles. In 2010, the EU Parliament imposed countervailing duties (EU No 857/2010) on the import of PET from Pakistan (as well as UAE and Iran), which resulted in a sharp fall in exports from US\$ 75.8 million in 2010 to US\$ 25.34 million in 2011.

GSP+ 2014 Brief for Ch 39: Products in Chapter 39 ranked 7th in EU's preferential imports in 2009 with a value of €3.43 billion. As with all other categories in the new Regulation, Ch 39 is not on the "sensitive list". However, market capture will remain highly competitive, because the four categories that comprise Pakistan's exports to the EU are also listed as "non-sensitive" under standard GSP. With MFN tariff for the product listed at 6.5%, Pakistan's duty free advantage after allowing for GSP preference is reduced to a margin of 3% against standard GSP exporters. Nevertheless, there is a market to be regained, Pakistan exports the product to nine EU countries and GSP+ provides the opportunity to expand growth at up to 17.5% per year without attracting withdrawal of preferences.

Ch 71: Jewellery pearls, precious stones, metals, coins

Export of jewellery is a comparatively new item in Pakistan's export basket, but one that has taken off rapidly. Pakistan's exports to the EU have increased from US\$ 12.32 million in 2009 to US\$ 30.57 million in 2011, with increases recorded in all four major lines of export. The rate of growth of exports to the EU at 60% per year is faster than the growth rate in world exports, but in the latter case the volume growth is impressive, as seen in the below table. It is noted that, while Comtrade shows global sales for 2011 at US\$ 444.5 million, TDAP mentions a figure of US\$ 628 million for 2010-11.

Table 21: Pakistan Jewellery Exports(US\$ 000)

HS Code	Exports from Pakistan to EU US\$ 000			Pakistan's Exports to the World US\$ 000			EU Imports from the World US\$ 000		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
711292	381	286	11,375				1,796,609	2,251,803	3,233,125
711319	5,390	10,157	9,877	470,828	576,918	440,940	5,982,920	6,995,225	9,392,222
711299	5,227	9,784	7,731	82	201	256	1,913,133	2,794,135	3,768,419
710310	1,332	557	1,592	2,289	3,100	3,307	33,266	46,170	39,616

Source: Comtrade

Products Description:

711292 Waste and scrap of platinum, incl. metal clad with platinum, and other

711319 Articles of jewellery and part thereof of/of precious metal

711299 Waste and scrap of silver, incl. metal clad with silver, and other was

710310 Precious/semi-precious stones (other than diamonds) unworked/simplely sawn/rough shaped

The growth in exports comes on the back of a successful capacity-building exercise conducted by the Ministry of Commerce and US AID, in particular through the establishment of Gems and Jewellery training centres in the major cities where trainees, both working in the trade and those looking to acquire these skills, learn computer-aided design and cutting and polishing of gems on new technology machines.

Recent sector developments include: An agreement with the London Assay Office that will improve product credibility; A MOU with various relevant associations in neighbouring India for capacity building and collaboration; and active participation by exporters in international trade fairs and exhibitions that have broadened their vision and exposed them to international trends.

The rapid induction of educated men and women as skilled artisans in the profession and youth with IT skills and an inclusive education contributing to computer-aided design has resulted in the production of demand-driven jewellery, responding to export market requirements rather than attempting to sell the traditional designs and types popular in the domestic market (for example, jewellery in the export market is popular in 14k gold, whereas domestic tastes are for 22k or 24k gold.) TDAP notes that the geographical trend in jewellery exports is to follow the Pakistani "diaspora", in which case the EU market offers much potential, considering the number of overseas Pakistanis and their comparatively higher purchasing power.

GSP+ 2014 Brief for Ch 71: it is the case that one product line 711319 is duty free under MFN; whilst the others carry duty of 2.5%. Thus, there will be no duty advantage against standard GSP beneficiary supply origins. But there is the GSP+ advantage of no graduation, which provides scope for expansion of sales by 17.5% per year, without attracting any safeguard action or eventual sector graduation.

Of course, Pakistan's current exports and even its near term potential are small when compared with established global leaders in this field, such as India, Italy, Switzerland, Belgium, South Africa, Hong Kong SAR, China and Thailand. Among the reference group of countries used for comparison purposes in this study, HS Ch 71 constitutes India's second largest export item both to the EU, with sales of US\$ 4.80 billion, and to the world (US\$ 50.01 billion) and it is also high on Sri Lanka's list of exports to the world. But the product has potential because of the opportunity it provides for generating gender-promoting employment among youth with technical skills and the potential it offers for export growth, even if only targeted at the large community of overseas Pakistanis and of Pakistani-origin citizens in the EU.

Ch 64 - Footwear

Footwear exports remain an anomaly. In the organized sector, only a few companies operate and there is very little presence in the country of major multi-national corporations. Global brands such as Adidas, Nike, Reebok are conspicuous by their absence, as also are buyers/retailers of non-casual footwear. Only BATA has a long-standing manufacturing presence in the country, but with production devoted principally to meeting domestic market requirements. The sector's export figures are modest when viewed in the perspective of the huge sales potential in the EU and the factors of domestic self-sufficiency in raw material, the availability of skilled labour and a large domestic consumer base to provide comfort in times of export shocks.

Pakistan's exports of footwear to the EU have increased by 26% since 2007 and suffered only a slight decline during the great trade collapse of 2008-09. The rise in exports to the EU, however, is faster than the rate of growth to the rest of the world, with the share of exports to EU rising from 32.7% in 2007 to 37.8% in 2011.

Table 22: Pakistan: Footwear Exports 2007-2011

HS Code	Pakistan exports to the EU US\$ 000					Pakistan's Exports to the World US\$ 000				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
6403	39,963	49,061	50,310	50,465	58,926	72,837	108,696	96,775	74,751	85,211
6406	6,558	6,198	5,990	6,056	6,743	2,159	2,162	1,686	1,986	2,597
6404	6,062	3,274	2,260	2,019	1,934	7,339	5,649	6,475	4,693	6,922
6402	2,187	1,828	1,178	980	1,772	2,463	2,538	2,625	2,253	4,061
6405	855	1,485	1,041	1,204	979	27,264	13,349	9,040	8,618	11,674
6401	108	34	37	12	28	1,094	784	659	392	1,794
Total	55,733	61,880	60,810	59,652	70,382	113,156	133,178	117,260	92,693	112,259

Source: Comtrade

Products Description:

6402 Footwear nes, outer soles and uppers of rubber or plastics.

6403 Footwear, upper of leather;

6404 Footwear, upper of textile material;

6405 Footwear, foot, outer sole/upper of rubber/plastic, upper not fixed to sole nor assembled.

6406 Part of footwear, removable in-soles heel cushion, etc.

Although the export growth may appear satisfactory on a stand-alone basis, when viewed in the perspective of EU's imports, they indicate that growth is modest when compared with other suppliers:

Table 23: Top 10 Footwear Exporters to the EU 2007-11

(000 Euros)							
Supplier	2007	2008	2009	2010	2011	Market Share	Growth Rate 2007-11
Total extra EU27	12,757,475	13,054,688	12,633,332	14,560,517	15,144,252	100%	18.7%
China	5,797,394	5,924,088	6,051,337	7,243,317	7,543,877	49.8%	30.1%
Vietnam	2,100,889	2,287,047	1,901,000	1,977,780	1,810,082	12.0%	-13.8%
India	959,997	971,106	952,251	1,147,308	1,253,335	8.3%	30.6%
Indonesia	644,633	701,796	787,954	931,542	987,728	6.5%	53.2%
Tunisia	434,281	458,695	416,243	485,999	476,348	3.1%	9.8%
Brazil	468,030	507,170	411,276	393,933	303,903	2.0%	-35.1%
Morocco	240,250	241,194	247,329	280,726	302,722	2.0%	25.0%
Cambodia	105,934	113,225	144,045	206,006	259,058	1.8%	154%
Bosnia and	187,619	202,031	194,573	226,704	250,305	1.7%	33.4%

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Herz							
Thailand	294,920	251,543	233,424	245,405	241,215	1.6%	-18.2%
Pakistan	34,833	44,200	45,135	44,186	54,140		
Nicaragua	X	x	83	572	12,026		
Bangladesh ■	(9,912)	(10,453)	(11,743)	(13,993)	(16,565)	(0.6%)	94.8%

Source: Eurostat (000 Euros)

■ Bangladesh figure in million pairs

GSP+ 2014 Brief for Ch 64: Footwear is one of the higher tariff items in the EU, with duties ranging from 8% - 16%. In an intensely price-competitive market, this level of tariff preference sways importers' decisions regarding supply origins. In recent years, footwear exports to EU from Brazil, Thailand and Vietnam have declined respectively by 35%, 18% and 14% due to the withdrawal of duty preferences. In the same period Nicaragua (GSP+) and Bangladesh have used duty free access to drive their exports of footwear (Nicaragua from zero to US\$ 12.5 million in less than three years, Bangladesh by 94% in five years).

Also worth notice is that countries such as Tunisia, Morocco and Cambodia have overall infra-structure and management environments similar to those of Pakistan, yet their exports to the EU range from three times to twelve times those of Pakistan. The available literature indicates that the growth in exports from LDCs such as Cambodia and Bangladesh and other higher middle income countries is spurred by multinational investment in the footwear industry and this has come about due to the creation of an enabling environment for attracting foreign investment by making attempts, at least in so far as MNC operations are concerned, to ensure social compliances.

Ch. 03: Fish, crustaceans, mollusks, aquatic invertebrates

As mentioned in the beginning of this section, export of seafood from Pakistan to the EU has been suspended due to a ban placed for reasons of non-conformity with SPS and hygiene factors in the supply and processing chains.

Table 24										
HS Code	Pakistan's Exports to the World (US\$ 000)					EU Imports from the World (US\$ 000)				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
0306	46.36	58.49	4.84	64.77	6.73	5,745.01	5,859.88	4,983.57	5,519.63	6160.15
0304	42.42	0.682	7.95	0.92	5.88	8,607.47	9,107.68	8,280.71	8,584.15	9,972.77
0302	11.91	23.66	3.54	5.74	9.85	7,141.48	7,560.79	7,360.29	8,571.75	9,198.76
0303	84.10	119.65	121.92	138.81	162.72	3,522.70	3,487.68	3,122.56	3,279.70	3,895.58
0305	11.87	13.70	12.17	17.85	10.41	2,664.19	2,784.20	2,533.10	2,790.55	3,287.79
0307	2.19	107	0	1.71	2.32	3,762.07	3,928.64	3,556.81	3,895.15	4,918.69
0301	359	265	461	1.20	2.10	444.47	502.73	362.15	377.95	412.78
	161.05	217.54	192.90	231.03	261.05	25,593.7	33,267.7	30,199.1	33,018.88	37,844.4

From the above table we observe that EU imports during have risen 47% during the period 2002-11 and Pakistan's exports to the world (minus EU, which placed a ban of imports from Pakistan in 2007) have risen by 63% in the same period.

Of the 28 seafood processing and export units in Pakistan, 11 were exporting to the EU and all were de-listed following the visit of an EU mission in April 2007, which found deficiencies both at the harbour and at the processing units. Efforts are on-going since then, with EU cooperation for the catching and processing facilities to attain compliance levels that satisfy EU requirements.

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It is reported in the press (Business Recorder, May 28, 2012) that two seafood firms have tested positive for compliance standards in a UNIDO program and that Pakistan's marine fisheries department has forwarded a dossier to the EU with a request for these companies to be re-listed and cleared for exports.

Pakistan's exports to the EU were valued at approximately US\$ 50 million in 2006; therefore, going by the overall increase of 47% in EU imports of seafood products since 2007, there is a market of US\$ 75 million at the minimum to be regained, which would place this commodity among Pakistan's top 20 exports to the EU.

GSP+ 2014 Brief for Ch 03 EU imports of seafood ranked 31 in its overall imports in 2011 and No. 4 among the top 20 GSP imports in 2009. In the region, India's exports of seafood to EU were US\$ 834 million in 2011 (up from US\$ 440 million in 2009), while Bangladesh and Sri Lanka have exports of US\$ 389.5 and 92.8 million respectively to the EU.

The seafood sector is a litmus test for a successful approach by Pakistan to both the trade and social obligations of GSP+, requiring coordination among the public and private sectors, within the private sector at sector and firm level for raising of production standards to minimum international compliances, for individual firms in meeting buyers' private standards and quickly inducting an acceptable SPS regime in the country. At the public sector level, the issues involved lie at the very heart of the social objectives of the GSP+ program. People working in fisheries are among the most marginalized communities in the country, there is a high level of gender participation in the profession, with resultant problems of gender inequality in matters of lower wages for working women and working conditions that leave no option for mothers but to enlist children in the work to supplement the meagre wages.

Government can intervene by providing education to the children of fisher folk families, knowledge dissemination in regard to hygiene applied to working conditions and ensuring that employers provide facilities and pay according to basic minimum standards of the labour code.

CHALLENGES FACED BY THE IDENTIFIED SECTORS FOR EXPORT UNDER GSP+



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This section examines the challenges faced by the sectors for exports under GSP+ scheme vis-à-vis other eligible countries, LDCs and countries, which have/might preferential market access (India.).

The GSP+ analysis earlier has revealed that no competitive threat emerges to Pakistan's main lines of export from the South and Central American countries that are GSP+ beneficiaries since 2006. This Study has not gone deeper into export profiles of the other GSP+ beneficiary countries (Armenia, Azerbaijan, Georgia and Mongolia) due to their export profiles being totally at variance with that of Pakistan. Venezuela exited from GSP+ in 2010, while Sri Lanka (suspended from GSP+ since 2010) is analysed in this section in the context of being a South Asian clothing exporter.

In this section, the competitiveness is analysed by using comparative statistics from a reference group of five countries: India, Bangladesh, Sri Lanka, Ukraine and the Philippines. The selection is based on the facts of Bangladesh and Sri Lanka being South Asian competitors in the clothing sectors (Ch 61 and 62), Sri Lanka for being a GSP+ beneficiary during the period reviewed; Bangladesh for being an EBA country with duty-free preferential market access and additionally posing competition in the footwear sector (Ch 64). India is selected for being competitive in the textiles (Ch 52, 55), textiles made-ups (Ch 63) and leather (Ch 41 and 42) sectors, besides having preferential market access through standard GSP.

Philippines and Ukraine are included in the reference group because they are potential GSP+ beneficiaries that will benefit from zero duty on their exports.

The reference group's exports to the EU are first analysed at the GSP Section level (the EU issues a list, divided into sections, of products eligible for tariff preferences under the various arrangements). Each EU GSP section contains one or more chapters from the HS Code grouped into commodity categories, for example Section 11 contains all the HS chapters covering textile and clothing products (i.e., Chapters 50 to 63 of the HS Code.) In view of the "country/sector" graduation provision, the GSP sections continue to be important for standard GSP beneficiaries but not for GSP+ beneficiaries, to whom "country/sector" graduation will not apply effective January 2014.

Table 25 below lists the total exports from the reference group that entered EU under the GSP scheme:

Table 25 Imports into the EU by GSP Section Figure for 2009 (Million Euros) Source: Eurostat						
GSP Section	Pakistan	India	Bangladesh	Sri Lanka	Ukraine	Philippines
I	13.6	490.3	169.9	114.9	11.9	30.6
II	202.9	1201.9	14.9	125.8	1718.5	121.6
III		228.1	29	2.9	440.2	256.4
IV	144.49	45507	23.84	46.32	192.99	201.1
V	15.1	2620.1	0.06	3.2	2633.6	27.3
VI	17.8	3032.3	20.8	12.5	788.6	54.8
VII	105.3	818.56	9.8	8.8	117.8	90.0
VIII	360.6	1108.6	57.6	5.2	118.9	21.9
IX	0.37	57.2	1.8	0.13	427.0	22.6
X	2.3	103.9	2.1	17.5	53.4	51.2
Xia	733.6	1464.3	43.7	29.4	27.2	28.1
XIb	1651.4	4670.8	4954.6	1138.4	371.9	156.6
XII	42.2	1001.7	80.8	20.8	48.1	12.6
XIII	5.16	449.4	19.3	13.4	46.6	11.2
XIV	8.8	2078.1	239.0	188.4	68.3	52.3
XV	56.8	3511.6	5.1	9.3	4567.6	138.6
XVI	33.1	3788.6	7.2	82.3	1070.7	3444.2
XVII	11.9	1348.2	24.8	57.2	290.5	194.0

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XVIII	68.5	238.7	2.8	15.6	20.5	250.1
XIX	0.9	5.9			1.7	0.2
XX	126.6	514.1	2.7	36.9	119.9	115.6
XXI	18.4	148.1	7.16	3.7	45.2	11.2
■ Blue shaded boxes represent minor export volumes from Pakistan and corresponding reference group country;						
■ Grey shaded boxes represent medium /larger export volumes from Pakistan, with corresponding reference group						

From this table, we can observe that the Philippines has exports of competitive value with Pakistan in twelve GSP sections; Bangladesh and Sri Lanka in eight sections; India and Ukraine have six and four sections, respectively. Of note is the fact that Pakistan has no exports in Section III and negligible amounts in Sections V, VII, IX, X, XIII, XIV and XIX and a similar pattern is discernible in the export volumes of Bangladesh and Sri Lanka. This suggests that these three countries either do not have manufacturing capacity or lack exportable surplus in the products covered by these sections.

However, because the GSP sections are comprised of different HS Codes, from the point of view of market analysis, such a comparison reveals few details from which to draw useful inferences.

Therefore, in Table 25, we segregate the reference groups GSP exports showing values that by GSP section that entered the EU duty-free, whether under MFN=0 or GSP=0. This disaggregation enables an assessment of the size of the duty-paid market that will be open to competition from duty-free exports under GSP+. The figures have been arrived at by deducting from the total exports of each of the reference group countries the amount of its exports that entered the EU duty free, whether under GSP=0 or MFN=0.

Table 26 : GSP Exports entering EU
Duty-paid market for Pakistan against South Asia competitors and prospective GSP+ beneficiaries
 Column A = Goods entering EU under GSP preferential duties
 Column B = Goods entering EU duty free (GSP=0 and MFN=0)

GSP Section	Pakistan		India		Bangladesh		Sri Lanka		Ukraine		Philippines	
	A	B	A	B	A	B	A	B	A	B	A	B
I	13.6	13.6	490.3	41.1	169.9	151.3	114.9	111.9	11.9	7.59	30.6	5.1
II	202.9	53.1	1201.9	753.8	14.9	12.4	125.8	122.4	1718.5	1684.4	121.6	115.9
III			228.1	14.8	0.02	0.02	2.9	0.9	440.2	8.33	256.4	73.1
IV	144.4	90.8	455.1	221.6	23.8	14.9	46.2	18.2	192.9	133.04	201.0	4.1
V	15.1	11.9	2620.1	2025.3	0.06	0.06	3.0	3.0	2633.6	2182.8	27.4	27.3
VI	17.8	14.4	3032.3	2581.2	20.8	20.8	12.4	10.1	788.6	354.7	54.7	44.2
VII	105.3	12.0	818.5	571.5	9.8	9.0	8.8	7.1	117.8	88.6	90.0	69.3
VIII	360.6	220.1	1108.6	769.4	57.7	54.9	5.2	5.1	118.9	107.4	21.9	11.3
IX	0.37	0.37	57.2	51.7	1.8	1.8	0.13		427.0	376.7	22.6	21.3
X	2.3	2.3	103.9	103.9	2.0	2.0	17.5	17.5	53.4	53.3	51.2	51.2
XI a	733.6	61.1	1464.3	144.1	43.7	41.9	29.4	24.3	27.2	0.6	28.1	11.8
XI b	1651.4	5.9	4670.8	59.8	4954.6	3837.5	1138.4	739.9	371.9	1.69	156.6	3.2
XII	42.2	7.3	1001.7	204.6	80.8	77.1	20.8	17.5	48.1	21.2	12.6	4.2
XIII	5.16	4.1	449.4	342.5	19.3	18.9	13.4	12.3	46.6	17.9	11.2	16.6
XIV	8.8	8.4	2078.1	1704.8	0.2	0.2	188.4	187.5	68.3	68.2	52.3	41.6
XV	56.8	45.8	3511.6	3055.8	5.0	4.8	9.3	7.9	4567.6	4129.5	138.6	130.8
XVI	33.1	27.6	3788.6	3115.6	7.2	4.1	82.3	62.8	1070.7	799.3	3444.2	3210.4
XVII	11.9	5.9	1348.2	593.8	24.8	23.5	57.2	52.4	290.5	248.8	194.0	116.7
XVIII	68.5	67.3	238.7	169.2	2.8	2.6	15.6	14.1	20.5	14.4	250.1	105.0
XIX	0.9	0.1	5.9						1.7	0.05	0.21	0.21
XX	126.6	108.5	514.1	456.2	2.7	2.3	36.9	33.3	119.9	68.1	115.6	100.5

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XX1	18.4	0.5	148.1	11.7	7.1		3.7	0.5	45.2		11.2	0.73
Totals	3619.8	761.1	34258.2	16992.4	5448.8	4279.5	1819.2	1448.8	13181.0	10366.4	5292.1	4164.5
Column B / A		21.%		49.6%		78.5%		79.6%		78.6%		79.2%

These figures indicate that, at 21%, Pakistan has the lowest ratio of duty free goods entering the EU compared to the reference group, with India next at 49.6%, while the other four countries have close to 80% of their exports entering the EU Duty-free. Noting that the bulk (66%) of Pakistan's EU exports fall within Section XI-a and b (Textiles), we can extrapolate the tariff ratios for textile exports as below:

Table: 27 Textile export and tariff ratios extrapolated from Table 26

	Ratio of Duty Free Imports to GSP Exports	Ratio of Textiles Exports: as %age of GSP Exports as %	Duty Free Textile Exports age of GSP Textile Exports
Pakistan	21%	66.0%	2.8%
India	49.6%	17.9%	3.3%
Bangladesh	78.5%	91.7%	77.6%
Sri Lanka	65.4%	64.2%	65.4%
Ukraine	78.6%	3.0%	0.4%
Philippines	79.2%	3.5%	8.0%

As can be seen from this table, Philippines (78.6%) and Ukraine (79.2%), which are currently exporting under the Standard GSP system, have product lines that take maximum advantage of GSP=0 and MFN=0. Bangladesh and Sri Lanka have high duty-free import entry due to EBA and GSP+ preferences on textiles (Sri Lanka was GSP+ in 2009). India has 50% of its GSP exports entering duty free due to lower reliance on textiles (17.9% of its GSP exports to EU) in its export basket.

Only 21% of Pakistan's exports to the EU enter duty-free, the reason for this being 66% of the exports in the textiles sector. This high proportion of textiles exports is exceeded only by Bangladesh (91.7%) and matched by Sri Lanka (64.2%); but Bangladesh benefits both from duty and quantity-restraint free import, while Sri Lanka was a GSP+ beneficiary in 2009, with many of its lines benefitting from duty free entry. India's low level of textiles entering duty free (3.3%) is because it has "graduated" out of Section 11b. India's clothing and other textile made-ups enter at non-preferential MFN duties. Despite this, its exporters are seen to take better advantage of GSP preferences than their counterparts in Pakistan.

These figures would appear to indicate that Pakistan, like Ukraine and the Philippines, has major duty-free market access openings in the textiles and clothing sector and possibly in the spaces occupied by India and Sri Lanka. But this is not likely to happen for Pakistan, in view of the 6% threshold that restricts duty free imports of textile and clothing from Pakistan to small numbers and (ii) the annual cap of 14.5% by which textile imports can increase over the previous year. Assuming consistent year-on-year growth of exports at the 14.5% cap and zero growth in export of Indian textiles, it would take six years for Pakistan's exports of Section XI-a and nine years for Pakistan's exports of Section XI-b to reach India's current export volume of 2011.

On the contrary, Ukraine and the Philippines, whose textiles exports are below the 6% threshold, will qualify for duty free imports and are more likely to increase their market share, but not necessarily at the expense of India. This is because India's current level of textile and clothing exports has been achieved in the face of exports from Bangladesh and other GSP+/EBA countries and those countries' duty-free advantage has already been factored in to India's marketing strategy.

For this reason, duty-free imports in the EU from new GSP+ sources are not likely to compete with established GSP suppliers such as India and China. Trade creation for Pakistan will either be confined to within normal market expansion demand in the EU; more likely the gains will come from trade diversion, by eating into less competitive sources, such as Turkey, Morocco, Tunisia and Indonesia, whose textiles exports are not keeping pace with EU demand.

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A better understanding of the competitive environment is gained by analysing the reference group's sector exports by HS Code. For the purposes of this research, the HS codes used for bench-marking are those that comprise Pakistan's top 20 GSP eligible products exported to the EU, with the addition of Ch 03 (seafood), currently suspended but a top 20 item in Pakistan's global exports as well as in the EU's top 20 GSP imports.

In Table 27 below, products are listed by HS Chapter according to the descending rank of Pakistan's GSP exports to the EU. Where corresponding HS codes of the reference group are found to be a component of that country's top 20 exports to THE EU, they are placed alongside the corresponding Pakistan product box. Where a reference group country does not have a corresponding HS Chapter in its top 20 exports to EU, that box is left blank.

Table 28 Pakistan's top 20 GSP exports – corresponding lines from reference groups top 20 exports to EU							
HS CODE	Pakistan Exports to EU	India Exports to EU	Bangladesh Exports to EU	Sri Lanka Exports to EU	Philippines Exports to EU	Ukraine Exports to EU	EU Import from World
EU Imports from the world (including intra-EU 27) ▶ 6121391							
Ch 63	1665.1	1502.65	826.24	28.94	16.54	52.66	19562.7
Ch 62	1211.4	4373.26	4462.36	1873.72	135.20	432.25	88897.2
Ch 52	964.8	814.71	9.04	0.99		5.22	10230.2
Ch 61	805.4	3407.12	8545.01	975.22	173.97	88.65	85816.5
Ch 42	433.6	1592.22	23.15	17.71	31.82	29.74	23212.8
Ch 55	268.7	437.74		2.30	5.04	1.57	10560.7
Ch 74	147.1	131.78	8.71	0.14	3.69	112.45	61247.3
Ch 95	122.8	90.99	2.95	39.90	61.48	93.91	42575.3
Ch 41	122.2	321.98	74.63	0.25	0.85	104.15	11608.9
Ch 90	112.1	429.07	1.92	20.10	444.69	32.56	158748.5
Ch 39	82.6	1006.45	15.52	15.77	36.65	109.04	220962.7
Ch 64	78.8	1989.85	225.05	13.32	3.88	134.75	50159.2
Ch 57	66.4	581.68	2.55	2.32	0.18	0.71	6032.3
Ch 08	65.8	460.51	2.10	40.80	121.48	127.32	42986.1
Ch 84	49.7	3218.81			1056.29	405.46	678663.2
Ch 05	49.3	44.98			2.36	7.36	4269.2
Ch 94	43.3				57.75	112.85	78426.8
Ch 22	43.3	6.64		1.37	2.64	31.43	43786.1
Ch 85	35.7	3567.31	4.69	46.68	3605.2	1482.75	603840.2
Ch 82	33.3	257.57		3.08	2.24	3.68	23947.1
Ch 71	32.1	4243.91	1.78	318.18	62.13	56.06	105553.4
Ch 03■	201.2	834.23	389.23	92.98	59.30	1.68	24375.9
Total Exports to EU	6943.1	58526.84	14622.08	3782.80	7692.75	21225.69	
Exports to the world		301483.25	25891.05	10011.28	48042.12	68393.03	

■ Exports of Ch 03 (Seafood) from Pakistan are currently under an EU import ban

Source: Comtrade, US\$ million, export figures for 2011

From this table, we can observe that India and Ukraine have 9 product lines that correspond to Pakistan's top 20 GSP exports, followed by the Philippines with 6, while Sri Lanka with 5 and Bangladesh with 4

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compete in fewer sectors. Bangladesh and India cannot be considered as Pakistan's competitors in the EU market in products of Ch 62 AND 61 for the reasons that (i) the volume of their exports, respectively US\$ 4.73 billion and US\$ 4.46 billion in Ch 62, and US\$ 3.40 billion and US\$ 8.54 billion in Ch 61, are beyond reach of Pakistan's manufacturing and export capacity in the near and medium-term future, and; (ii) their products cater to different segments than Pakistan, whose products are based on coarser counts of yarn.

Similarly, Indian exports to the EU of products falling in Chapters 39, 64, 57 and 08 and 10 outpace Pakistan's by many multiples and the production capacity does not exist in Pakistan to catch up in plastics (Ch 39), footwear (Ch64) or carpets (Ch 57, in which India's major export is in synthetic floor coverings). Exports of Ch 08 (fruit and nuts) from Pakistan will not develop rapidly without addressing supply-side constraints, such as storage, grading, preservation, shipping and SPS issues.

Again, in Chapters 84 and 85 (machinery and electronic equipment) exports from India, Ukraine and the Philippines exceed by too wide a margin for them to be considered as competitors of Pakistan. In Ch 71 (Jewellery) India is the world leader with global exports of US\$ 50 billion. To summarize, it can be said that, although India and Pakistan sell the same product lines in the EU market, the volume difference is such that they cannot be considered competitors.

EU GSP Imports (2009)		Beneficiary Countries Top-20 exports by HS Chapter (placed in their own descending order 1-20)				
Rank	HS Code	Pakistan	India	Sri Lanka	Ukraine	Philippines
1	Ch27	Ch 63	Ch 27	Ch 61	Ch 72	Ch 85
2	Ch 61	Ch 62	Ch 62	Ch 62	Ch 27	Ch 84
3	Ch 64	Ch 61	Ch 71	Ch 40	Ch 26	Ch 15
4	Ch 03	Ch 42	Ch 85	Ch 71	Ch 85	Ch 90
5	Ch 62	Ch 55	Ch 29	Ch 09	Ch 10	Ch 61
6	Ch 84	Ch 74	Ch 61	Ch 03	Ch 12	Ch 62
7	Ch 39	Ch 95	Ch 87	Ch 87	Ch 44	Ch 73
8	Ch 85	Ch 41	Ch 84	Ch 85	Ch 15	Ch 08
9	Ch 72	Ch 90	Ch 72	Ch 08	Ch 28	Ch 16
10	Ch 87	Ch 39	Ch 64	Ch 84	Ch 62	Ch 87
<p>▲ Top 10 GSP imports ► blue boxes identify an exporter country's top 10 HS Code export that fits into the EU's top 10 imports ► white boxes represent an exporter's top 20 HS lines that do not find a fit in the EU's top 20 GSP imports ► grey boxes identify products from an exporter's top 20 lines that fit into the EU's top 20; ▼ # 11-20 EU GSP imports</p>						
11	Ch 40	Ch 64	Ch 30	Ch 95	Ch 84	Ch 89
12	Ch 63	Ch 57	Ch 42	Ch 24	Ch 23	Ch 40
13	Ch 15	Ch 08	Ch 63	Ch 21	Ch 73	Ch 20
14	Ch 29	Ch 84	Ch 73	Ch 53	Ch 25	Ch 47
15	Ch 08	Ch 05	Ch 39	Ch 63	Ch 31	Ch 13
16	Ch 42	Ch 94	Ch 03	Ch 90	Ch 64	Ch 71
17	Ch 16	Ch 22	Ch 52	Ch 42	Ch 08	Ch 38
18	Ch 20	Ch 85	Ch 40	Ch 96	Ch 94	Ch 95
19	Ch 73	Ch 82	Ch 32	Ch 39	Ch 74	Ch 03

Source: HS Code rankings calculated from Eurostat GSP import figures

Demand Driven Exports:

In Table 28, we compare the EU's top 20 GSP imports by HS Chapter with the top 20 exports to EU by the reference group at three levels: (i) an exporter country's top 10 GSP exports that fit with the EU's top 10 GSP; (ii) an exporter country's top 20 GSP exports that match the EU's top 10 preferential imports, and; (iii) how many of an exporter country's top 20 GSP exports to EU match the top 20 EU GSP exports.

The higher scores (extrapolated Table 29 below) will identify whether the export strategy of the supplier country is demand-driven. (Note: Bangladesh is not included in this comparison because three chapters constitute 95% of its exports.) The extrapolation reveals the demand-driven nature of India's and Philippines' exports to the EU, followed by Sri Lanka.

Table 30 - Inferences drawn from data in Table 28					
Reference Group's top 20 exports to EU matched against top 20 EU GSP imports by HS Code					
Exporting Country ►	Pakistan	India	Sri Lanka	Ukraine	Philippines
Number of exporter's top 10 products matching EU top 10 GSP imports	3	8	6	4	4
Number of exporter's top 20 products matching EU's top 10 GSP imports	5	9	8	5	9
Number of exporter's top 20 products matching with EU's top 20 GSP imports	9	15	11	9	12
Number of products from exporters top 20 that do not match EU's top 20 GSP imports	11	5	9	11	8

Eight of India's top 10 product lines exported to the EU match the EU's top 10 GSP imports, Sri Lanka has six matching items, the Philippines and Ukraine four each, while Pakistan has only three. Similarly, only five of Pakistan's top 20 GSP exports to EU fall within the EU's top 10 imports by HS code, against nine each by India and the Philippines, Sri Lanka eight and Ukraine joins Pakistan with only five matching sectors.

Pakistan and the Ukraine, with nine sectors each, again have the lowest number of products by HS Chapter in their top twenty that find a place in the EU's top twenty GSP import product lines. Sri Lanka and the Philippines each have eleven and India takes the lead with 15 of its top export sectors finding a place in the EU's top 20 GSP import sectors.

Not surprisingly, 11 sectors from Pakistan's top 20 exports to EU imports do not match the products in the EU's top import sectors (Ukraine has the same number), while only five of India's top 20 export sectors fail to find a match in the EU top 20 GSP list.

The purpose of this exercise is to illustrate that a demand-driven export strategy provides better market access than tariff preferences. On this subject, three points need to be elaborated. The first is that India and other standard GSP/non-GSP countries have built and successfully held on to their export markets in the EU, particularly in textiles and clothing, notwithstanding competition from countries that have zero-duty import preferences through EBA or bilateral, regional and free trade agreements, or autonomous preferences.

This is because countries such as India, China, Brazil, Hong Kong SAR, now joined by other newly-industrializing countries such as Thailand and Malaysia and transition economies such as Vietnam possess the strong industrial base and skilled manpower and managerial capabilities that make it difficult for lower income, even the least developed countries, with duty free/quota free access, to compete against them.

In many of these countries, the production economies of scale and a large home market are sufficient to offset any price disadvantage caused by lack or loss of tariff preferences, while other factors such as logistics, lower storage and handling losses and more stable currencies ensure continued price competitiveness. This is why exports to the EU from countries with lower GSP benefits (standard GSP)

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stood at € 596.66 billion, compared with only € 27.16 billion from GSP+ countries and € 19.20 billion from EBA countries (see Table 8).

The second point is that mere removal of tariff preferences does not make a product instantly saleable. Free of restraint quantities allow importers to plan for each year and the future without worrying about whether tariff preferences on their product will be withdrawn. This has been demonstrated by the statistics relating to Pakistan's exports during the duty-free period of 2002-2004 and the GSP+ experience of Sri Lanka. The heavy reliance by European importers on standard GSP and non-GSP supply sources further establishes that certainty of import duties is a decisive factor in selecting origins of supply.

The third point is that the selling proposition of a product consists not only of price, but also packaging, delivery schedule, the credibility of the supplier and the financing terms obtained by the importer. The longer term considerations (and short-term considerations for large volume purchases) are the supply chain, the social and political conditions in the supplier country, the responsiveness of exporting country to compliance standards for banking and quality control, the quality of the workforce and a mind-set that gravitates towards conforming to international best practices in trading and manufacturing.

Sri Lanka provides a good example. It responded to withdrawal of GSP+ tariff preferences on its clothing exports to EU by promoting exports of other items such as rubber and rubber goods (Ch 40) and precious stones (Ch 71), exports of which increased by 110% and 40% respectively between 2009 and 2011, enabling Sri Lanka to increase its exports to EU from US\$ 3.074 billion to US\$3.792 billion. In the same period, Sri Lanka increased its clothing exports to other markets by 40% to offset the loss of growth momentum experienced in the EU.

In this part of the Study we examine the challenges faced by the sectors for export under GSP+ vis-à-vis other eligible countries, LDCs and countries which have/might have preferential access, such as India.

In GSP Plus section, this study has analysed and ascertained that no competitive threat emerges from the current GSP+ eligible countries. Whilst earlier we have examined the prospects of the "potential items" (non-textiles and leather), these products are exported to the EU at modest levels that make them neither "market makers" nor "game changers" and no competitive threat is seen from any of the reference group countries, or any others.

In the first part of this section, we have seen that, out of the reference group used for this Study, which consists of partners from South Asia: Bangladesh (EBA), Sri Lanka (formerly GSP+, now standard GSP), India (standard GSP); and two prospective candidates (Ukraine and the Philippines, both standard GSP), Pakistan stands out for having: (i) the lowest ratio of GSP exports (21.6%) that enter the EU duty free and that this is the result of a heavy reliance on textiles (66%), in which sector EU offers the least tariff benefits; and (ii) the least number of products that match the EU's top 20 GSP imports.

During 2002-2004, exports from Bangladesh, under a duty-free/quota-free regime, rose 31%, but when Sri Lanka began to export under GSP+ (its textile products were duty free but had quantity limits on annual growth) its exports to EU rose by only 14.6% between 2006-08, indicating that textiles import in the EU have greater impetus when tariff preferences are backed by no quantity restrictions. This is an important consideration when evaluating the GSP+ opportunities of Pakistan, 66% of whose exports to EU are in the textiles sector, most of which will enter duty paid and under quantity restrictions on the present product lines.

Does the non-textile sector hold better promise as a driver of increased exports to EU? During its earlier duty-free exports to the EU in 2002-2004, Pakistan raised its exports by 11.3% overall. The growth in textiles (with a share of 60% in the total exports) was 23% and growth in non-textile products, despite duty-free benefits, was only 3.5% over three years, i.e., at merely 1.2% per annum as against, for example, duty-paid Indian non-textile goods, which grew at 6.6% per annum (Table 11)

We now compare the growth of Pakistan's exports in the period 2007-2001 to the EU and to the world, comparing all other products against textile and leather exports (Ch 41, 42, 52, 54, 55, 57, 60, 61, 62 63).

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Table:31 Pakistan exports to EU and World of Other Products compared with Textiles/Leather Exports

Pakistan Exports to of ►	EU		World	
	Other Products	Textiles and Leather	Other Products	Textiles and Leather
2007	971,069	4,080,637	6,304,390	11,442,781
as % of Pakistan's exports	19.2%	80.8%	35.3%	64.7%
2011	1,405,005	5,538,161	10,776,444	14,567,325
as % of Pakistan's Exports	20.2%	79.8%	42.5%	57.5%
Increase 2007-11	44.7%	35.7%	70.9%	27%
Annual increase	8.9%	7.14%	14.2%	5.40%

Source: Extracted from Comtrade Data US\$ 000

The growth rate of other products to EU is seen at 8.9% per annum between 2007 and 2011, which is more than seven times the rate experienced in 2002-2004. Both to the EU and the world, the growth of Pakistan's other product is higher than the growth of textiles/leather sectors, which is an encouraging sign of diversification. However, the growth in exports to EU, at 8.9% per annum is considerably lower than the growth of other products to the world at 14.2% per annum.

Also, as a percentage of total exports to the EU, non-textile exports have remained mostly unchanged in this five year period (19.2% in 2007, 20.2% in 2011). This suggests that Pakistan's basket of non-textile/leather products to EU are either not competitively priced, or they do not match the demand in the EU market, or they suffer from quality and standards deficiencies. These have been discussed for the identified products (i.e., jewellery, plastics, fruits and nuts, footwear and seafood).

Another factor that indicates caution is estimating a rapid increase in exports of non-textile items under GSP+ is that 56% of non-textile product lines are already entering the EU under MFN=0 or GSP=0 tariff. Based on 2011 exports of non-textiles products at US\$ 1,405 billion, we calculate the value of the remaining 44% of dutiable exports at US\$ 618.2. This is the current export value of goods that will potentially become duty free. Assuming that existing EU buyers of these products are motivated to place additional orders with their suppliers in Pakistan due to the duty advantage, the room for expansion available to Pakistan exporters is 17.5% (the threshold for non-textile and ethanol products) of US\$ 1,405 billion per annum (i.e., US\$ 238.8 million, a figure that seems out of reach unless considerable investment is made for additional manufacturing facilities, with corresponding improvement in quality control culture).

At the present time, with gross capital formation in Pakistan having declined (according to the World Bank) from US\$ 36.1 billion in 2008 to US\$ 27.1 billion in 2010, it would be unrealistic to assume that new investment will be attracted for manufacture and export of non-textile products, based solely on market opportunity through GSP+ preferences that could be revoked for multiple non-economic considerations outside the control of the investor. Arguably, fresh investment, if any, in production of non-textiles items is more likely to be attracted to non-EU markets where they are showing growth of more than 14% per annum.

Consequently, for the near term and until corrective policies are taken, obtaining advantage from GSP+ will have to come from the textiles and leather sectors. Such a course is not without prospects but also faces hurdles. The size of the market available in EU for products that Pakistan does manufacture, but exports in quantities well below the 6% threshold, is recapped below:

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Table 32			
Ch 63:			
	Pakistan Exports	EU Imports	Market Share
Sub-heading HS 6302	19.76	801.64	2.47%
Sub-heading HS 6303	35.95	1414.12	2.55%
Sub-heading HS6304	19.33	1005.14	1.93%
Sub-heading HS 6307	56.82	3756.07	1.52%
Chapter 52			
Sub-heading 5201	42.23	752.22	5.6%
Sub heading 5204	0.74	62.57	1.2%
Sub-heading 5205	15.44	627.77	2.4%
Sub-heading 5206	5.79	175.72	3.3%
Sub-heading 5207	0.36	98.64	0.3%
Sub-heading 5208	16.78	1134.82	1.4%
Sub-heading 5209	28.16	680.23	4.1%
Sub-heading 5210	6.01	309.04	1.9%
Sub-heading 5211	6.96	608.60	1.1%
Sub-heading 5212	2.07	212.30	0.09%
	124.54	4661.91	
Totals Ch 52 and	256.4	11638.8.9	0.3%

There are a textiles and textiles made-ups market of US\$ 11.63 billion in which Pakistan already has manufacturing and exporting competency, but responds with only US\$ 256.4 million in sales. Producing the desired products may not require fresh investment, as the textile industry is presently stated to be working well below capacity; nor would it involve new entrepreneurial or manufacturing skills.

In areas where entrepreneurs are able to develop new product lines that have no previous export performance, there is no 14.5% cap annual growth restraint and they will be able to establish benchmarks for subsequent years, provided they do not attract safeguard measures or anti-dumping action as experienced by the country's ethanol and plastics export sectors.

The EU market for clothing (Ch 61 and 62) and other made-ups (Ch 63) is of enormous proportions and so are the exports of the major players. The new entrant in the field is Vietnam in woven clothing, while Sri Lanka has shrugged off the GSP+ suspension to raise its exports to a new level. Exports of the leading suppliers in Ch 61 and 62 exceed those of Pakistan by many times and it would be a misnomer to consider all of them as competitors, especially Turkey, Bangladesh and China, which are important customers for fabrics and yarn.

Table 33: Exports of Textiles and Clothing to EU by Competitor countries									
	Ch 63 Bed-Wear and Towels			Ch 62 Woven Apparel			Ch 61 Knitted Apparel		
	2007	2011	Growth	2007	2011	Growth	2007	2011	Growth
EU Imports	15,674	19,462	24.1%	77,442	89,214	15.2%	68,240	85,854	25.6%
Intra-EU Trade	6,256	7,415	18.5%	30,869	32,151	4.1%	25,986	30,137	15.9%
Extra EU Imports	9,418	12,047	27.9%	46,573	57,063	22.5%	42,254	55,717	31.8%
China	3,500	4,812	37.5%	20,615	26,963	30.8%	13,289	22,301	67.8%
Pakistan	1,195	1,681	40.6%	781	1,276	63.3%	596	856	43.6%
India	1,194	1,502	25.8%	2,952	4,373	48.1%	2,855	3,407	19.3%
Bangladesh*	292	526	80.1%	2,244	4,462	98.8%	4,349	8,545	96.5%

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Turkey*	1,663	1,639	(-1.5%)	5,217	5,139	(-1.5%)	8,186	8,306	1.4%
Tunisia*				2,706	2,538	(-6.2%)	1,065	1,073	0.0
Morocco*				2,658	2,408	(-9.4%)	1,113	1,068	(-9.2%)
Vietnam	145	205	41.4%	1,238	2,065	66.8%	493	826	67.5%
Indonesia				911	1,294	42.1%	985	956	(-3.8%)
Sri Lanka				741	975	31.6%	983	1,184	30.4%
Ukraine				526	432	(-18.9%)	105	88	(-19.1%)

* Imports from Bangladesh, Turkey, Tunisia and Morocco are duty free into the EU

Source: Author's calculations using data extracted from Comtrade

To illustrate, Pakistan's exports of Ch 61, 62 and 63 were US\$ 2.95 billion in 2011. The EU's imports of these three product lines was US\$ 194.275 billion and, if the EU demand increases by only 0.25%, this will create an additional market of US\$ 485.50 million, which is approximately 10% of Pakistan's current total textiles exports to the EU.

It cannot be ignored, however, that global commercial competition is uncompromising and concerned parties consider favourable developments for any player as a threat to their share of the market. Thus, on the basis of the past (2002 Special Incentives) and recent past (ATP), India can be expected to create hurdles to Pakistan's GSP+ aspirations; while Bangladesh, not to mention other clothing suppliers such as Turkey and Morocco, can be expected join in creating obstacles that would mostly be non-commercial in the absence of a provable commercial threat.

Bangladesh and Turkey are, of course, not just competitors, they are important customers who, between them, import almost US\$ 2 billion merchandise annually from Pakistan (Bangladesh US\$ 1,015.5 million, Turkey US\$ 906.6 million), predominantly cotton fabrics and yarn. With India, Pakistan has an adverse balance of trade, but has the opportunity to offset the foreign exchange outflows by importing synthetic fibres and fabrics from India and converting these into textile made-ups for the export market.

For example, even within Ch 63, in which Pakistan has strong market presence in cotton-based products, there is a market of US\$ 5,641 million in man-made and other synthetic fabrics in which Pakistan's exports are just a little over US\$ 80.44 million.

Similarly, in Ch 62, there are 11 product categories, made from cotton and man-made fibres, in which EU imports in 2011 were valued at US\$ 10,935.81 million, whereas Pakistan exported only US\$ 78.58 million, which is disappointing, considering that exports from Pakistan show up in all these 11 lines, with six products having sales exceeding US\$ 10 million/year. This noticeable weakness in assessing the right products for the market, especially those made from man-made fibres needs investigation and solutions.

Chapter 61, which covers knitted apparel, is interesting because Pakistan had a head start of more than twenty years over Bangladesh in manufacture and export of knitted garments, but now Bangladesh is competitive in items where Pakistan has strength. Pakistani exporters have fallen behind in many product lines, especially where man-made fibres are used.

Table: 34 Comparative exports in selected items from Ch 61 (US\$000)

Product HS Code	610831	610342	610721	610990	611120	611693
EU Imports▶	4,650	1,666.3	2,433.1	18,990	3,448	460.0
Exports▼						
Pakistan	23.21	58.23	21.23	119.24	10.40	11.75
Bangladesh	87.37	60.69	51.97	53.70	182.81	0.377
India	179.53	34.65	87.84	52.62	227.50	8.98

Source: Data extracted from Comtrade

From the statistics in Tables 25, 28, 32 and 33, we can observe that other countries have been more efficient in responding to GSP developments and product demand in the EU. Take the examples of

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Vietnam as a top contender in exports of Ch 62 (woven garments), almost double the level of Pakistan's exports; or Turkey and Bangladesh in Chapter 63 (bed wear and towels), where the former has overtaken Pakistan's sales and the latter has already crossed 0.5 billion dollars, in products made largely from yarn and fabrics sourced from Pakistan.

The literature and statistics reviewed for this study identify two key areas in which Pakistan's textile exports need attention: Firstly, Pakistan is not a competitor in textiles and clothing manufactured from man-made or synthetic fibres, which has the greater share of the EU market. Second, Pakistan's clothing manufacturers do not employ women workers in the same number as competitor countries:

A review of women workers employed in apparel manufacture in GSP, GSP+, EBA, Euro-Med (European Mediterranean Partnership), ACP (Africa, Caribbean, Pacific Partnership) exporting countries is illustrative:

Country	GSP Category	Percentage of Women Employed in Apparel Manufacture
Bangladesh	EBA	80%
Cambodia	EBA	90%
China	GSP	70%
Colombia	GSP+	62%
Costa Rica	GSP+	58%
Dominican Republic	GSP+	53%
Ecuador	GSP+	56%
India	Standard GSP	80%
Indonesia	Standards GSP	80%
Mauritius	ACP	67%
Morocco	Euro-Med	70%
Nicaragua	GSP+	90%
Peru	GSP+	43%
Philippines	Standard GSP	72%
Sri Lanka	Standard GSP	87%
Tunisia	Euro-Med	80%

Accurate statistics are not available in respect of women's employment in the garments sector in Pakistan, but available literature indicates 20%-25% as the optimum number. The linkage between women's employment in apparel manufacture cannot be denied. From the figures above we note that even Peru, at 43% with the lowest ratio of women employment among the identified comparators, has the highest value of apparel exports to the EU among South American GSP+ countries.

Summing up this discussion on the challenges that Pakistan might face from competitors, it will be relevant to quote from the CARIS Study "Impact of trade policies on Pakistan's preferential access to the European Union" (Document Ref. TRADE08/C3/C18) which notes that: "Pakistan's principal competitors in the EU are generally ones who currently receive, or might in the future receive, more favourable preferences than those extended to Pakistan."

Trade data identifies Pakistan's main non-EU competitors, in order of overall magnitude, as:

Sector	Competitor Countries
Apparel:	China, Turkey, Bangladesh, India, Tunisia, Morocco, Indonesia, Vietnam, Sri-Lanka
Textile Made-ups	India, China, Turkey, Bangladesh
Ethanol	USA, Brazil, Egypt, Guatemala, Nicaragua
Leather Apparel	China, India, Vietnam, Turkey and Hong Kong

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Except for the USA (and now Brazil), all the other countries benefit from preferences in the EU import market. Turkey, Bangladesh, Morocco and Tunisia have mostly duty-free access in the products where Pakistan imports face 9.6% duty and this disadvantage is not expected to change, even if Pakistan qualifies for GSP+ status, without drastic changes in export product lines.

Indonesia, Vietnam and Sri Lanka are GSP beneficiaries, and their exports are subject to import duty at the same rates as Pakistan. India and China have graduated out of GSP Section X1-b and their exports of textiles and clothing are levied duty at MFN rates (12%), compared to 9.6% for imports from Pakistan, but they remain GSP beneficiaries in the leather sector.

Brazil will cease to be eligible for GSP from 2013, while ethanol exports from Egypt have separate duty-free entry status into the EU.

Looking ahead, any competitive tariff advantage gained over India will erode over the next 3-5 year period, depending on when an EU-India Free Trade Agreement takes effect. On the impact of an FTA between India and the EU, the CARIS Study highlights that an upper bound of 78% of Pakistani exports to the EU could potentially be subject to trade diversion. "However, the magnitude of the effect will in turn depend on the tariff margin, which generally appears to be relatively low, hence suggesting that a much smaller proportion of exports would in fact be affected."

CARIS further reports that, "although Pakistan provides subsidies to exports through direct means or fiscal measures, the extent and coverage of these measures are rather limited relative to India's complex export subsidization regime. Hence, any preferential treatment to India under an EU-India FTA could allow Indian exporters to gain a competitive advantage in the EU. This would also lead to less threat of the possibility of countervailing duties imposed by EU on India. These preferences are likely to have a negative impact on exports such as textiles, agricultural products, leather products, and all other exports where Pakistani goods directly compete with Indian products. This concern was also expressed by textile exporters in interviews conducted for this study and costs of production in Pakistan were deemed to be 8-10 per cent higher than that of its major competitors (Bangladesh, India and China.)"

In "The impact of trade policies on Pakistan's preferential access to the European Union" CARIS (2008) concludes that trade diversion resulting from FTA's would affect Pakistan textile exports to the EU in Textiles, Plastics, Leather and Ethanol (Ch 22, 39, 42, 52, 55, 61, 62 and 63). CARIS further identified Ch 03 (Seafood) as an import from Pakistan that would be affected by trade diversion.

The Indian Ministry of Commerce and Industry estimates that the sector which "stands to gain the maximum benefit out of an FTA with the EU is textiles and readymade garments." India had earlier raised the issue of the EU imposing several non-tariff barriers (NTBs) against textiles and garments exports from India in the form of labelling certification, registration, evaluation, authorization and restriction of chemical substances and is working to develop a common compliance code to empower the textiles industry.

Another EU Commission position paper on "Trade Sustainability Impact Assessment for the FTA between the EU and the Republic of India" (March 2010) arrives at the conclusion that an FTA would result in an increase of exports to the EU, "particularly in the textiles and clothing sector." The report further notes that the "negative impacts on neighbouring countries are rather limited and confined to market share in the textiles sector. They reason that this is mostly due to the limited export volumes and the fact that neighbouring countries in South Asia all benefit from the EU's preferential regime."

Many countries, including Pakistan, are negotiating FTAs with the EU, perceiving better advantage through such bilateral agreements that have the advantage of addressing concerns on sectors specific to each country instead of the "one size fits all" solution available through GSP preferences. Sanoussi Bilal, Isabelle Ramdoo and Querntion de Roquefeuil of ECDPM estimate the effect of FTAs on GSP as below:

Table: 35 Share of EU imports likely to be affected by FTAs:				
	Under FTAs in 2008	Under all FTAs concluded in 2011	Under all FTAs to be concluded by 2014	Trade with countries not be covered by FTAs in 2014
Share of imports	4.6%	15.4%	47.2%	53.8%

Source: "GSP Reform: Principles, values and coherence" Bilal, Ramdoo, de Roquefeuil, ECDPM, Apr. 2011

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Assuming that an India-EU takes effect in 2014, tariff preferences for India will be phased in over a period of not less than two years, therefore Pakistan has four years in hand to prepare for such adversities as may arise. However, as Table 32 shows, Turkey, Morocco, Tunisia, Bangladesh, whose textile goods currently have duty-free access, are more likely to feel the competitive pressure from Pakistan; and India, with its domestic self-sufficiency in textiles and leather chemicals, cotton yarn and fabrics, man-made fibres and fabrics, manufacture of knitting and weaving machinery, has the advantage of lower input costs against these other supplier countries.

The upshot of this discussion is that the lack of diversification, especially within its textile exports to the EU, poses a greater obstacle to Pakistan's obtaining duty-free benefits of GSP+ than any third competitor.

ANALYSIS OF LEGISLATION FRAMEWORK



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This section is divided into three areas:

- Analysis of the EU's conditionality requirements on human rights, sustainable development and good governance. It details the rationale and the implications for beneficiary countries;
- Review of Pakistan's implementation status of the 27 conventions required for GSP+ conditionality;
- Pakistan's implementation status.

Analysis of EU conditionality of the 27 conventions for GSP+

Under GSP+, Pakistan and other beneficiary countries are eligible for duty-free imports of non-sensitive items and reduced tariffs for sensitive items, subject to the beneficiaries meeting a number of EU criteria including ratification and effective application of 27 key international conventions on sustainable development and good governance (16 on human rights and labour rights and 11 on environmental standards, drug enforcement).

The conventions referred to in this Study are listed in Annex VIII of Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October, 2012 applying a scheme of generalized tariff preferences.

Not listed in Annex VIII, but made known through several public statements issued officially by the European Commission and the EU Representative in Pakistan, is the requirement for Pakistan to abolish the death penalty.

Under the second phase of the third cycle of GSP (1995-2004), the EU introduced the following arrangements, the aim of which was to assist qualified beneficiary countries in sustaining and improving their environmental and social standards and fighting against illicit production:

1. General arrangements;
2. Special incentive arrangements for the protection of labour rights.
3. Special incentive arrangements for the protection of the environment.
4. Special incentive arrangements to combat drug production and trafficking.
5. Special arrangements for Least Developing Countries (LDCs); the Everything but Arms initiative (EBA).

In 2005, the Special Incentives arrangements for sustainable development and good governance (GSP+) was created covering labour rights, the environment, drug production and trafficking.

The selection of the 27 conventions listed in the Table below and in the Annex to this Section was done so that "the additional preferences available to vulnerable developing countries under the GSP+ component of the scheme act as an incentive for them to ratify and effectively implement a set of key international conventions. These represent widely recognized standards in the field of core human rights, and labour standards, sustainable development and good governance rights."

Box4: Human Rights

Respect for human rights is also one of the preconditions for any candidate country's accession to the EU. The EU's external action in human rights matters has its legal basis in the Treaties and particularly in the Charter of Fundamental Rights.”

The EU maintains guidelines on Human Rights, promotion of Human Rights in non-member countries, and Children's Rights. The Communication from the Commission to the Council and the European Parliament of 8 May 2001 - the European Union's role in promoting human rights and democratisation in third countries [COM(2001) 252 final - Not published in the Official Journal] elaborates on third party relations.

“In the dialogue with third countries, it is important to have a constructive and positive partnership with their governments. This approach has been based on the inclusion, since 1992, of the clause on 'essential elements' in all agreements signed with third countries. On the basis of this clause, respect for democratic principles and fundamental rights as laid down in the Universal Declaration of Human Rights constitutes an 'essential element' of the agreement. The aim of the clause is to support democracy and human rights in these countries, to promote accession to and ratification and implementation of international human rights instruments, and to prevent crises through the establishment of a consistent and long-term relationship.

Moreover, this dialogue must not be limited to the public authorities, but should also include civil society and NGOs, both in the field and in Brussels.”

Death Penalty: Since the mid-nineties, all EU members have ratified the Protocol No 6 to the ECHR concerning the Abolition of the Death Penalty. Abolition of the death penalty is in effect one of the conditions of EU membership. The EU has also undertaken a number of initiatives within international bodies, mainly the United Nations (UN). In 2007, its co-sponsored resolution on a moratorium on the use of the death penalty was adopted at the 62nd session of the UN General Assembly. This resolution calls for the use of minimum standards in safeguarding the rights of those facing the death penalty, the progressive restriction of the use of the death penalty and the establishment of a moratorium on executions. 2. Paragraph 1 of this Article shall not apply to EBA beneficiary countries, nor shall it apply to countries with a share for the relevant products referred to in Article 29(1) not exceeding 6% of total Union imports of the same products listed in Annexes V or IX, whichever is applicable.

Box5: Sustainable Development and Good Governance

The principle of sustainable development is reported to have appeared in an international trade instrument for the first time in the 1993 EU-Hungary Europe Agreement (1993/OJ/ L347/2). Article 9 of the EU's Cotonou Agreement expanded the definition of sustainable development as “respect for all human rights and fundamental freedoms, including respect for fundamental social rights, democracy based on the rule of law and transparent and accountable governance are an integral part of sustainable development”.

Similar chapters are found in the EU's 2008 Cariforum Agreement, the 2012 EU-Korea Agreement, and the EU Central America and EU-Peru/Colombia Agreements.

Pakistan treaty signature status

Under law, any international treaties signed and ratified by Pakistan need to be enacted as national law in order for provisions to be enforced. The following tables provided the ratification status of Pakistan and India. A brief note on the differences between signing, ratifying, formally confirming and acceding to an international treaty is given below:

Box6: Signing, Ratifying, Formally Confirming and Acceding to an International Treaty

Signing indicates the intention of a State to take steps to express its consent to be bound by a Convention and/or Optional Protocol at a later date. Signing also creates an obligation, in the period between signing and consent to be bound, to refrain from acts that would defeat the object and purpose of the treaty.

Ratification legally binds a State to implement the Convention and/or Optional Protocol, subject to valid reservations, understandings and declarations. When a State wishes to ratify or accede to the Convention or Optional Protocol, or a regional integration organization wishes formally to confirm or accede, the State or regional integration organization must execute an instrument of ratification, formal confirmation or accession, signed by the Head of State, Head of Government or Minister for Foreign Affairs. There is no mandated form for the instrument; however, it must include amongst other provisions, an unambiguous expression of the intent of the Government, on behalf of the State, to consider itself bound by the Convention and/or Optional Protocol, and to undertake faithfully to observe and implement its provisions

Formal confirmation legally binds a regional integration organization to implement the Convention and/or Optional Protocol.

Accession legally binds a State or regional integration organization to implement the Convention and/or Optional Protocol.

Source: UN Treaty; See also the Vienna Convention on the Law of Treaties 1969.

Table: 36 Pakistan and India: Implementation Status 16 conventions on Human Rights and Labour Laws

	<i>Treaty</i>	<i>Pakistan Signed/Ratified</i>	<i>India Signed/Ratified</i>
1	International Covenant on Civil and Political Rights (New York, 1966)	17 Apr 2008/ 23 Jun 2010	10 Apr 1979 a (Accession)
2	International Covenant on Economic, Social and Cultural Rights (New York, 1966)	3 Nov 2004 / 17 Apr 2008	10 Apr 1979 a
3	International Convention on the Elimination of All forms of racial discrimination (New York, 1966)	19 Sep 1966 / 21 Sep 1966	2 Mar 1967/ 3 Dec 1968
4	Convention on the Elimination of All forms of Discrimination against Women (New York 1979)	12 Mar 1996 a	30 Jul 1980/ 9 Jul 1993
5	Amendment to Article 20, Paragraph 1 of the Convention on the Elimination of All Forms of Discrimination against Women New York, 22 December 1995	Not ratified	Not Ratified
6	Convention on the Rights of the Child (New York 1989)	20 Sep 1990/ 12 Nov 1990	11 Dec 1992 a
7	Convention on the Prevention and Punishment of the	11 Dec 1948/	29 Nov 1949/

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	Crime of Genocide (Paris 1948)	12 Oct 1957	27 Aug 1959
8	Convention concerning minimum age for Admission to Employment (No 138)	6 July 2006	Not ratified
9	Convention concerning the Prohibition and Immediate Action for the elimination of the worst forms of child labour (no 182) 1999 (Entry into force: 19 Nov 2000)	11 Oct 2001	Not ratified
10	Convention concerning the Abolition of Forced Labour (no 105) 1957 Date of entry into force: 17 Jan 1959	15 Feb 1960	18 May 2000
11	Convention concerning Forced or Compulsory Labour (no 29) 1930 (Entry into force: 1 May 1932)	23 Dec 1957	30 Nov 1954
12	Convention concerning Equal Remuneration for Men and Women Workers for work of equal value(no 100) 1951	11 Oct 2001 In Force	25 Sep 1958
13	Convention concerning Discrimination in Respect of Employment and Occupation (no 111) 1958	24 Jan 1961 In Force	03 Jun 1960 In Force
14	Convention concerning Freedom of Association and Protection of the Right to organize (no 87) 1948	14 Feb 1951 In Force	Not ratified
15	Convention concerning the application of the Rights to Organize and Bargain collectively (no 98) 1949	Ratified 26 May 1952 In Force	Not ratified
16	International Convention on the Suppression and Punishment of the Crime of Apartheid (New York 1973)	27 Feb 1986 a	22 Sep 1977

Table 37: Pakistan and India : Implementation Status 11 conventions on sustainable development and good governance

Treaty	Pakistan Signature/Ratification Accession	India Signed/Ratified Accession
1 Montreal Protocol on Substances that delete the Ozone layer (1987): +Amendments to the Montreal Protocol (1992) 2 .e Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer Beijing, 3 December 1999	18 Dec 1992 a	19 Jun 1992 a
2 Basel Convention on the control of movement of trans boundary waste and hazardous substances	26 Jul 1994 a	15 Mar 1990 /24 Jun 1992
3 The United Nations Framework Convention on Climate Change (UNFCCC) 1992	13 Jun 1992/ 1 Jun 1994	10 Jun 1992/ 1 Nov 1993
4 Stockholm Convention on Persistent Organic Pollutants, Stockholm, 22 May 2001	6 Dec 2001/ 17 Apr 2008	14 May 2002 13 Jan 2006
5 Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES)	20/04/1976 (A) 19/07/1976 entry into force	20/07/1976 (R) 18/10/1976 entry into force
6 Convention of Biological Diversity (CBD) (1992)	13 Jun 1992/1 Jun 1994	10 Jun 1992/ 1 Nov 1993
7 Cartagena Protocol on Biosafety (2000)	4 Jun 2001/ 2 Mar 2009	23 Jan 2001/ 17 Jan 2003
8 Kyoto Protocol to the United Nations Framework Convention on Climate Change (1997)	11 Jan 2005 a	26 Aug 2002 a

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9	Amendment to Annex B of the Kyoto Protocol to the United Nations Framework Convention on Climate Change, Nairobi, 17 November 2006	Not yet confirmed acceptance of the amendment	18 Nov 2008 A
10	UN Single Convention on Narcotic Drugs (New York 1961)	30 Mar 1961 Ac 9 Jul 1965	Signed 30 Mar 1961 / Ac 13 Dec 1964
11	UN Convention on Psychotropic Substances (Vienna, 1971)	9 Jun 1977 a	23 Apr 1975 a
12	Un Convention against Illicit Traffic in Narcotic Drugs And Psychotropic Substances (Vienna, 1988)	Signed 20 Dec 1989 A 25 Oct 1991	27 Mar 1990 a
13	Un Convention against corruption NY 2003: Entry into fore 14 December 2005, in accordance with article 68(1).	9 Dec 2003 31 Aug 2007	9 Dec 2005 9 May 2011

As the onus is now on the beneficiary country to prove “effective implementation”, the following sections indicate the level of verifiable progress made by Pakistan, as tracked by the relevant monitoring bodies and other stakeholders. Each section also contains the relevant local legislation in place. It is not the aim of the Study to re-produce an exhaustive list of laws in force in Pakistan, but only to demonstrate that a broad corpus of national legislation exists and, subsequently, to analyse in which areas implementation or other gaps exist.

Pakistan: implementation status

Progress on Human Rights

Table 38: Human rights conventions and key local legislation in Pakistan

	<i>Treaty</i>	<i>Legal Basis</i>
1	International Covenant on Civil and Political Rights (New York, 1966)	Constitution of Pakistan
2	International Covenant on Economic, Social and Cultural Rights (New York, 1966)	Constitution of Pakistan
3	International Convention on the Elimination of All forms of racial discrimination (New York, 1966)	Constitution of Pakistan
4	Convention on the Elimination of All forms of Discrimination against Women (New York 1979)	Constitution of Pakistan The Protection Against Harassment of Women in the Work place Act 2010 (Act No iv of 2010) U
5	8 .an Amendment to article 20, paragraph 1 of the Convention on the Elimination of All Forms of Discrimination against Women New York, 22 December 1995	
6	Convention on the Rights of the Child (New York 1989)	Constitution of Pakistan
7	Convention on the Prevention and Punishment of the Crime of Genocide (Paris 1948)	Constitution of Pakistan
8	Convention concerning minimum age for Admission to Employment (No 138)	Factories Act 1927
9	Convention concerning the Prohibition and Immediate Action for the elimination of the worst forms of child labour (no 182) 1999 (Entry into force: 19 Nov 2000)	Labour Policy 2002 The Prevention and Control of Human Trafficking Ordinance (promulgated in October 2002):

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		Employment of Children Act, 1991 Employment of Children Rules, 1995 Sindh Employment of Children Rules, 1995 Punjab Employment of Children Rules, 1994 NWFP Employment of Children Rules, 1996 Children (Pledging of Labour) Act, 1933 Punjab Employment of Children (Workshop) Rules, 1939 Factories Act 1934 (law governing the workplace)
10	Convention concerning the Abolition of Forced Labour (no 105) 1957 Date of entry into force: 17 Jan 1959	Bonded Labour System (Abolition) Act, 1992, Bonded Labour System (Abolition) Rules, 1995 Fund for the Rehabilitation, Education and Welfare of the Freed Bonded Labourers
11	Convention concerning Forced or Compulsory Labour (no 29) 1930 (Entry into force: 01 May 1932)	Bonded Labour System (Abolition) Act, 1992, Bonded Labour System (Abolition) Rules, 1995 Fund for the Rehabilitation, Education and Welfare of the Freed Bonded Labourers
12	Convention concerning Equal Remuneration for Men and Women Workers for work of equal value (no 100) 1951	The Protection Against Harassment of Women in the Work place Act 2010 (Act No iv of 2010)
13	Convention concerning Discrimination in Respect of Employment and Occupation (no 111) 1958	The Protection Against Harassment of Women in the Work place Act 2010 (Act No iv of 2010)
14	Convention concerning Freedom of Association and Protection of the Right to organize (no 87) 1948	Industrial Relations Ordinance 1969 Industrial Relations Ordinance 2002 (repealed) Industrial Relations Act 2008 Employees Old Age Benefits Act Employees Social security ordinance 1965 Workmen's Compensation Act 1923 Minimum Wages Ordinance 1961 Dock Labourers' Act 1934 Factories Act 1934 Mines Act 1923 (divided into OHSAS, welfare)
15	Convention concerning the application of the Rights to Organize and Bargain collectively (no 98) 1949	Industrial Relations Ordinance 1969 Industrial Relations Ordinance 2002 (repealed) Industrial Relations Act 2008 ILO
16	International Convention on the Suppression and Punishment of the Crime of Apartheid (New York 1973)	?

The relevant monitoring bodies for the 16 human rights conventions are listed in Annex 8. Reports provided by the respective monitoring bodies of the mission are available from the sources. For brevity's sake the contents of those reports will not be listed in this Study. These reports acknowledge the good progress being made in recent years towards on ground implementation by the government and the commendable efforts of the judiciary in access to justice.

Best practices by Pakistan in the last decade include the voluntary moratorium, since 2008, on the death penalty, the intention to pass a Bill against the death penalty in 2011; passing of landmark legislation on protection of women's rights and the role of the judiciary in taking suo moto notice as measures towards access to justice.

However, cases such as the recent factory fires in Pakistan (September 2012 in Lahore and Karachi) highlight the weaknesses regarding on-the-ground enforcement, as both factories were reported to be suppliers to overseas buyers with in-built certification systems.

One topic that could lead to contention in the future is the requirement of phasing out the capital punishment. India recently conducted an execution and is reported to be one of forty countries (China included) that opposed a recent UN General Assembly resolution calling for the abolition of the death

penalty. However, the repeated request (from human rights watch groups, politicians and activists) is for review and amendments to any discriminatory laws, particularly where the death penalty is applicable, and for improved access to justice. In the absence of timely reforms, Pakistan runs the risk of not being able to address in time the requirements of the International Covenant on Economic, Social and Cultural Rights; Covenant on Civil and Political Rights; the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Elimination of All Forms of Racial Discrimination; and Convention on the Elimination of All Forms of Discrimination Against Women.

The Government of Pakistan would also need to ensure that any measures, which it does take, are uniformly applied in all the provinces. Similarly, the EU would need to understand and reconcile to the complexities of governance issues in Pakistan.

Progress on sustainable development and good governance

Analysis of progress in sustainable development needs to be approached differently. Firstly, unlike the human rights agenda, which have specific standards and converges towards common goals, each Multilateral Environmental Agreement (MEA) covers different grounds and different targets. Certain conventions cover urban and industrial environment, while others address protection for flora and fauna. Therefore, performance indicators will vary for each of them, meaning that in-country implementation and monitoring can involve multiple agencies, adding to the time needed to set-up mechanisms.

Also, unlike the human rights treaties, with the exception of the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES), which has its own secretariat, there is specific monitoring body for the other treaties. This means that EU would rely on its own reporting and monitoring channels.

The table below lists all the MEAs to which Pakistan is a party. The Pakistan Environmental Act 1997 (PEPA 1997) is the prime Act from which flow Rules and Regulations in all matters relating to environmental control enforced through subsidiary legislation covering standards and procedures, such as the National Environmental Quality Standards, based on criteria as laid down by the World Health Organization. Environment laws are enforced through federal and provincial Environmental Protection Agencies (EPAs) where infractions of the rules are adjudicated upon by provincial environmental tribunals, whose decisions can be appealed in the courts. Some environment offences are addressed through a number of other laws in existence, including the Criminal Code of Procedure. Legislation on flora and fauna is administered through provincial wild life and forestry laws. Selected legislation is listed below for reference purposes:

Table 39: Selected legislation on Flora and Forna	
Convention	<p><u>Pakistan Environmental Protection Act 1997 (PEPA)</u></p> <p><u>Rules and Regulations notified under PEPA 1997</u></p> <p>National Environmental Quality Standards (Certification of Environmental Laboratories), 2000 (notified on 10th February, 2000).</p> <p>Environmental Tribunal Rules, 1999 (notified on 10th March, 2000).</p> <p>Pakistan Environmental Protection Agency (Review of Initial Environmental Examination and Environmental Impact Assessment) Regulations, 2000 (notified on 13th June, 2000).</p> <p>Provincial Sustainable Development Fund Board (Procedure) Rules, 2001 (notified on 18th July, 2000).</p> <p>Environmental Samples Rules, 2001 (notified on 18th July, 2000).</p> <p>National Environmental Quality Standards (Self-Monitoring and Monitoring by Industry) Rules, 2001 (notified on 18th July, 2000).</p> <p>Pollution Charge for Industry Rules, 2001 (notified on 28th September, 2001).</p> <p>Provincial Sustainable Development Fund (Utilization) Rules, 2003 (notified on 29th May, 2003).</p> <p>Pakistan Biosafety Rules, 2005 (notified on 21st April, 2005).</p> <p>Hospital Waste Management Rules, 2005 (notified on 3rd August, 2005).</p>

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<p>Montreal Protocol on Substances that delete the Ozone layer (1987): +Amendments to the Montreal Protocol (1992) [2 .e Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer Beijing, 3 December 1999]</p>	<p><u>National Environmental Quality Standards</u> Municipal and liquid industrial effluents; Industrial gaseous emissions; and motor vehicle exhaust and noise (notified on 29th August, 1993). Industrial gaseous emissions (notified on 19th October, 1995). Municipal and liquid industrial effluents and industrial gaseous emissions (notified on 10th August, 2000). Motor vehicle exhaust and noise (notified on 18th August, 2009). Ambient Air; Drinking Water Quality; and Noise (notified on 26th November, 2010).</p>
<p>Basel Convention on the control of movement of transboundary waste and hazardous substances</p>	<p>Environmental laws related to hazardous substance and Wastes: Solid and Effluent Management The Explosive Act 1884 Factories Act) PEPC Rules 1993 EPA 197 Solid and Effluent Management</p>
<p>The United Nations Framework Convention on Climate Change (UNFCCC) 1992</p>	
<p>Stockholm Convention on Persistent Organic Pollutants Stockholm, 22 May 2001</p>	
<p>Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES)</p>	<p>Customs Act Provincial Wildlife Laws (Sindh Wildlife Protection Ordinance 1972, Baluchistan Wildlife protection Act 1974, N.W.F.P (Wildlife Protection Conservation and Management Act 1975 Punjab Wildlife Act 1974 Islamabad Wildlife Protection Preservation Conservation and Management Ordinance e1979, JK Forest Act 1927, Fisheries Rules</p>
<p>Convention of Biological Diversity (CBD) (1992)</p>	<p>Access and Benefit sharing Legislation drafted</p>
<p>Cartagena Protocol on Biosafety (2000)</p>	
<p>Kyoto Protocol to the United Nations Framework Convention on Climate Change (1997)</p>	
<p>Amendment to Annex B of the Kyoto Protocol to the United Nations Framework Convention on Climate Change Nairobi, 17 November 2006</p>	
<p>UN Single Convention on Narcotic Drugs (New York 1961)</p>	<p>Drugs Act 1976 Control of Narcotic Substances Act (CNS) 1997 The Act regulates the prohibition import, National Anti-Narcotics policy Customs Act</p>
<p>UN Convention on Psychotropic Substances (Vienna, 1971)</p>	<p>Drugs Act 1976 Control of Narcotic Substances Act (CNS) 1997 National Anti-Narcotics policy</p>
<p>Un Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances(Vienna, 1988)</p>	<p>Drugs Act 1976 Control of Narcotic Substances Act (CNS) 1997 National Anti-Narcotics policy</p>
<p>Un Convention against corruption NY 2003: Entry into fore 14 December 2005, in accordance with article 68(1).</p>	<p>Drugs Act 1976 Control of Narcotic Substances Act (CNS) 1997 National Anti-Narcotics policy</p>

The EU “Strategy Paper 2007-2013 for Pakistan” concludes that the “environmental situation in Pakistan is giving serious cause for concern. The existing level of degradation and pollution is aggravated by the failure to bring environment into the mainstream. However, the paper acknowledges that “environmental legislation in Pakistan is fairly well-developed”, but that “implementation on the ground remains extremely

weak as the institutional set-up is inefficient, and “essential human administrative resources are not available.” (This, however, should not be taken as the only performance indicator; environmental protection agencies, and the courts, particularly the higher courts, are active in on-the-ground enforcement, adjudication and taking suo moto notice).

Although Pakistan has signed MEAs, national level monitoring remains slow. CITES has a newly formed secretariat and the wildlife departments and customs are the main enforcers. Industrial pollution is monitored by the environmental protection agencies with varying levels of effectiveness; however, most of the pollution cases are dealt with as part of specific environmental standards required by buyer countries or by court order.

Urban Pollution and Waste, often referred to as “Brown” issues (as opposed to “Green” issues of bio-diversity) is monitored by the environmental protection agencies, with varying levels of effectiveness. A majority of the cases deal with industrial pollution, either through suo moto notice by the higher courts or through cases registered by the environmental protection agencies and heard by the environmental tribunals.

Recently, the Government has announced a consolidated list of policy actions through the National Science, Technology and Innovation Policy 2012 to work on sewage treatment; and development of industry-specific waste water treatment, cleaner production practices to meet the objectives of the National Environment Policy 2005.

Foreseeable issues arising for Pakistan from the GSP+ monitoring and evaluation framework

In the section on GSP Plus of this Study, we have discussed changes in the new EU GSP Regulation (EU) No 978/2012 compared with the previous GSP legislation (EU) No 732/2008. Therefore, only a brief comparison of the two versions is reproduced here to discuss in what way the enhanced GSP+ represents an improved mechanism for the implementation of conventions.

Table 40: Addition in Regulation to GSP	
GSP (EU No732 /2008)	Additions in Regulation (EU) 978/2012
<p><i>Entry</i> Commitment to ratify and implement conventions, to report and to accept monitoring.</p>	<p><i>Entry</i> Binding commitment to ratify conventions, to accept monitoring, and to cooperate; Commitment to accept without reservations conventions' reporting requirements; Country has not formulated a reservation which is prohibited by any of those conventions; No serious problems of implementation;</p>
<p><i>Monitoring</i> Reporting to Council every three years.</p>	<p><i>Enhanced monitoring</i> More scrutiny by the Council and European Parliament on the basis of Commission report, every two years</p>
<p><i>Withdrawal mechanism</i> Onus on EU to show that beneficiary country is in breach of conventions; Applicable legal benchmark of 'effective implementation' undefined; Based on reports by international monitoring bodies [e.g., UN, International Labour Organization (ILO)] Undefined role for other parties (e.g., civil society).</p>	<p><i>Withdrawal mechanism</i> Onus on the beneficiaries to prove positive record; Applicable legal benchmark of 'effective implementation' defined; More sources of information allowed (broader than UN, ILO); Specific role for "third parties" (e.g., civil society)</p>

While the greater scrutiny by the Council and European Parliament is welcome, as is the shift of burden of proof to the beneficiary countries, the new conditions of entry may require further clarification by prospective applicants.

Box 7: Condition for the Special Incentive Arrangement for Sustainable Development

“The special incentive arrangement for sustainable development and good governance shall be withdrawn temporarily, in respect of all or of certain products originating in a GSP+ beneficiary country, where in practice that country does not respect its binding undertakings as referred to in points (d), (e) and (f) of Article 9(1), or the GSP+ beneficiary country has formulated a reservation which is prohibited by any of the relevant conventions or which is incompatible with the object and purpose of that convention as established in point (c) of Article 9(1).”

Reservation, understandings and declarations

First up for discussion would be the condition to accept the Convention’s reporting requirements without reservation. As per the above definition by UN Treaty, ratification means a party is legally bound to implement, an instrument “subject to valid reservations, understandings and declarations”. Reservations, Understandings and Declarations (RUDs) are an integral part of international treaties and common in human rights treaties. Jurists find that RUDs may on the one hand serve as “legitimate means to account for diversity” (every country has its unique prevailing conditions) and on the other hand “as tools to undermine the objectives of the treaty or for a party to attempt to renege on its obligations”. The implication is that those countries with the strongest human rights regime will set up fewer Reservations”.⁹ Nevertheless, Reservations remain a sovereign right and it is possible that some GSP+ beneficiaries may challenge the conditions pertaining to the provisions concerning Reservations.

Absence of quantification of implementation criteria

The EU Impact Assessment on the new GSP scheme found that, under the safeguard mechanisms, the definition of key legal concepts is unclear. In the current document, the absence of quantification of what the EU perceives as “serious failure to implement,” is one such example.

The absence of quantified criteria can result in contradictory compliance reports for the same beneficiary country under different schemes, a situation which the EU has already seen. In 2010, EU Member States withdrew GSP+ status from Sri Lanka on the basis of “an exhaustive investigation” by the European Commission, showing significant shortcomings in respect of Sri Lanka’s implementation of three UN human rights conventions relevant for benefits under the scheme.” In 2012, Sri Lanka, which is also a beneficiary of the US GSP scheme, was commended by the USA Government for its efforts in compliance following an interagency review of a petition filed by the American Federation of Labour and Congress of Industrial Organizations in 2008, alleging shortcomings in Sri Lanka’s recognition of worker rights. Quoting US officials (Daily Financial Times, July 10, 2012), “the closure of the GSP country practice review of Sri Lanka was based on the Sri Lankan Government’s noteworthy efforts to address worker rights issues over the past few years. This welcome outcome to the review demonstrates that GSP remains an effective tool for engaging GSP beneficiary countries on worker rights”.

⁹ Neumayer, E. (2007) Qualified ratification: explaining reservations to international human rights treaties, LSE Research Online.

Conclusions of EU reports based partially on third party information

Box 8: Article 14 of the new GSP document

Article 14 of the new GSP document states the following: “The Commission shall present to the European Parliament and to the Council a report on the status of ratification of the relevant conventions, the compliance of the GSP+ beneficiary countries with any reporting obligations under those conventions and the status of the effective implementation thereof. 2. That report shall include:

(a) The conclusions or recommendations of relevant monitoring bodies in respect of each GSP+ beneficiary country; and

(b) The Commission’s conclusions on whether each GSP+ beneficiary country respects its binding undertakings to comply with reporting obligations, to cooperate with relevant monitoring bodies in accordance with the relevant conventions and to ensure the effective implementation thereof.

The report may include any information the Commission considers appropriate.

In drawing its conclusions concerning effective implementation of the relevant conventions, the Commission shall assess the conclusions and recommendations of the relevant monitoring bodies, as well as, without prejudice to other sources, information submitted by third parties, including civil society, social partners, the European Parliament or the Council”.

GSP+ beneficiaries are in effect required to commit to the findings of unnamed third parties including legal and non-legal persons, civil society and social partners. If these third parties include professional trade bodies in the EU then, as competitors, there is a conflict of interest in what is intended to be neutral reporting and their findings could be deemed prejudiced.

The use of NGOs in policy decisions is also likely to come under debate. Describing the USA experience, Callahan and DeVito (2010) report that “when human rights first emerged as a major focus of USA foreign policy in the 1970s, the USA government collected little information about human rights in different countries. This left policymakers and advocates dependent upon reports by NGOs like Amnesty International, as well as media reports. These sources of information were useful, but insufficient, for USA policymakers and advocates.”¹⁰

On sustainable development monitoring, “international organizations and NGOs only partly fill the void in providing data about countries’ environmental records. While much excellent research exists about specific countries, only the Organization for Economic Cooperation and Development (OECD) produces anything close to comprehensive and accessible country reports. The OECD reports are useful, but they are not made available to the public without charge, and reporting is limited to member states plus a few high profile developing countries”.¹¹

Challenges to Pakistan: implementation of the 27 conventions

Cost of implementation and risk of withdrawal:

A 2010 CARIS report, *Mid-term Evaluation of the EU’s Generalised System of Preferences*, states that the costs of implementation appear to be a generally important factor in countries’ decisions to adopt international labour conventions. With regard to ILO conventions, Boockmann (2001) finds strong evidence that the economic costs of ratification are a major factor in ratification decisions by developing countries. In fact, variables used as proxies of economic costs (the size of a country and whether it has ratified a

¹⁰ Callhan, D. and DeVito, C. (2010) A Proposal for U.S. Global Environmental Monitoring. Demos, Working Paper Summary. <http://www.demos.org/sites/default/files/publications/Environmental%20country%20reports%20%28Working%20Paper%29.pdf>

¹¹ Ibid

predecessor convention, if there was any) are the only significant determinants. Importantly, this work takes into account a large number of ILO conventions (around 180) and not just the eight core conventions that are part of the GSP+ conditionality. The intuitive view that ILO conventions are quite heterogeneous, in particular with respect to costs of their implementation and that this should also matter for ratification decisions, is confirmed by Boockmann et al (2009).

The cost of investment for implementation becomes more relevant when a beneficiary loses GSP+ status.

Lack of awareness of the industry stakeholders

Stakeholder views in Pakistan indicate that “part of the implementation problems arises from lack of awareness amongst the industry of the importance of compliance and weak enforcement” (All Pakistan Textile Mills Association press release).

Post-devolution law making

With regard to the 27 conventions, the list of devolved subjects includes:

- Environmental pollution and ecology.
- Population planning and social welfare.
- Welfare of labour; conditions of labour, provident funds; employer's liability and workmen's compensation, health insurance including invalidity pensions, old age pensions.
- Trade unions; industrial and labour disputes.
- The setting up and carrying on of labour exchanges, employment information bureaus and training establishments.
- Regulation of labour and safety in mines, factories and oil- fields.

This means that legislation on these subjects and enforcement now lies with the Provinces, unless a provincial government requests the federal government to delegate on its behalf, subject to agreement by all other provinces. However, Parliament retains exclusive powers to make laws to implement international treaties, conventions and agreements to which Pakistan is a party, including MEAs.

Therefore, while negotiating international treaties and conventions and reporting onus for GSP+, responsibility will vest in the federal government, but progress on on-ground implementation is the jurisdiction of the provinces. Given the internal transition and changes and the massive capacity building required, the federal government would need to coordinate with the relevant provincial departments to ensure that a mechanisms for legislating, monitoring and reporting is assured at the earliest and that there is conformity in standards and penalties.

Summary

“No country in the world, not even Norway or Germany, lives up to all the criteria in the 27 conventions that GSP + countries are supposed to do”- stated a representative of a business association representing Swedish textile, garment and shoe import trade in response to Public Consultation on the EU Generalized Scheme of Preferences

In response to the specific Public Consultation question “Do you consider that the GSP could contribute to address the challenges of the 21st century such as climate change and food security? Do you see ways to take account of these challenges in the next GSP regulation?” the following views were highlighted:

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The Government of Brazil's Ministry of External Relations commented, as did India, that the compliance requirements could be viewed as a barrier to trade. "We understand that new and old challenges alike, that are on the international agenda, such as climate change and food security, are of great importance to global development. Nevertheless, we believe that these issues are horizontal in nature and should be addressed in proper multilateral *fora*. In any case, measures taken to face climate change challenges should not constitute a means of arbitrary or unjustifiable discrimination or disguised restrictions on international trade, as is stipulated by Art 3.5 of the United Nations Framework Convention on for Climate Change (UNFCCC.) In this context, such issues should not be the object of specific clauses of trade preference programs."

In order to address and monitor issues related to the 27 conventions, it would be prudent to enlarge the role of the judiciary, given its activism in social matters in Pakistan. Awareness of the issues, capacity building and monitoring could be achieved through Academia and private sector consultants working with Trade Associations, while judicial panels specializing in specific sectors could adjudicate on compliance and infringements. Such a network would ensure that data provided from the field is diverse and neutral, thus providing the government reporting authorities with a credible and effective reporting mechanism.

Finally, it is clarified that the above review and recommendations have been undertaken as gap analysis and action points to enable Pakistan to meet the EU GSP+ requirements. They are not intended to be taken as input on the scope of legislation, for which changes would be initiated by the relevant stakeholders.

NON-TARIFF BARRIERS, NON-TARIFF MEASURES AND TECHNICAL BARRIERS TO TRADE

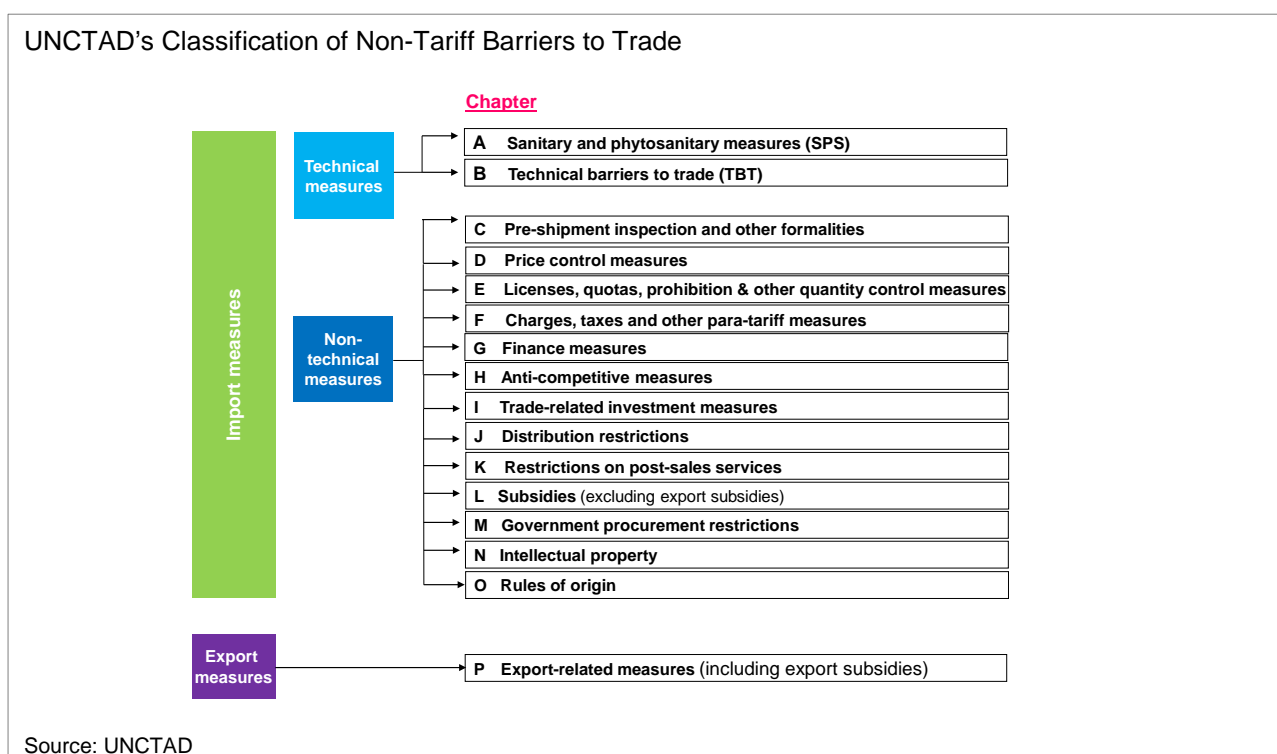


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Introduction to NTBs

The Multi-Agency Support Team (MAST) convened by the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) and its Group of Eminent Persons on Non-Tariff Barriers (GNTB) to undertake data collection and revision of Non-Tariff Measures classification has defined NTMs as: “policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices, or both” (MAST 2009). The classification was adopted in 2010 and revised by UNCTAD in consultation with the WTO in 2012.

The MAST database of NTMs, which gathers data from 29 developing countries as well as Japan and the EU reveals a prevalence of the sub-classification Technical Barriers to Trade (TBTs) and Sanitary and Phytosanitary (SPS) measures, with TBTs affecting around 30% of products and trade values and SPS affecting just below 15% of world trade. Table 39 table below lists the 16 classifications (Chapters) into which Non-Tariff Measures have been classified by UNCTAD:



A new concept, that of “Procedural Obstacles”, has also been created separately, which covers issues arising from the application of an NTM rather than the NTM itself. These include measure such as inefficiency or cause of outright obstruction consisting of too much documentation to be supplied; too detailed or redundant testing/certification or labelling requirement; non-transparent practices consisting of inadequate information on law/regulations, registration, and unusually high fees or charges.

Sanitary and phytosanitary measures

In the area of Technical Measures, the effects of SPS are most evident in the ban placed since 2007 on exports of seafood to the EU. Pakistan’s inability to meet EU standard is reflected by the fact that, following the EU ban, seafood exports to Asian countries such as China, Thailand, Malaysia and Vietnam, which require less stringent measures than the EU, increased manifold, allowing the seafood sector not only to recoup the values in lost sales but double the export values between 2007 and 2011.

Labelling requirements on organic agricultural products

Pursuant to Article 24 of Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of organic products, an indication of the place where the agricultural raw materials of which the product is composed have been farmed shall appear in product labelling and shall take one of the following forms, as appropriate: (a) "EU Agriculture", where the agricultural raw material has been farmed in the EU; (b) "non-EU Agriculture", where the agricultural raw material has been farmed in third countries; and (c) "EU/non-EU Agriculture", where part of the agricultural raw materials has been farmed in the Union and part of it has been farmed in a third country. Given the increasing need for traceability and the concerns for both human safety and sustainable farming, the demand for organic certification is likely to rise.

Pakistan's National Plant and Health Inspection Service (NAPHIS) has already identified a number of key obstacles (2011) arising from non-compliance with food safety/quality standards and SPS in horticulture

These include:

- Lack of SPS management capacity.
- Acts/laws/quality standards outdated.
- Inadequate SPS management/inspection and quality certification system.
- Rising cases of residue pesticide contamination.
- Fruit fly.
- Recommended harvest intervals not adhered to.
- Inadequate storage conditions leading to high levels of aflatoxin.
- Standards of quality not applied.

According to NAPHIS, these knowledge and management gaps result in frequent rejections of agro- based export consignments, resulting into losses of export earnings and markets and, as in the case of seafood, imposition of a ban on exports due to non-compliance of SPS standards.

NAPHIS' recommended action points include: (i) the revival and revision of a grading and quality certification system for of agricultural products under the Agricultural Produce (grading and marking) Act; (ii) the establishment of NAPHIS as the sole regulatory body for food safety, plant and animal health and SPS management; (iii) the introduction of quality certification by the by Pakistan Standards and Quality Control Authority of all processed food and food products meant for export/import.

It is observed that investment in research and development will not be effective unless there is parallel investment in supply-chain logistics in Pakistan. It was recently reported that Pakistan's exports of fruits and vegetables via airlines declined by at least 30% in 2012 due to lack of key cargo handling facilities and space by the national carriers. Issues included non-availability of pallets and containers and off-loadings, which affect the quality and shelf-life of the produce.

Product standards

EU standards applied in the identified products are divided into product and technical standards, of which the following are prominent as applicable TBTs in light of compliance with the GSP+ 27 conventions. While some of these are not directly imposed on exporters, nevertheless they remain applicable:

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Table 41: Applicable Technical Standards

Standard/Category	Description and Application
<p>Registration, Evaluation, Authorization and Restriction of Chemical substances (REACH) (EC 1907/2006).</p> <p>Entry into force 2007</p> <p>Category: TBT Environment, Chemical</p>	<p>REACH is applicable to the chemicals and leather industry.</p> <p>It is the EC Regulation on chemicals and their safe use. Under REACH (Art 126) the EC Member States authorities are responsible for the enforcement of the REACH provisions.</p> <p>Manufacturers and importers are required to gather information on the properties of their chemical substances, which will allow their safe handling, and to register the information in a central database run by the European Chemicals Agency (ECHA) in Helsinki.</p> <p>REACH Article 126 requires that the penalties are "effective, proportionate and dissuasive", and that Member States take all measures necessary to ensure that they are implemented, the Commission will continue to monitor closely the enforcement of REACH in Member States.</p>
<p>Burden of proof on manufacturers</p>	<p>According to <i>Regulation (EC) No 1907/2006</i> of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), starting from 1 December 2008, the pre-registration phase ended and formal registration starts. Manufacturers and exporters from third countries who have failed to pre-register their substances under the <i>REACH Regulation</i> will, in principle, no longer be allowed.</p>
<p>High Registration Fees</p>	<p>The <i>REACH Regulation</i> requires enterprises to test every substance they manufacture. According to the EU estimates, the testing fee for an existing and a new substance is around EUR 85,000 and EUR 579,000 respectively. The registration fee may be as high as EUR 31,000, and even small enterprises with sporadic exports also have to pay several thousand Euros in registration fee.</p>
<p>Disadvantaged position of non-EU manufacturers</p>	<p>Manufacturers located outside the EU must submit registrations for their substances through their EU importers or only representatives in the EU. However, such a practice actually adds to the inconveniences, and difficulties.</p>
<p>AZO Dyes - Directive 2002/61/EC</p> <p>Category: TBT, Environment, Safety</p>	<p>AZO dyes are the name of the group of synthetic dyestuffs based on nitrogen. Some AZO dye stuffs may separate under certain conditions to produce carcinogenic and allergenic aromatic amines.</p> <p>The EU AZO Colorants Directive 2002/61/EC sets out that specified AZO dyes may not be used in textile and leather articles which may come into direct and prolonged contact with the human skin or oral cavity. The directive came into force in Sept. 2003.</p> <p>Since Annex XVII of REACH came into force in 2009, the AZO Directive 2002/61/EC has been replaced by REACH regulation. AZO dyes are put on REACH Restriction List.</p>
<p>Plastics –Safety, Environment</p> <p>General legislation</p> <p>Regulation EC 2023/2006</p>	<p>Good Manufacturing Practice for materials and articles intended to come in contact with food</p>
<p>Plastics –Safety, Environment</p> <p>General legislation</p> <p>Regulation EC 1935/2004</p>	<p>Framework Regulation on materials and articles intended to come into contact with food</p>
<p>Legislation on specific materials</p> <p>Plastics –Safety, Environment</p> <p>Regulation EU 10/2011</p>	<p>Plastic materials and articles intended to come into contact with food: Consolidates old rules</p> <p>Repeals old rules , Replaces old rules</p> <p>Regulation EC 282/2008 - recycled plastic materials and articles intended to come into contact with foods</p>

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Legislation on specific materials Plastics –Safety, Environment Directive 2007/42/EC	Materials and articles made of regenerated cellulose film intended to come into contact with foods
Legislation on specific materials Plastics –Safety, Environment Directive 84/500/EEC	Approximating EU countries' laws on ceramic articles intended to come into contact with foods
Legislation on specific materials Plastics –Safety, Environment Regulation EC 450/2009 -	Active and intelligent materials and articles intended to come into contact with food.
Legislation on specific substances Regulation 1895/2005/EC	Restricting use of certain epoxy derivatives in materials and articles intended to come into contact with food.
Legislation on specific substances Directive 93/11/EEC	Release of N-nitrosamines and N-nitrosatable substances from rubber teats and soothers
Regulation EU 1282/2011	Plastic materials and articles intended for contact with food
Regulation EU 321/2011	Restricting Bisphenol A use in plastic infant feeding bottles
Regulation EU 284/2011	Import procedures for polyamide and melamine plastic kitchenware from China and Hong Kong
The Global Organic Textile Standard (GOTS)	<p>GOTS is the processing standard for textiles made from organic fibres. It defines high-level environmental criteria along the entire organic textiles supply chain and requires compliance with social criteria as well.</p> <p>Only textile products that contain a minimum of 70% organic fibres can become GOTS certified. All chemical inputs such as dyestuffs and auxiliaries used must meet certain environmental and toxicological criteria. The choice of accessories is limited in accordance with ecological aspects as well. A functional waste water treatment plant is mandatory for any wet-processing unit involved and all processors must comply with minimum social criteria.</p>
Voluntary Sustainability Standards As below: Category: Environment, Health and Safety	<p>This refers to 'private standards' related to occupational safety, environmental, social or animal welfare issues, including Fair Trade, organic.</p> <p>"The distinction between 'mandatory' and 'voluntary' standards may be somewhat artificial. In reality, standards, which are not official part of legislation, can still have a mandatory character when it comes to market access."- UNCTAD Work-shop on "Environmental Requirements and Market Access" for Developing Countries" 2004.</p>
SA8000	SA 8000 is known as the first auditable standard in this field and based on the ISO 9001/ISO 14001 structure, conventions of the International Labour Organization (ILO), the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child. Achieving certification involves the development and auditing of management systems that promote socially acceptable working practices bringing benefits to the complete supply chain. Labels such as Fair Trade are based on the SA 8000 code.
ISO 14001	ISO 14001 is part of a series of international standards relating to environmental management.
Eco-Label Criteria for Textiles	The EU Eco-label for Textiles covers the complete product life cycle of a Textile Product and sets requirements for the complete life cycle, from fibre production to use stage.
Eco-Label Criteria for Footwear <i>Decision 2009/563/EC</i> Category: VSS, Environment	<p>On 9 July 2009, the EU published <i>Commission Decision 2009/563/EC</i> on establishing the ecological criteria for the award of the Community eco-label for footwear, valid for four years from the date of the adoption of the Decision (i.e., until 2012).</p> <p>The product group "footwear" under <i>Decision 2009/563/EC</i> comprises all articles of clothing designed to protect or cover the foot, with a fixed outer sole which comes</p>

into contact with the ground (footwear shall not contain any electric or electronic components).

The new Decision provides stricter criteria for certain products to be awarded EU eco-label, for example, the limits to water consumption for the tanning of hide and skin, the content of chemical oxygen demand (COD) in the waste waters from leather tanning sites and from the textile industries, and the restrictions on the use of hazardous substances not specified in earlier Commission Decisions. For shoes made of leather, there shall be no chromium VI in the final product, and the applicant and/or his supplier(s) shall provide a test report, using test method EN ISO 17075. The amount of free and hydrolysed formaldehyde of the components of the footwear shall not be detectable for textile and not exceed 150 ppm for leather.

The new Decision sets limits to water consumption for the tanning of hide and skin and places specific requirements on the packaging of the final product. Where cardboard boxes are used for the final packaging of footwear, they shall be made of 100% recycled material. Where plastic bags are used for the final packaging of footwear, they shall be made of, at least, 75% recycled material or they shall be biodegradable or compostable.

Intellectual property rights

As a member of the WTO, Pakistan is a party to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which entered into force in 1995. The areas of intellectual property covered by TRIPs are: copyright and related rights; trademarks including service marks; geographical indications including appellations of origin; industrial designs; patents, including the protection of new varieties of plants; the layout-designs of integrated circuits; and undisclosed information including trade secrets and test data.

This Agreement sets out the minimum standards of protection to be provided by each Member, sets out the domestic procedures to deploy for enforcement of intellectual property rights (IPRs) and details a dispute resolution mechanism among Member States.

Over the years, Pakistan has strengthened its body of copyright protection laws including a Trade Mark Ordinance (2004), Copyrights Amendment Ordinance (2000), Patents Ordinance (2000) and Registered Trademarks Ordinance (2000) and of late has increased capacity-building activity in this area.

IPR is one of the matters under discussion for the potential EU-India FTA, with Indian industry expressing the view that intellectual property rights are being used by the EU as a Non-Tariff Measure.¹²

With reference to the leather sector, there is the example of India's footwear exporters, who have neither patented trademarks nor brand names and sell under a different brand name in destination countries. While this is a cost-saving measure, Indian industry believes its products would need to be sold under brands both to protect their IPRs and also to ensure that they are not blocked on the grounds of non-registration, etc. Given that trademarks need to be registered in each destination, this will add to costs.

Assuming that Pakistan's footwear and leather exporters fulfill all other product and technical standards, they too will need to ensure proper branding for protection and to ensure that they are not infringing on IPR. This will require legal facilitation and, for smaller firms, some form of legal aid, both of which can be provided at professional association level.

¹² Gautam and Ranja Sengupta (2011) "India's FTAs and Micro, Small and Medium Enterprises: A case study for the leather industry, Third World Network Kumar.

Box 9: Intellectual Property Rights

In 2009 the European Council published a Customs Action Program Against Counterfeiting and Piracy for the period 2009–2012. According to the action plan, the EU is considering reviewing Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights and Commission Regulation (EC) No 1891/2004 of 21 October 2004 laying down provisions for the implementation of Council Regulation (EC) No 1383/2003.

According to the Report on EU customs enforcement of intellectual property “Results at the EU Border 2010,” of the top products detained labels, tags and emblems comprised 8%, while clothing comprised 7%. Suspected trademark infringements concerning food, clothing accounted for 14.5% of the total items detained.

It was also reported that in nearly all the detention cases (90%) of the detention cases, the goods were destroyed after the holder of the goods and the rights holders agreed on destruction, or the rights holder initiated a court case to establish IPR infringement. In only 7% of the cases were the goods released or the right holder did not respond to the notice sent by the Customs (4.5%).

Challenges for Pakistan

Pakistan has long been a supplier of textile and leather goods to the EU and other global destinations and therefore has quality and safety standards in place with deviations resolved at firms’ level, but no sector or regulatory level complaints of note. While quality control and product standards remain a concern for the producers, as indicated in the stakeholder consultations, product quality and testing will not be considered as specific to GSP+.

Textile sector

Voluntary Social Standards (VSS) also known as “Private Standards” are also compliance challenge for manufacturers and exporters. These are social standards applied by major global buyers which their vendors globally are required to maintain as a condition for trade relationship. In general, these private standards more or less is in conformity with the buying or buyer’s country own legal requirements, especially in the areas of basic respect for worker rights, gender promotion and avoidance of child labour. According to the Small and Medium Enterprises Development Authority (SMEDA) the European Eco-Label is said to compare to Oeko-Tex 100, but reportedly less well known and less asked for in purchase requirements by European buyers.

The Oeko-Tex Standard 100 is an independent testing and certification system for textile raw materials, intermediate and end products and is currently the most widely-accepted quality standard certification for textile products, covering raw and dyed/finished yarns, raw and dyed/finished fabrics and knits, ready-made articles (all types of clothing, domestic and household textiles, bed linen, terry cloth items, textile toys, etc.). The certification includes tests for harmful substances, illegal substances, legally regulated substances, known harmful (but not legally regulated) chemicals as well as parameters for health care.

Oeko-Tex 100 certification is awarded in four product classes covering (i) textile items for babies and toddlers up to 3 years (clothing, toys, bed linen, terry cloth items etc.); (ii) textiles used close to the skin (undergarments, bed linen, T-shirts etc.); (iii) textiles used away from the skin (jackets, coats etc.); and (iv) furnishing materials (curtains, table cloths, upholstery materials etc.)

Considering the rising awareness of environmental issues in the supply chain, and the wide range of the REACH regulation, (which covers many textile dyestuffs) there is likely to be increasing demands for the EU Eco-Label as a less costly standards compliance as far as the European buyers are concerned.

Tanneries and leather sector

The leather sector comprises a number of processes ranging from processing to finished goods and, as such, the sector is subject to different legislation covering agriculture, environment public health and consumerism. From the exporters' perspectives, as in textiles, quality standards are the most important

NTB. Product standards are imposed generally on saddler and harness products (HS 4201); trunks and suitcases, etc. (HS 4202); articles of apparel and clothing (HS 4203); and footwear (HS 64). There are also global standards on products such as safety shoes.

There is no general obligatory labelling requirement covering all leather products at European level. EU labels borne by other leather products indicating leather as materials exists in some member states and on a voluntary basis. The EU leather association (COTANCE) has discussed the idea of harmonization of leather goods and garments sectors.

Other than product standards (i.e., size, shape or capacity), standards most often relate to Maximum Residue Levels (MRLs) of different chemicals. The chemicals and the type of machines to be used in production may be specified by countries. All countries do not have uniform assessment standards and importing regions require quality certificates on imported products to be issued only by European laboratories based on European standards. This itself is a barrier. Labour and environment related standards remain the same as for other sectors.

Of the responses received from the stakeholder consultations, from the textile and leather sectors, nearly half mentioned environmental standards as the most cumbersome technical standard, followed by testing and consumer safety. The responses also indicated that the major players already adhere to standards such Oekotex-100, SA 8000 (social accountability standards, concerned with non-technical matters, e.g., factory premises conditions, health and sanitary provisions for workers, etc.).

Ethanol sector

On the regulatory side, Pakistan's Ethanol sector is affected by REACH, as indicated by feed-back from the stakeholder review. Given the complications involved, leading ethanol manufacturers in Europe have formed an Ethanol REACH Association to enable the joint submission of a high quality dossier for registration. Ethanol manufacturers (EU and non-EU), importers and other entities that have interest in the registration of ethanol may join the Association. This platform would provide the Pakistan ethanol industry with technical input.

On the production side, a number of sugar factories in Pakistan were cited in the last two years on environmental grounds and for posing a risk to public health (violations under Pakistan's Environmental Act) with COD (chemical oxygen demand), BOD (biochemical oxygen demand), TSS (total suspended solids) and oil and grease higher than national environmental quality standards (NEQS). This aspect can be addressed under the existing mechanisms.

Plastic sector

Exporters to the EU will need to ensure compliance with the relevant legislation covering safety, health and environmental concerns. As for all other identified sectors, plastics will be subject to REACH, which has a direct impact on every member of the plastic supply chain, including additives producers, plastics producers, plastics converters and retail businesses.

The Plastics Exposure Scenario Team (PEST) formed by the key associations representing the plastics supply chain has produced a list of Generic Exposure Scenarios that cover most of the known plastics uses and has translated them into "REACH use descriptors". This is annexed to the section.

Pakistan manufacturers and exports would need to invest in technical expertise in coordination with the relevant research and certification agencies (PCSIR, etc.) to ensure production compliance.

Testing and certification facilities:

A mapping exercise conducted by UNIDO (under the TRTA program) of the existing testing facilities in Pakistan indicated the following results:

Table 42: Pakistan Laboratories by Region and Sector :

Sector Classification	Total Labs	Baluchistan	KPK	Punjab	Sindh
Textiles	72	NIL	NIL	36	36
Leather Goods	1	NIL	NIL	NIL	1
Environment	9	1	NIL	3	5
Pesticides	12	NIL	1	8	3
Pharmaceuticals	55	NIL	2	15	38
Biotechnology	15	NIL	NIL	7	8
Surgical Instruments	1	NIL	NIL	1	NIL

Source: TRTA -UNIDO Mapping of Testing and Calibration Laboratories

Among the responses given in the stakeholder consultations, some indicated that buyers would be willing to accept local certification and this opportunity can be capitalized on.

Costs of compliance:

Researchers from Pakistan have indicated that, for Pakistan, “the costs associated with maintaining standards (fixed: including product redesign and administrative systems, and variable: costs of maintaining quality control, testing certification and conformity assessments) is a concern.”¹³

A UNIDO survey of selected firms in Pakistan found that, on being queried on the reasons for not being certified, based on an average, cost of certification was the key deterrent to certification systems in Pakistan. In the textile sector, most firms did not report the cost of certification as the highest cost was found to be that of systems upgrades and establishment. Most firms in the leather sector responded that they did not know.

The survey found that the most important deterrents to product testing were the high costs of testing, followed by the high transport costs and the high opportunity costs of delays in obtaining results. At sub-sector level, leather and textiles firms cited high costs of testing, transportation and delays as the most important deterrents.

The absence of sufficient local testing facilities was an additional cost burden, with small firms most affected. Although the costs of national testing are reported to be 50% less than that of foreign laboratories, excluding transportation and allied costs, domestic testing facilities are insufficient and the gap results in exporters bearing higher costs for mandatory tests.

On the subject of product testing, and mode of testing, it was reported that, in order to compensate for insufficient national testing facilities, firms used multiple testing services. On average, 20% used customers testing labs, 40% used their own labs and 45% used local labs. Close to 23% used accredited regional labs in Singapore, Hong Kong, or Germany due to a lack of facilities in Pakistan and often at a high cost.

Health Safety and Environment (HSE) and Occupational Health and Safety (OHAS)

The EU imposes both product and industry standards relating to human health and safety and environment. The product standards and REACH have already been discussed in detail above. This section will highlight the challenges to the identified industrial sectors.

Pakistan’s textile sector, though compliant with product standards, falls short in HSE categories. While buyer’s codes and third party inspections (Fair Trade, SA 8000, OekoTex-100 and ISO) and private

¹³ Farzana Noshab Liberalization: Implications for Development in Pakistan. The World Trade Review.

standards cover HSE in depth and are based on ILO conventions, the recent factory fires in Pakistan (September 2012) and Bangladesh (November 2012) demonstrate that these do not in any way provide assurance of implementation at ground level. Both factories in the cited incidents were suppliers to major international chains and were stated to be observing internal codes of compliance and using both third-party and their own certifications.

The problems arise because all third party codes and certifications are treated as minimum standards; they are overridden by the local legislation and clearance from local regulatory bodies. Capacity-building of local regulators and a mechanism for oversight of their inspections are highly recommended.

As seen in the previous section, Pakistan has a comprehensive body of relevant legislation and active enforcement is needed for implementation and monitoring. However, two challenges remain: one is devolution, which requires a full review of the legislation and enforcement across provinces to ensure that penalties, etc. are at the same levels. The second challenge is to increase awareness at all levels. During the factory fire in Karachi, much confusion was seen as to which agencies were responsible for the lapse in oversight of compliance by the concerned factory.

Conclusion and recommendations

“Tariffs and non-tariff barriers that inhibit the movement of goods across international borders are not the only policies that inhibit trade, particularly access by producers in Pakistan to EU markets. Behind-the-border policies in both the EU and Pakistan, such as standards, transactions costs, administrative procedures, and legal institutions such as commercial and competition law, all potentially inhibit trade. Analysis of trade-facilitating policies at this level is best done through micro-focused analysis at the sub-sector and/or producer level” (CARIS, 2010).

Of the Non-Tariff Measures classified by UNCTAD (Table 39 above), stakeholder consultation with the textile sector for this study revealed, both at sector and firm level, that Pre-shipment inspection and other formalities (Chapter C) were not a problem for exporters. As a result of changes brought about in 2010, rules of origin (Chapter O) provide mixed results. Exports of yarn and fabric have received a boost, but exporters of woven clothing and knitted apparel report diversion of orders to Bangladesh.

None of the other NTMs are identified as a barrier to trade with the EU at the present time, although Chapters D (Price Control Measures) and E (Licenses, quotas, prohibitions and other quantity control measures) have been encountered in the past (anti-dumping action against ethanol and PET exports) and could become a hurdle in the form of safeguard triggers in the future, with ethanol exports being the sector most likely to be affected.

Export Measures: In this area the application of a regulatory duty on the export of Raw Hides and Skins (Ch 41) and Molasses (Ch 22) remain major irritants in trade relations with the EU. COTANCE, the EU representative body for the leather industry, is opposed to this export duty and advises it will recommend appropriate trade defence measures, a policy that appears harsh considering that Pakistan's exports of raw hides and skins are less than 1% of world trade.

Sugarcane molasses, which is used in the EU as an ingredient for animal feed and as a natural sweetener in food processed for human consumption, is a raw material for Pakistan's ethanol industry and a regulatory duty was applied to ensure supply of the commodity to domestic industry. European feed producers in particular importers continue to press for a reversal of the export duty and the matter was raised by an EU Parliamentary delegation during an official visit to Pakistan in 2012.

Export Subsidies: Pakistan was the first country in South Asia to remove the bulk of subsidies provided to its exporters, who complain about the subsidies still being provided, especially in the clothing sector, by the governments of India and Bangladesh. India's continuing use of subsidies for its textile exporters has been cited in various Impact Assessment Reports on the proposed India-EU Free Trade Agreement. But Pakistan is not known to have made any complaints in this regard either to the EU or at the WTO.

Recommendations

Discussions with stakeholders at policy level have affirmed that the onus on awareness-raising lies with the relevant professional associations and bodies and a more pro-active approach is required from associations for collaboration with the relevant government cells and the relevant consultants to build information capacity and awareness. Among the key actions recommended are:

- Promotion of Eco label among smaller textile manufacturers and the footwear industry
- Enhanced Capacity Building - exporters and professional associations need to ready themselves for compliance measures posed by VSS requirements from buyers and the costs thereof
- Investment in implementing and enforcing the relevant labour, human rights and environmental laws at industry level as per legislation and professional association charters
- Upgrading of NAPHIS oversight and regulatory capacity
- Capacity-building and oversight of local regulatory officials involved in inspections
- Legal aid and financial support for REACH certification
- Urgent upgrading of seafood industry sanitary standards

CONCLUSIONS AND RECOMMENDATIONS

This policy recommendations paper results from the findings of a research study and an extensive public-private consultation process conducted under the trade policy capacity-building Trade Related Technical Assistance (TRTA II) program, being implemented by the International Trade Centre (ITC).

The methodology used for arriving at these proposed recommendations is briefly described below (and detailed in Annex 1):

- i) A research study was conducted in order to: (i) identify sectors and products having potential vis-à-vis the EU's GSP+ regime and (ii) analyse and report on the legislative measures, if any, that may be needed to support Pakistan's application for qualification as a GSP+ beneficiary State;
- ii) Interviews by the Consultant with private sector stakeholders representing 80% of Pakistani exports to the EU in order to elicit firms and sector insight regarding current and potential exports to the EU;
- iii) Responses received to the Consultant's questionnaires, which were circulated by the Trade Development Authority of Pakistan during its stakeholder consultation on Autonomous Trade Preferences;
- iv) A stakeholder identification and mapping exercise carried out by Pakistan's Institute of Trade and Development in order to ensure the participation of public and private sector stakeholders in the process, obtaining the views of Federal Government ministries and departments, provincial departments and authorities, trade associations, chambers of commerce and industry, individual firms, universities and independent research organizations; and
- v) Comments recorded by the Consultant during the Public-Private Dialogue for the Study, which was attended by more than one hundred twenty five representatives from the public sector, chambers of commerce, testing and certification agencies, trade associations and multi-sectoral representation of private sector exporting firms.

The proposed policy recommendations are, by their very nature, rather concise and aimed at providing the Federal Government of Pakistan, its relevant ministries, the provincial departments and authorities, trade associations, chambers of commerce and industry, individual firms, universities, independent research organizations and all other relevant stakeholders with a set of guidelines that can inform legislative decision-making, regulatory initiatives and business decisions geared to allow Pakistan to take full advantage of its future position vis-à-vis the preferential regime accorded by the EU's GSP+ scheme.

Background

On 31 October 2012, major changes to the EU's Generalized Scheme of Preferences (GSP) were enacted into law by the European Parliament through Regulation (EU) No. 978/ 2012. Revisions to the qualification criteria applicable to the special incentives scheme of the GSP have created an opening for Pakistan, among other nations, to apply for qualification as a GSP Plus (GSP+) beneficiary and gain increased access to the EU market through duty-free imports of GSP-eligible products.

The European Union (EU) is not only Pakistan's largest export destination (in 2011, Pakistani exports to the EU were valued at US\$ 7.09 billion), but it is also engaged in multiple levels of social and economic development activities in the country. The GSP+ arrangement, which is conditional to ratification and implementation of 27 international conventions, provides a platform by which Pakistan's export-driven economy can be utilized for the promotion of basic social and governance standards to which the EU is strongly committed. Adoption of these conventions will assist Pakistan in integrating into the cross-border supply chains that will sustain its manufacturing activity and further promote its exports.

Although Pakistan's exports to the EU (Table 1, below) have risen from US\$ 3.68 billion in 2003 to US\$ 7.09 billion in 2011 (with exports recording a healthy rise of 40% since 2009), the share of exports to the EU as a percentage of Pakistan's total exports has declined by 16% in the same period, indicating faster expansion of Pakistan's exports to other markets. While this diversification is a positive development, the absence of a proportionate increase to the EU, the world's largest importer, must be a cause for concern and Pakistan must adopt the necessary industrial and commercial policies to address it, including within the framework provided by the EU's GSP+ scheme and the opportunities that it offers.

Table 43: Pakistan Exports to the European Union in 2003-2012 (US\$ Billions)

Pakistan exports:	2003	2004	2005	2006	2007	2008	2009	2010	2011	Growth 03-10
A. To the EU	3.684	4.409	4.071	4.500	5.099	5.838	5.048	5.932	7.096	92.6%
B. To the World	11.930	13.379	16.050	16.932	17.838	17.554	20.279	21.413	25.343	112.4%
A / B	30.8%	32.9%	25.3%	26.5%	28.6%	33.2%	24.9%	26.3%	28%	(-9.1%)

Given the combination of Pakistan's indigenous raw materials, technical manpower and entrepreneurial skills, its exports to the EU remain well below their potential, given the import appetite of the EU-27 (in 2011, extra-EU imports were valued at US\$ 2.28 trillion). This performance gap, as underscored by the consulted stakeholders, can be largely attributed to several domestic export sector inadequacies, one of which is Pakistan's continued inability to diversify its export products basket.

GSP+ as one of the factors of export competition, not the only factor

The tariff advantages provided by the GSP+ scheme are powerful and must be exploited, but they are not the only factor that can render Pakistan's exports competitive, sustainable and appealing on the EU market.

First, in a market such as the EU, in which more than half of all MFN tariff lines are already set at 0% and another quarter of them are below 5% *ad valorem*, any import duty preference under the GSP scheme is often balanced by cost, production, quality and delivery efficiencies from non-preferential suppliers. For instance, the small difference of 2.4% between GSP (9.6%) and MFN (12%) tariffs that apply to textiles provides little incentive for importers to utilize the preferential regime, especially if cost, production, quality and delivery efficiencies of textiles from non-preferential suppliers are factored-in. This is evidenced by the fact that exports of textiles and clothing from India and China under the MFN rate are more than double those of all other GSP, GSP+ and 0% duty suppliers put together. GSP+ tariff preferences do, however, make a considerable difference in higher-taxed and large volume/low profit margin goods such as footwear, seafood and fruits.

Second, tariff preferences under the GSP+ scheme are subject to quantity restraints and safeguards, but these instruments do not apply to exports cleared under MFN rates. Consequently, for EU buyers, import clearance under MFN is considered the more reliable and sustainable method, because such shipments are not subject to the uncertainty of import embargoes and/or of increased duties applicable upon arrival.

While the prospects of duty-free access for textiles and clothing suggest enormous scope for expansion of Pakistan's heavily textile-dependent exports, the reality is, therefore, somewhat different. The applicable quantity threshold (*i.e.*, tariff preferences are not available to a country for a product whose exports exceed 6% of the EU's annual GSP imports of that product) means that Pakistan's textile and clothing exports will largely remain subject to MFN import duties. What proportion is affected remains unclear since the EU Commission has not yet published the modalities that will be used for the application of the threshold.

Quantity estimations must also take into account the applicable safeguard provisions, under which tariff preferences are withdrawn when imports of textiles increase by 14.5% (and all other products by 17.5% in value, except for price-volatile ethanol, for which the cut-off is 13.5% by volume) over a period of three years. It is estimated that a total of US\$ 580 million (*i.e.*, roughly, US\$ 280 million in textiles, US\$ 97 million in leather articles and US\$ 203 million for all other products) can be additionally offered to EU buyers at 0% duty imports without attracting safeguard action.

These estimates do not take into account the possible increased exports of seafood, which is currently under an EU ban because of safety reasons, but which would enjoy a considerable competitive edge through substantial tariff preferences (GSP duties are 8%-16%) under GSP+ and could allow Pakistan to regain a market worth US\$ 50 million at the time of the EU ban (2007), now worth approximately US\$ 90 million (35% of Pakistan's global seafood exports in 2011).

ENHANCING PAKISTAN'S TRADING BENEFITS FROM THE PROPOSED EU GSP PLUS SCHEME

Pakistan must take advantage of the tariff preferences provided by the EU's GSP+ scheme, but this preferential duty regime will not suffice alone to secure sustainable market access to the EU. They are merely a catalyst. Pakistan must take concerted action and adopt dedicated policies to address its comparative shortcomings vis-à-vis its direct competitors: costly factors of production, production constraints, quality and delivery inefficiencies, lack of demand-driven export strategies, compliance with EU's regulatory framework and private standards.

Which sectors/products show the greatest potential for export increase under GSP+?

If the import threshold is applied at the HS level rather than on the basis of the GSP Section, the greatest scope for expansion of Pakistan's exports is clearly in the textiles and clothing sector. The capability to produce the relevant items already exists in Pakistan, but production is limited due to insufficient availability of synthetic and man-made fibres and the export volumes are not commensurate to the size of the EU import market in these products.

Exports of non-textile products to the EU show mixed results. While the value has risen from US\$ 971 million in 2007 to US\$ 1,405 million in 2011, exports have not kept pace with shipments to the rest of the world (from US\$ 6,304 million in 2007 to US\$ 10,776 million in 2011). During the 2002-2004 period of duty-free GSP "special incentives", exports of non-textile products from Pakistan could not increase by more than 1.5% *per annum*, suggesting that other factors, such as standards compliance, certification, quality control and packaging, which are as important as tariff preferences in order to capture of EU market share, were not catered for.

Many non-textile products that constitute Pakistan's "traditional" export sectors, such as sports goods, surgical instruments and Basmati rice, or fast-increasing exports, such as copper and animal casings, already enter the EU duty-free under either GSP or MFN rates. Therefore, for these products, the GSP+ tariff preferences will have no positive market access impact.

The following sectors (Table 3 below), which possess demonstrated export potential, either in the EU or on world markets, have been identified as having the potential for capturing increased market share due to the tariff advantage available under the EU's GSP+ scheme:

Product	Current Import Duty	Pakistan Exports to EU	EU Imports
Footwear	8%-16%	US\$ 79 million	US\$ 50,519 million
Ethanol	EURO 19.2/hectoliter	US\$ 43 million	US\$ 43,786 million
Plastic	6.5%	US\$ 83 million	US\$ 220,962 million
Fruit and Nuts	8%-16%	US\$ 66 million	US\$ 42,486 million
Gems and Jewellery	2.5%	US\$ 33 million	US\$ 105,553 million
Seafood	8%-20%	Banned since 2007	US\$ 2,355 million

The greatest potential for Pakistan's increased exports to the EU clearly lays in the textiles and clothing sector. It must be achieved. The preferences under the GSP+ scheme must offer the added incentive for the Pakistani Government and industry to invest in higher technology, standards compliance, certification, quality control and packaging, and demand-driven output. GSP+ will not be there forever and investments must be made to make this sector sustainably competitive.

Is the EU's GSP+ scheme sufficient to make Pakistan's exports competitive?

Research shows that demand-driven export strategies are more effective at securing market share than tariff preferences. India and China, for instance, have successfully built, expanded and consolidated a majority market share in the EU's US\$ 240 billion textiles, clothing and footwear import market, despite competition from countries that have 0% import duty preferences.

ENHANCING PAKISTAN'S TRADING BENEFITS FROM THE PROPOSED EU GSP PLUS SCHEME

Their export success, and that of other countries such as Brazil, Hong Kong SAR, Thailand and Vietnam, results from careful and continuous study of the EU market and utilization of their strong industrial base, skilled manpower and managerial capabilities in order to manufacture products in large volumes, in line with EU standards, of acceptable quality and at prices that make them attractive to EU customers and enable these export sources to outsell their competitors.

GSP+ advantages perceived to be accruing to Pakistan are also likely to trigger strong defensive action from textiles lobbies within the EU (*i.e.*, Italy, Portugal and Greece in textiles, Romania in clothing) and offensive actions may be initiated by the main non-EU competitors of Pakistan (*i.e.*, Bangladesh, China, India, *etc.*).

In synthesis, the extension of the EU's GSP+ preferences to Pakistan will certainly boost its competitiveness, but ultimate success in accessing the EU market in greater quantities will also largely depend on Pakistan's ability to meet EU consumers' demand, both in terms of reliable export volumes and quality, to increase its production efficiency, to invest in technologies and skilled manpower, and to be able to deflect its competitors' defensive or offensive actions. GSP+ alone will not suffice.

The margins of duty preference accorded under the EU's GSP+ scheme can be a double-edged sword: they artificially increase the short-term competitiveness, but if not properly used to acquire long-term and sustainable efficiency, they bring complacency and downturn. Pakistan must invest in new technologies, production efficiency, good management practices, higher reliability of its supply chain, infrastructure, and safety/quality compliance. The short-term advantages of tariff preferences under the GPS+ must be wisely invested for this long-term goal, not for short-term profit.

What are the challenges faced by Pakistan's exports to the EU?

Noting that textiles and clothing enjoy the least level of import tariff preferences, Pakistan's main export line may turn into its biggest handicap for optimizing EU market access through GSP+. Given that substantial opportunities exist in the EU's textiles import market, the challenge is for Pakistan to respond with new clothing and textile products that carry the selling advantage of a 0% import duty for potential EU customers. Product concentration (*i.e.*, 83% of Pakistan's exports to the EU are made up of just two sectors: 1) textiles and clothing; and 2) leather) results in Pakistani exports to the EU being supply-driven and rather unresponsive to demand.

The key challenges to increasing Pakistan's exports to the EU are found to lie primarily within the border. In the textiles sector, Pakistan needs to analyse further why countries such as Bangladesh, Morocco, Tunisia, Turkey and Vietnam and have greater market share in the EU, not to mention China and India, whose exports are already at a level that Pakistan may not be able to reach for several years, if ever. The Pakistani Government and industry stakeholders must work to address the anomalous situation whereby US\$ 8 billion of yarn and fabric are exported to three countries (*i.e.*, Bangladesh, China and Turkey), which use these raw materials to produce finished goods that capture market share in the EU to the detriment of Pakistan. By a rough estimate, availability of this raw material in Pakistan, coupled with a demand-driven domestic industry that were able to compete with the countries indicated above, would create 200,000 direct and another 300,000 indirect jobs in the value-added textile sector.

Stakeholder consultation and research indicate that serious impediments to increasing exports (not only to the EU, but to all markets) are posed by costs of production, lower productivity, volatile prices of raw materials in the textiles and plastics sectors, difficulty in achieving the required market standards, costs of certification and lack of customer confidence due to the poor security environment.

In the non-textiles sector, products suffer from gaps in acceptable testing and conformance assessments, non-adherence to standards, lack of compliance with traceability and global GAP standards, sub-standard storage and packaging of produce, and inconsistent levels of quality control that are necessary for mass penetration in sophisticated and prosperous markets.

Despite the daunting task, the recipe is simple and well known: the key challenges to increasing Pakistan's exports to the EU lay primarily within the border. Whether it is in the textile and clothing sector or in other high potential sectors, Pakistan's export constraints rest in its high costs of production, low productivity, volatile prices of raw materials, difficulty in

achieving the required market standards, costs of certification, lack of customer confidence, gaps in acceptable testing and conformance assessments, lack of compliance with traceability and global GAP standards, inconsistent levels of quality control and supply-driven exports that are unresponsive to demand. The EU market is a lucrative and highly profitable market, but it is also a very sophisticated and competitive markets. Pakistan must use its GSP+ advantages to improve within the border.

The importance of complying with SPS and TBT standards and technical regulations

In the absence of sufficient in-country facilities to conduct the required testing and conformity assessment, the cost of overseas testing and certification is reported to add to the cost burden of Pakistani exporters, thereby diminishing their competitiveness. For instance, achieving REACH certification (and sustaining the related costs) will be a costly and complex undertaking for Pakistani producers and exporters in the leather and ethanol sectors.

In order to ensure compliance with the applicable SPS and TBT requirements, it is paramount that all the relevant standards and technical regulations, applicable in each sector and to each exported product, be identified, understood and properly applied by Pakistani producers and traders (particularly in the areas of SPS regulation, HACCP measures and REACH).

The main challenges facing Pakistan's compliance with all these non-tariff measures, which have the ability to severely diminish the margins of comparative competitiveness of its products benefitting of the tariff preferences under the EU's GSP+ scheme include: the costs of compliance; the lack of accredited national testing and certification resources and facilities; the lack of awareness amongst producers of the need to certify given products for export to the EU; the need to meet environmental and labour standards; and the increasing importance of meeting voluntary sustainability standards.

This area of compliance with the EU regulatory framework is critical. Pakistani Government and industry must work together to improve its producers' ability to comply, if need be in cooperation with dedicated technical assistance programmes. GSP+ tariff preferences are worthless without products that meet the EU's SPS and TBT standards and technical regulations.

Is Pakistan well-positioned to be awarded GSP+ status?

With respect to the 27 conventions listed for GSP+ qualification, Pakistan has currently ratified all of them, except for the Amendment to Article 20, Paragraph 1 of the Convention on the Elimination of All Forms of Discrimination against Women (New York, 22 December 1995); and the Amendment to Annex B of the Kyoto Protocol to the United Nations Framework Convention on Climate Change Nairobi, 17 November 2006).

The most critical aspect of Pakistan's compliance with this EU requirement relates to the obligation of monitoring the application of the 27 conventions. The EU's GSP+ 2014 scheme requires beneficiaries to unconditionally accept monitoring of some of the 27 conventions by unnamed third parties from civil society that could include NGOs. Another critical aspect relates to the fact that, because of the 18th Amendment to the Constitution of Pakistan adopted in 2010, a shift of power relevant to the conditions of GSP+ qualification has occurred between the Federal Government and the Provinces. While the Federal Government is authorized to negotiate foreign treaties and is the authority that will deal with matters such as those related to the reporting and monitoring of the 27 conventions in light of the EU's GSP+ 2014 scheme, on-the-ground implementation of the corresponding domestic legislation is the preserve of Pakistan's Provincial Governments. Constitutional devolution has occurred. However, the Provincial Governments have so far neither developed the required legal framework or legislation for compliance with international obligations, nor authorized the Federal Government to act on their behalf in this matter.

This dichotomy necessitates the creation at the Federal level of a facilitation and supervisory body that can coordinate with the Provincial Governments in order to ensure that the rules and regulations enacted have uniformity and cohesion across the country, particularly in the area of international monitoring required for compliance with GSP+ conditions.

Pakistan is well-positioned to be awarded GSP+ status having already ratified 25 out of the 27 Conventions required under the EU's GSP+ scheme. However, its new constitutional distribution of powers between the Federal and Provincial Governments requires that good coordination be achieved, ideally by means of a joint supervisory body, in order to ensure that the rules and regulations enacted have uniformity of application and cohesion across the country, particularly in the area of international monitoring required for compliance with GSP+ conditions.

Conclusions and recommendations

The textiles sector continues to account for 75% of Pakistan's exports to the EU and must, therefore, remain the focus of policy action to capitalize on GSP+. Such conclusion appears to be economically justified by the fact that this sector has idle capacity, it is low on energy consumption compared to yarn and fabrics production, it is labour intensive and, being located in urban areas, offers the best prospects for gender balancing of the labour force and it can bring large export volumes at short notice compared to other sectors.

Having identified in the Study huge potential for duty-free entry in certain items in HS 63 as well as the untapped potential in HS 61 and 62, it is recommended that Pakistan engage India as a partner, rather than continue viewing it as a competitor, and begin imports of man-made fibre from India for the manufacture and export of apparel made from these fibres, in view of the huge gap between demand in the EU and Pakistan's ability to supply. By means of example, reportedly India's leather industry association has already grasped the potential of GSP+ for export of leather garments and sent two delegations to discuss the possibility of Indian investment in Pakistan's leather industry. This model approach must be replicated in the textiles sector with Pakistan driving it and ensuring that the ensuing benefits accrue primarily to Pakistan.

In light of this objective, immediate attention needs to be paid to two drivers: (i) Increasing domestic production of synthetic and man-made fibres (*i.e.*, cotton textiles and clothing account for less than 20% of global demand), which will also result in collateral benefits by means of greater export of PET; and (ii) Correcting the anomaly whereby US\$ 8 billion of cotton textiles raw materials are made available to Pakistan's competitors, but not to its own domestic industry, at great costs both in terms of missed export opportunities and lower employment in the neighbourhood of half a million jobs.

In general, the main conclusion is that the principal hurdles to increasing Pakistan's exports to the EU lie within the border. Pakistan's structural problems need to be addressed. Lack of appropriate policy-making, scarce coordination between Government and industry, and few targeted investments over the years in key areas such as technology, infrastructure, quality control and supply-chain management have resulted in Pakistan lagging seriously behind competing countries such as Bangladesh, China, India, Morocco, Tunisia, Turkey and Vietnam, which have all recorded much faster growth and captured markets, including the one of the EU. The EU's GSP+ scheme with its preferences is an opportunity that Pakistan simply cannot miss.

While the textiles sector is the one where all priority efforts by Pakistan (*i.e.*, both the Government and its industry) must be made, the Study has revealed that the EU's GSP+ scheme will provide Pakistan with opportunities also in other export sectors, such as leather and footwear, fruits, ethanol, seafood, gems and jewellery. By the very nature of the GSP+ scheme and in light of Pakistan's progressive development, these opportunities may only be available in the short and medium-term. Therefore, it is urgent that Pakistan puts in place and implements the right policies in order to ensure the medium and long-term sustainability of its industrial, commercial and export development.

The summarized table below is intended to provide a concise visual of the policy recommendations stemming from the Study and that Pakistan should consider for purposes of taking full advantage of the EU's GSP+ scheme.

Table 45: Key Policy Recommendations Requiring Priority Attention

Horizontal Policies		
Subject	Intervention	Outcome
27 Conventions	<p>Early ratification of:</p> <p>Amendment to Article 20, Paragraph 1 of the Convention on the Elimination of All Forms of Discrimination against Women (New York, 22 December 1995); and</p> <p>Confirm acceptance of the Amendment to Annex B of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (Nairobi, 17 November 2006).</p>	<p>Pakistan will complete ratification of all the stipulated Conventions necessary to qualify for GSP+.</p> <p>Irrespective of whether Pakistan qualifies for GSP+, visible intent to implement the labour, environment and social agenda conventions will assist Pakistan to integrate into the global supply chain.</p>
27 Conventions	<p>Develop a focal body to coordinate between the Federal Government and the Provincial Authorities for enactment and/or harmonization of domestic legislation; and</p> <p>Ensure that the rules and regulations enacted have uniformity of application and cohesion across the country, particularly in the area of international monitoring required for compliance with EU's GSP+ conditions.</p>	<p>EU monitoring of the application of the 27 Conventions will be done at the country level, so all relevant domestic legislation must be harmonized to avoid <i>lacunae</i>.</p> <p>Production in areas such as FATA, and PATA is not likely to pass monitoring of the 27 Conventions and may result in loss of investments and inability to take advantage of preferential access to EU market.</p>
27 Conventions	<p>Initiate steps for FPCCI and Pakistan's main Chambers of Commerce to liaise between the Federal/ Government, the Provincial Authorities and the relevant trade sector associations in order to assist with the implementation of the requirements under the 27 Conventions at firms' level.</p>	<p>Compliance of many conventions will be monitored at the firms' level and individual companies infractions can result in an entire sector being de-listed and severe economic and commercial consequence.</p> <p>Capacity building at firm level will assist in obtaining orders from the major multi-national buyers.</p>
Gender Mainstreaming	<p>Encourage the employment of women in the textiles, apparel and footwear sectors.</p>	<p>Pakistan lags behind all the major textile exporters in the number of women employed.</p> <p>Apart from increasing household incomes in urban areas, the addition of women will enhance the quality of goods produced for export.</p>
Environmental Improvements	<p>Pollution in leather tanneries must be addressed and policies adopted to favour investments and upgrading; and</p> <p>The basic welfare standards at factory level must be improved and uniformly achieved, starting from the export plants.</p>	<p>Containment of industrial pollution is a major environmental goal of the EU and the implementation of dedicated policies that can be traced will facilitate EU monitoring and EU's quality control assessment of this sector.</p> <p>Improved shop floor working conditions will result in major buyers placing increased orders and preferring Pakistan to other SAARC countries and competitors.</p>
Export Marketing	<p>Focused studies should be commissioned and carried-out in order to identify viable exportable products and customers for the EU market; and</p> <p>Government should assist the private sector associations in generating actionable market studies and targeting Pakistan's export drive and strategies.</p>	<p>Studies will result in identification of goods whose production takes into account existing realities and constraints (i.e., products involving low fixed capital investment, low energy consumption, high labour employment and which use as much as possible labour-intensive domestic raw material).</p>

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SPS/TBT Compliance	<p>Pakistani Government and industry must work together to improve its producers' ability to comply with the EU's regulatory framework on SPS and TBT issues, if need be in cooperation with dedicated technical assistance programmes; and</p> <p>National certification centres and conformity assessment bodies should be constituted and/or better staffed, equipped and trained, with a focus on export.</p>	<p>Pakistani products for export will achieve the required market standards, the costs of certification will diminish, EU customers' confidence will grow, and quality control will become reliable and a powerful factor of advantage vis-à-vis competitors.</p> <p>Pakistan will be able to take full advantage of GSP+. GSP+ tariff preferences are worthless without exported products that can meet the EU's SPS and TBT standards and technical regulations.</p>
Certification	<p>New sector-specific regulatory frameworks should be put in place to encourage domestic investment by well-known overseas testing and certification agencies. Incentives should be considered and priority export sectors (for purposes of GSP+ eligibility) fast-tracked.</p>	<p>Accredited certification (ISO, Global GAP, Social Audit, FLO, etc.) will help to promote exports of products in several sectors other than just textiles and leather, which already comply with many EU requirements.</p>
Legislative Improvements	<p>Harmonization of compliance legislation at Federal level and across all Provinces, in relation to compliance with both EU's GSP+ requirements and relevant EU's SPS/TBT requirements, including SPS control, conformity assessment and certification.</p>	<p>A stronger Pakistani legislative and regulatory framework, including on monitoring and enforcement, will improve the quality, reliability and compliance of Pakistani products with EU's GSP+, SPS and TBT requirements, thereby improving Pakistani's export performance and competitiveness.</p>
Capacity Building	<p>Capacity building programmes should be conceived and implemented, through cooperation among Government, industry, relevant donors and EU importers, in order to train Pakistani producers and exporters on EU's GSP+, SPS and TBT requirements, marketing strategies and good governance, including traceability.</p>	<p>Pakistani products will enjoy greater market access to the EU and will be more marketable, with positive spill-over effects on the wider economy, employment and both Pakistan's export performance and ability to attract foreign investments.</p>
Sector-Specific Policies		
Subject	Intervention	Outcome
Textiles	<p>In the short-term, the importation of synthetic fibres and/or man-made fibres and fabrics from India should be encouraged. In the medium and long-term, new policies should be adopted to encourage investment in domestic production of synthetic and man-made fibres.</p>	<p>Availability of synthetic and man-made fibre fabrics will provide Pakistan's made-ups and apparel manufacturers with the raw material to compete in an existing EU import market of US \$11 billion <i>per annum</i>, which Pakistan currently exploits for with sales of less than US \$ 80 million.</p> <p>The enhanced availability of such raw material will also enable greater access to the EU import market of knitted and woven apparel, which is worth more than US \$ 90 billion <i>per annum</i> and where Pakistan's exports are currently negligible.</p>
Textiles	<p>Provide industrial, fiscal and investment incentives for Pakistan's and foreign-invested industry to focus on value addition by encouraging availability of yarn and fabrics to the domestic processing industry.</p>	<p>At present, Pakistan is exporting annually more than US \$ 8 billion worth of yarn and fabrics to China, Bangladesh and Turkey, which are Pakistan's main competitors in the EU's apparels and textile-made-ups market. Availability of the same <i>quantum</i> of raw material in Pakistan, if coupled with the growth of Pakistan's processing and</p>

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		value-addition industry, would create an estimated 200,000 direct and 300,000 indirect jobs in the textile value-added sector, enhancing in particular the gender-balancing efforts of the Government and capitalizing on key duty-free openings under the EU's GSP+ scheme.
Seafood	Urgent measures and policies must be adopted and enforced for attaining minimum compliance with EU's health and hygiene standards and thereby terminating the EU ban imposed on Pakistani produce.	A market which has been lost because of hygiene incompliance is now worth around US \$ 75-100 million <i>per annum</i> and could be regained simply by meeting basic sanitary measures, especially in light of the considerable duty advantage (<i>i.e.</i> , 8%-20%) offered to Pakistan by the EU's GSP+ scheme <i>vis-à-vis</i> Pakistan's non-GSP+ competitors.
Footwear	Devise policies to attract domestic and foreign investment in the manufacturing of footwear and make further efforts for higher compliance in relation to labour and environmental standards, which should be skilfully advertised in order to compete with SAARC countries and other GSP+ beneficiaries.	Zero duty imports of footwear under GSP+ will provide price a tariff advantage of 8%-16% <i>vis-à-vis</i> non-preferential sources, which is a major factor in the intensely competitive US \$ 50 billion EU footwear market. China, Thailand and Vietnam have well-developed footwear industries and technical/managerial know-how, but no GSP+ duty advantage in the footwear sector. Pakistan has the additional advantages of local raw material availability (<i>i.e.</i> , hides and skins, fabrics, plastics) and competitively-priced wages in a highly labour intensive industry. Therefore, this is a key area where greater investments can easily be attracted and result in a powerful catalyst for economic development.

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ANNEX 1: METHODOLOGY OF RESEARCH STUDY

This research study is commissioned by the Trade Related Technical Assistance Program for an “Analysis of the qualified sectors in light of the criteria for EU GSP+ scheme 2014 in order to identify sectors where Pakistan has an export interest and potential.” The objectives of the study, as identified in the Terms of Reference, are set out below:

- Analysis of the identified sector to determine challenges faced by the sectors for exports under GSP plus scheme vis-à-vis other eligible countries, LDCs and countries, which have/might have preferential market access (India);
- Identification of standards, TBT, and SPS measures (NTBs) applicable to the identified sectors in EU market and the gap which may exist in the standards, TBT and SPS measures followed by Pakistan and those followed by the EU;
- Clearly set out and articulate recommendations for domestic policy and regulatory reforms to enhance the competitiveness in the identified sectors in light of the above analysis. (The recommendations should be derived from a combination of analytical research and stakeholder consultations. The recommendations should provide long term and short term strategy and should address challenges faced behind the border, at the border and beyond the border);
- To a great extent, the consultant should aim to reach a stakeholder common position for the final recommendations, but where clear divergences exist in stakeholders views on the recommendations (and underlying challenges), such divergences should be tracked and represented by the consultant;
- Policy recommendations should be provided for conformity and harmonization of TBT and SPS measures with the EU market; and
- Any laws, regulations and policies, which may need to be changed, should be identified and proposals furnished to amend them.

This study addresses the given objectives in two parts, consisting of the following:

Overview of Pakistan's Exports to the EU and Review of the EU GSP Scheme

Overview of Pakistan's Exports to the EU: This section provides an overview of Pakistan's exports to the EU, analysing its structure and key elements; this section briefly discusses the Generalized Scheme of Preferences (GSP), tracing its origins and effectiveness through a review of the relevant literature.

GSP Plus. This section provides the element of the EU GSP scheme, highlighting the changes in the arrangement that will become effective from January 01, 2014 and uses descriptive statistics to analyse the performance of GSP+ beneficiary countries, including Pakistan's experience as a beneficiary of the EU “Drugs” arrangement between 2002-2004.

Identifying Pakistan's Qualified and Potential Products

This section identifies (i) sections and products that are not eligible; (ii) products from among the existing major sectors (textiles, clothing, leather) that will gain duty-free access (“identified products”) under GSP+; and (iii) products that have market access through zero duty (“potential products.”)

Challenges Faced by the Identified Sectors for Export under GSP Plus

This section analyses the competitive environment in respect of identified and potential products.

Analysis of Legislation Framework

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This section reviews the situation in respect of the 27 conventions that are an integral component of qualification for GSP+ and Pakistan's preparedness.

Non-tariff Barriers, Non-Tariff Measures and Technical Barriers to Trade

This section examines NTBs, (TBTs, and SPS).

Conclusions and Recommendations

The study conclusion contains overall recommendations for policy making, including suggestions and comments from the stakeholder consultation conducted to date.

Methodology

This study relied on a range of methods and data sources in order to obtain a comprehensive and valid empirical background:

Review of existing literature:

This study was based on a broad range of existing literature, especially:

- EU policy documents and reports concerning the GSP Scheme;
- Published material issued by the European Commission and the European Parliament;
- Reports by Centre for Analysis of Regional Integration at Sussex (CARIS) (whose calculations and summations have been relied upon to a great extent);
- Analyses by the European Centre for Development Policy Management;
- Academic papers, articles, books and press items concerning different aspects of the EU's GSP scheme;
- Documents from key stakeholder institutions, such as the World Trade Organization (WTO), ministries of the Government of Pakistan;
- Documents from International agencies such as the ILO, relevant UN bodies, NGOs;

Many of the authors mentioned in the "References" list have not been directly quoted but the analyses contained in their papers have enabled insight into the issues and helped the author to develop an understanding of the subject matter.

Statistical Analysis:

- Statistical Research from Comtrade, Eurostat, WTO, Trade Development Authority of Pakistan, Ministry of Commerce, Government of India, Bangladesh Ready Made Garments Exporters Association, Pakistan Readymade Garments Manufacturers and Exporters Association.

Legal Analysis:

- Treaties and Conventions, Texts of international Agreements relating to the 27 Conventions, Pakistan National Legislation, Interviews, Case Law.

Expert Opinion through interviews and questionnaires:

- Input for the analysis has been provided through interviews with executives and officials from:
- WTO Cell, Trade Development Authority of Pakistan;

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- Small and Medium Enterprises Authority, Government of Pakistan;
- Exporters and Associations: Leather products, Woven garments, Knitted garments, Seafood and Ethanol (enabling coverage of sectors representing 80% of Pakistan's exports to the EU);
- Federation of Pakistan Chambers of Commerce and Industry.

Responses to Questionnaires have been received from:

- COTANCE (European Federation of the Leather Industry);
- Ake Weyler (Trade Consultant in Sweden);
- Pakistan Ready Made Garments Manufacturers and Exporters Association;
- Textiles Manufacturing Units;
- Clothing manufacturing Units.

ANNEX 2: PAKISTAN'S EXPORTS TO THE EUROPEAN UNION

2007-2011 Top 25 products (exports over US\$30 million)

Product code	Product label	European Union (EU 27)'s imports from Pakistan				
		Value in 2007	Value in 2008	Value in 2009	Value in 2010	Value in 2011
TOTAL	All products	5,051,706	5,719,948	4,950,603	5,478,958	6,943,067
'63	Other made textile articles, sets, worn clothing etc	1,190,138	1,263,865	1,228,605	1,378,940	1,665,142
'62	Articles of apparel, accessories, not knit or crochet	764,718	847,886	848,989	892,743	1,211,399
'52	Cotton	682,990	723,728	584,834	675,518	964,814
'61	Articles of apparel, accessories, knit or crochet	575,812	581,079	524,461	600,227	805,445
'42	Articles of leather, animal gut, harness, travel goods	343,681	440,608	362,588	387,885	433,594
'55	Manmade staple fibres	281,811	253,560	169,477	208,977	268,712
'10	Cereals	82,188	223,863	118,319	160,998	201,139
'74	Copper and articles thereof	6,372	25,944	22,480	56,271	147,058
'95	Toys, games, sports requisites	144,505	153,200	114,644	132,237	122,818
'41	Raw hides and skins (other than furskins) and leather	126,462	117,522	71,424	94,788	122,166
'90	Optical, photo, technical, medical, etc apparatus	92,997	98,253	96,810	91,258	112,044
'39	Plastics and articles thereof	70,211	155,287	112,498	94,031	82,785
'64	Footwear, gaiters and the like, parts thereof	54,508	59,791	60,396	60,462	78,817
'57	Carpets and other textile floor coverings	115,025	99,239	72,136	63,054	66,439
'08	Edible fruit, nuts, peel of citrus fruit, melons	40,352	48,726	63,930	79,071	65,779
'84	Machinery, nuclear reactors, boilers, etc	30,119	18,085	21,192	40,409	49,684
'05	Products of animal origin, nes	16,965	20,454	24,286	27,405	49,356
'94	Furniture, lighting, signs, prefabricated buildings	36,710	40,027	40,183	42,012	43,308
'22	Beverages, spirits and vinegar	54,430	78,436	44,601	3,640	43,276
'85	Electrical, electronic equipment	18,676	28,722	30,520	25,850	35,742
'82	Tools, implements, cutlery, etc of base metal	34,797	36,855	32,153	32,396	33,362
'71	Pearls, precious stones, metals, coins, etc	15,093	13,108	13,456	21,998	32,030
'25	Salt, sulphur, earth, stone, plaster, lime and cement	5,691	13,021	11,803	21,992	31,746
'54	Manmade filaments	40,129	36,239	21,814	31,035	30,798

Source Comtrade Unit: 000US\$

ANNEX 3: PAK EXPORTS TO THE EU27 BY COUNTRY

Importers	Exported value in 2007	Exported value in 2008	Exported value in 2009	Exported value in 2010	Exported value in 2011
World	17,838,407	20,279,046	17,554,698	21,413,103	25,343,769
EU-27	5,051,706	5,719,948	4,950,603	5,478,958	6,943,067
Germany	725,954	879,997	719,250	981,216	1,312,204
United Kingdom	967,379	1,000,423	942,610	1,113,869	1,258,789
Italy	682,608	702,325	555,437	642,244	777,468
Belgium	361,034	428,316	396,464	518,872	657,628
Spain	486,602	491,046	406,645	474,138	569,713
Netherlands	452,951	560,132	393,364	408,084	535,413
France	362,418	367,651	314,033	357,602	405,028
Portugal	168,762	146,212	123,611	126,498	152,419
Sweden	96,249	102,108	76,650	106,387	104,590
Denmark	66,769	85,389	70,214	74,272	93,546
Poland	53,340	55,138	39,732	58,845	76,652
Finland	51,026	55,193	35,599	51,840	71,630
Greece	96,418	94,848	69,240	62,488	57,685
Ireland	37,638	43,651	45,663	44,755	47,157
Lithuania	29,854	41,713	18,706	32,955	34,903
Romania	16,245	22,824	19,830	25,191	28,732
Czech Republic	18,724	21,470	15,268	18,799	26,272
Slovenia	8,532	10,331	9,829	10,573	22,157
Austria	29,876	17,289	15,771	17,584	19,047
Estonia	17,940	29,412	12,338	15,400	17,238
Slovakia	2,382	2,961	2,683	8,313	17,088
Hungary	20,567	19,084	13,862	14,486	15,457
Latvia	7,668	6,215	3,898	7,355	10,709
Cyprus	11,123	8,301	4,921	4,889	5,604
Malta	1,969	1,745	1,618	1,436	2,441
Iceland	474	269	252	262	271
Luxembourg	107	103	197	18,154	134

Source: Author's table, extrapolated from Comtrade data

ANNEX 4: TOP 10 EXTRA EU-27 EXPORTERS TO THE EUROPEAN UNION

	000 USD	Imported value in 2007	Imported value in 2008	Imported value in 2009	Imported value in 2010	Imported value in 2011
	EU imports from the World	5,496,108,829	6,164,772,317	4,619,403,738	5,248,637,786	6,121,391,789
Extra EU Rank ▼	Imports from Extra-EU 27	1,922,924,74	2,271,152,704	1,630,553,490	1,944,178,280	2,282,756,155
1	China	338,355,660	390,668,35	320,791,250	401,908,010	437,481,064
2	USA	258,920,625	282,481,11	227,037,108	242,726,539	271,263,744
3	Russian Federation	178,167,387	232,294,60	150,303,156	197,569,764	267,051,408
4	Switzerland	106,876,389	119,185,46	102,880,444	109,852,557	126,026,064
5	Norway	92,578,533	118,710,73	79,284,203	90,469,263	118,239,535
6	Japan	117,442,712	121,837,89	86,821,897	95,622,111	103,354,120
7	Turkey	65,369,789	69,018,900	51,596,681	57,224,529	67,785,959
8	Special categories	54,668,287	89,162,187	69,400,805	70,024,698	67,121,822
9	India ▲	37,538,362	44,904,795	36,797,932	45,821,152	57,082,201
10	Brazil	46,183,832	54,246,397	36,926,550	44,711,539	54,220,148
27	Ukraine ■	15,252,498	19,736,619	10,209,486	14,651,110	20,537,884
38	Bangladesh ▲	7,490,589	8,858,884	9,023,122	10,056,826	13,773,438
48	Philippines ■	8,015,490	8,341,326	5,534,312	7,427,695	7,347,701
49	Pakistan ■	5,051,706	5,719,948	4,950,603	5,478,958	6,943,067
63	Sri Lanka ▲	3,077,984	3,411,721	2,997,990	3,118,579	3,658,286

■ Potential candidates for GSP+ in 2014

▲ South Asia competitors in textiles and clothing and leather

Source: Authors calculations based on Comtrade data

ANNEX 5: LIST OF COUNTRIES ELIGIBLE TO APPLY FOR GSP+

Reproduced from: "Information Notice for countries which may request to be granted the special incentive arrangement for sustainable development and good governance under Regulation (EU) No 978/2012 of 31 October 2012" (The list does not contain countries benefitting from Everything But Arms (EBA) as of 1 January 2014. All EBA beneficiaries already enjoy duty-free, quota-free treatment for all their exports but arms.)

Countries	Share of total GSP imports (<2.0%)	Share of seven largest GSP sections (>75%)
Pakistan	1.6%	94.6%
Ukraine	1.4%	78.4%
Sri Lanka	0.8%	93.1%
Philippines	0.8%	76.8%
Ecuador	0.5%	98.1%
Peru	0.4%	89.6%
Iran	0.4%	90.5%
Costa Rica	0.4%	97.3%
Nigeria	0.2%	97.9%
Syrian Arab Republic	0.1%	86.8%
Guatemala	0.1%	88.6%
Honduras	0.1%	96.0%
Georgia	0.1%	93.7%
Uzbekistan	0.1%	93.0%
Armenia	<0.1%	97.5%
Panama	<0.1%	93.4%
El Salvador	<0.1%	96.3%
Nicaragua	<0.1%	96.0%
Azerbaijan	<0.1%	95.3%
Turkmenistan	<0.1%	99.0%
Republic of Congo	<0.1%	99.1%
Bolivia	<0.1%	93.1%
Maldives	<0.1%	99.9%
Cape Verde	<0.1%	99.1%
Paraguay	<0.1%	85.6%
Tajikistan	<0.1%	99.4%

ANNEX 6: THE 27 CONVENTIONS

Sr. No	TITLE OF THE CONVENTION	Number of Ratifying Countries
HUMAN RIGHTS CONVENTIONS		
1	International Covenant on Civil and Political Rights	167
2	International Covenant on Economic, Social and Cultural Rights	160
3	International Convention on the Elimination of All Forms of Racial Discrimination	175
4	Convention on the Elimination of All Forms of Discrimination Against Women	187
5	Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment	150
6	Convention on the Rights of the Child	193
7	Convention on the Prevention and Punishment of the Crime of Genocide	142
8	International Convention on the Suppression and Punishment of the Crime of Apartheid	108**
ILO CONVENTIONS		
9	Convention concerning Minimum Age for Admission to Employment (No 138)	163
10	Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour (No 182)	174
11	Convention concerning the Abolition of Forced Labour (No 105)	171
12	Convention concerning Forced or Compulsory Labour (No 29) 175	175
13	Convention concerning Equal Remuneration for Men and Women Workers for Work of Equal Value (No 100)	168
14	Convention concerning Discrimination in Respect of Employment and Occupation (No 111)	169
15	Convention concerning Freedom of Association and Protection of the Right to Organize (No 87)	150
16	Convention concerning the Application of the Principles of the Right to Organize and to Bargain Collectively (No 98)	160
ENVIRONMENTAL CONVENTIONS		
17	Montreal Protocol on Substances that Deplete the Ozone Layer	197
18	Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal 197	197
19	Stockholm Convention on Persistent Organic Pollutants	185
20	Convention on International Trade in Endangered Species of Wild Fauna and Flora	175
21	Convention on Biological Diversity	193
22	Cartagena Protocol on Biosafety	162
23	Kyoto Protocol to the United Nations Framework Convention on Climate Change	191
ANTI DRUGS CONVENTIONS		
24	United Nations Single Convention on Narcotic Drugs (1961)	153
25	United Nations Convention on Psychotropic Substances (1971)	183
26	United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988)	186
GOOD GOVERNANCE CONVENTION		
27	United Nations Convention against Corruption (Mexico).	174

** The Convention is going to be removed from the list
Source: Own study based on UN, <http://treaties.un.org>

ANNEX 7: GSP+ COUNTRIES EXPORTS TO THE EU 2006 and 2009

(Prospective GSP+ countries and Pakistan's competitors in South Asia)

GSP+ countries	2006 (ooo Euros)			2009 (ooo Euros)		
	Exports to the world	Exports to EU	% Exports to EU	Exports to the world	Exports to EU	% exports to EU
Armenia	781.013	318.291	40%	490.115	160.150	32%
Azerbaijan	5,359.364	5,053.364	94%	9,879.039	7,287.538	73%
Bolivia	2,437.300	148.008	6%	2,565.001	183.389	7%
Colombia	18,975.140	3,490.109	18%	23,280.488	3,797.624	16%
Costa Rica	10,534.755	2,994.338	28%	6,215.744	2,768.886	44%
Ecuador	9,930.996	1,540.427	15%	9,745.474	1,874.692	19%
El Salvador	2,938.289	179.225	6%	2,595.798	198.528	7%
Georgia	770.158	448.125	58%	804.779	478.056	59%
Guatemala	4,998.323	352.432	7%	5,220.306	357.157	6%
Honduras	4,046.261	446.106	11%	1,654.885	514.435	31%
Mongolia	1,150.456	57.049	4%	1,300.466	44.482	3%
Nicaragua	807.721	119.877	14%	980.699	165.519	16%
Paraguay	1,367.060	299.889	21%	2,247.641	358.745	15%
Peru	18,108.056	3,423.397	18%	18,462.989	3,128.625	16%
Venezuela	38,208.673	6,049.579	15%	32,299.868	3,850.086	11%
Sri Lanka	4,983.272	1,871.126	37%	4,797.634	2,001.434	41%
Prospective GSP+ Countries						
Pakistan	13,345.389	3,267.393	24%	12,325.003	3,273.948	26%
Philippines	35,808.895	6,203.422	17%	26,876.588	3,804.580	14%
Ukraine	30,955.431	8,324.118	26%	27,929.538	7,604.956	27%
Competitors in South Asia						
Bangladesh	8,052.456	5,256.467	65%	8,889.418	5,801.965	65%
India	96,327.293	22,091.271	22%	114,169.037	25,071.342	21%

Source: author's calculations based on Eurostat/EU Statistics

ANNEX 8: EU GSP+ TARIFF SECTIONS WITH CORRESPONDING HS CODES

EU GSP Section	HS Chapters Covered
S-1a	01-04, 05
S-1b	03
S-2a	06
S-2b	07, 08
S-2c	09
S-2d	10-13
S-3	15
S-4a	16
S-4b	17 - 23
S-4c	24
S-5	25, 27
S-6a	28-29
S-6b	31-38
S-7a	39
S-7b	40
S-8a	41
S-8b	42-43
S-9a	44
S-9b	45-46
S-11a	50-60
S-11b	61-63
S-12a	64
S-12B	65-67
S-13	68-70
S-14	71
S-15a	72-73
S-15b	74-76, 78, 79, 81-83
S-16	84-85
S-17a	86
S-17b	87-89
S-18	90-92
S-20	94-96

Source: Annex IX EU Regulation No 978/2012

ANNEX 9: CONVENTIONS SPECIFIED IN GSP+ AND THEIR MONITORING BODIES

The table below summarizes the different bodies that monitor the 27 conventions which form GSP+ conditionality.

Conventions specified in GSP+ and their monitoring bodies:		
Convention	Monitoring Body	Monitoring Period
International Covenant on Civil and Political Rights (New York, 1966)	The Human Rights Committee	5 years
International Covenant on Economic, Social and Cultural Rights (New York, 1966)	CESCR	5 years
International Convention on the Elimination of All forms of racial discrimination (New York, 1966)	CERD	2 years
Convention on the Elimination of All forms of Discrimination against Women (New York 1979)	CEDAW	4 years
8 .a Amendment to article 20, paragraph 1 of the Convention on the Elimination of All Forms of Discrimination against Women New York, 22 December 1995		
Convention on the Rights of the Child (New York 1989)	The UN Committee on the Rights of the Child (CRC) is the body of independent experts that monitors implementation of the Convention on the Rights of the Child by its State parties	5 years
Convention on the Prevention and Punishment of the Crime of Genocide (Paris 1948)	Nil	
Convention concerning minimum age for Admission to Employment (No 138)	Committee of Experts on the Application of Conventions and Recommendations (CEACR)	2 years
Convention concerning the Prohibition and Immediate Action for the elimination of the worst forms of child labour (no 182) 1999 (Entry into force: 19 Nov 2000)	CEACR	2 years
Convention concerning the Abolition of Forced Labour (no 105) 1957 (entry into force: 17 Jan 1959)	CEACR	2 years
Convention concerning Forced or Compulsory Labour (no 29) 1930 (Entry into force: 01 May 1932)	CEACR	2 years
Convention concerning Equal Remuneration for Men and Women Workers for work of equal value(no 100) 1951	CEACR	2 years
Convention concerning Discrimination in Respect of Employment and Occupation (no 111) 1958	CEACR	2 years
Convention concerning Freedom of Association and Protection of the Right to organize (no 87) 1948	CEACR	2 years
Convention concerning the application of the Rights to Organize and Bargain collectively (no 98) 1949	CEACR	2 years
International Convention on the Suppression and Punishment of the Crime of Apartheid (New York 1973)	Not established	

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Convention	Monitoring Body	Monitoring Period
Montreal Protocol on Substances that delete the Ozone layer (1987): +Amendments to the Montreal Protocol (1992) [2 .e Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer Beijing, 3 December 1999]	Implementation Committee	1 year
Basel Convention on the control of movement of transboundary waste and hazardous substances	Compliance Committee	1 year
The United Nations Framework Convention on Climate Change (UNFCCC) 1992		
Stockholm Convention on Persistent Organic Pollutants Stockholm, 22 May 2001		
Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES): To prevent the overall	Standing Committee	1 year (report on trade) 2 years (report on implementation of conventions)
Convention of Biological Diversity (CBD) (1992)	Compliance assessed through National Biodiversity Strategy and Action Plan under Art 6 and National Report under Art 26	4 years
Cartagena Protocol on Biosafety (2000)	Compliance Committee	3 years
Kyoto Protocol to the United Nations Framework Convention on Climate Change (1997)	Compliance Committee	1 year
Amendment to Annex B of the Kyoto Protocol to the United Nations Framework Convention on Climate Change Nairobi, 17 November 2006		
UN Single Convention on Narcotic Drugs (New York 1961)	INCB	1 year
UN Convention on Psychotropic Substances (Vienna, 1971)	INCB	1 year
UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances(Vienna, 1988)	INCB	1 year
UN Convention against corruption NY 2003 : Entry into force 14 December 2005, in accordance with article 68(1).	UNSecretariat	1 year

ANNEX 10: FUNDAMENTAL RIGHTS GUARANTEED UNDER THE CONSTITUTION OF PAKISTAN

CHAPTER 1. — FUNDAMENTAL RIGHTS	CHAPTER 2. — PRINCIPLES OF POLICY
<p>8. Laws inconsistent with or in derogation of Fundamental Rights to be void.</p> <p>9. Security of person.</p> <p>10. Safeguards as to arrest and detention.</p> <p>10.A. Right to fair trial.</p> <p>11. Slavery, forced labour, etc., prohibited.</p> <p>12. Protection against retrospective punishment.</p> <p>13. Protection against double punishment and self-incrimination.</p> <p>14. Inviolability of dignity of man, etc.</p> <p>15. Freedom of movement, etc.</p> <p>16. Freedom of assembly.</p> <p>17. Freedom of association.</p> <p>18. Freedom of trade, business or profession.</p> <p>19. Freedom of speech, etc.</p> <p>19A. Right to Information.</p> <p>20. Freedom to profess religion and to manage religious institutions.</p> <p>21. Safeguard against taxation for purposes of any particular religion.</p> <p>22. Safeguards as to educational institutions in respect of religion, etc.</p> <p>23. Provision as to property.</p> <p>24. Protection of property rights.</p> <p>25. Equality of citizens.</p> <p>25A. Right to education.</p> <p>26. Non-discrimination in respect of access to public places.</p> <p>27. Safeguard against discrimination in services.</p> <p>28. Preservation of language, script and culture.</p>	<p>29. Principles of Policy.</p> <p>30. Responsibility with respect to Principles of Policy.</p> <p>31. Islamic way of life.</p> <p>32. Promotion of local government institutions.</p> <p>33. Parochial and other similar prejudices to be discouraged.</p> <p>34. Full participation of women in national life.</p> <p>35. Protection of family, etc.</p> <p>36. Protection of minorities.</p> <p>37. Promotion of social justice and eradication of social evils.</p> <p>38. Promotion of social and economic well-being of the people.</p> <p>39. Participation of people in Armed Forces.</p> <p>40. Strengthening bonds with Muslim world and promoting international peace</p>

ANNEX 11: LIST OF SUBJECTS DEVOLVED TO THE PROVINCES

List of subjects devolved to the Provinces after the 18th Amendment to the Constitution

Highlighted portion (No. 24-30) is relevant for GSP+

Concurrent Legislative List (OMITTED)

1. Criminal law, including all matters included in the Pakistan Penal Code on the commencing day, but excluding offences against laws with respect to any of the matters specified in the Federal Legislative List and excluding the use of naval, military and air forces in aid of civil power.
2. Criminal procedure, including all matters included in the Code of Criminal Procedure, on the commencing day.
3. Civil procedure, including the law of limitation and all matters included in the Code of Civil Procedure on the commencing day, the recovery in a Province or the Federal Capital of claims in respect of taxes and other public demands, including arrears of land revenue and sums recoverable as such, arising outside that Province.
4. Evidence and oath; recognition of laws, public acts and records of judicial proceedings.
5. Marriage and divorce; infants and minors; adoption.
6. Wills, intestacy and succession, save as regards agricultural land.
7. Bankruptcy and insolvency, administrators- general and official trustees.
8. Arbitration.
9. Contracts, including partnership, agency, contracts of carriage, and other special forms of contracts, but not including contracts relating to agricultural land.
10. Trusts and trustees.
11. Transfer of property other than agriculture land, registration of deeds and documents.
12. Actionable wrongs, save in so far as included in laws with respect to any of the matters specified in the Federal Legislative List.
13. Removal of prisoners and accused persons from one Province to another Province.
14. Preventive detention for reasons connected with the maintenance of public order, or the maintenance of supplies and services essential to the community; persons subjected to such detention.
15. Persons subjected to preventive detention under Federal authority.
16. Measures to combat certain offences committed in connection with matters concerning the Federal and Provincial Governments and the establishment of a police force for that purpose.
17. Arms, firearms and ammunition.
18. Explosives.
19. Opium, so far as regards cultivation and manufacture.
20. Drugs and medicines.
21. Poisons and dangerous drugs.
22. Prevention of the extension from one Province to another of infectious or contagious diseases or pests affecting men, animals or plants.
23. Mental illness and mental retardation, including places for the reception or treatment of the mentally ill and mentally retarded.
24. Environmental pollution and ecology.

25. Population planning and social welfare.
26. Welfare of labor; conditions of labor, provident funds; employer's liability and workmen's compensation, health insurance including invalidity pensions, old age pensions.
27. Trade unions; industrial and labor disputes.
28. The setting up and carrying on of labor exchanges, employment information bureaus and training establishments.
29. Boilers.
30. Regulation of labor and safety in mines, factories and oil- fields.
31. Unemployment insurance.
32. Shipping and navigation on inland waterways as regards mechanically propelled vessels, and the rule of the road on such waterways; carriage of passengers and goods on inland waterways.
33. Mechanically propelled vehicles.
34. Electricity.
35. Newspapers, books and printing presses.
36. Evacuee property.
37. Ancient and historical monuments, archaeological sites and remains.
38. Curriculum, syllabus, planning, policy, centres of excellence and standards of education.
39. Islamic education.
40. Zakat.
41. Production, censorship and exhibition of cinematograph films.
42. Tourism.
43. Legal medical and other professions.
- 43A. Auqaf.
44. Fees in respect of any of the matters in this List, but not including fees taken in any court.
45. Inquiries and statistics for the purpose of any of the matters in this List.
46. Offences against laws with respect to any of the matters in this List; jurisdiction and powers of all courts except the Supreme Court, with respect to any of the matters in this List.
47. Matters incidental or ancillary to any matter enumerated in this List.

ANNEX 12 - LIST OF CERTIFICATION AND TESTING AGENCIES IN PAKISTAN

Pakistan Standards and Quality Control Authority (PSQCA)
Plot No. St - 7/A, Block - 3, Scheme No. 36, Gulistan-e-Juhar, Karachi – Pakistan
Tel. # +92-21-34023842, Fax # +92-21-34021420
Toll Free# 0800-80000
Email: psqcadg@super.net.pk , dgeneral@psqca.com.pk
Web site: <http://www.psqca.com.pk>

National Testing Services
Email: ntsinfo@nts.org.pk
Headquarter: (Islamabad Office)
96, Street No. 4, Sector H-8/1, Islamabad
Tel: +92-51-9258478-79
Fax: +92-51-9258480
Karachi Office:
POF Complex 3rd Floor, 252 Sarwar Shaheed Road Saddar, Karachi
Tel: +92-21-35215013
Fax: +92-21-3521516

List of Accredited Labs and their Scopes:

National Physical and Standards Laboratory (NPSL) Plot No.16, Sector H-9, Islamabad, Pakistan Tele#: +92-51-9257459, 9257462-7 Fax#: +92-51-9258162	Accreditation Scope (ISO/IEC-17025)
Pakistan Council of Scientific and Industrial Research PCSIR Labs Complex, Off University Road, Karachi, Pakistan Tele#: +92-21-8141841 Fax#: +92-21-8141847	Accreditation Scope (ISO/IEC-17025)
Qarshi Research International (Pvt.) Limited, Hattar 56/1-4, Industrial Estate Hattar, District Haripur, N.W.F.P., Hattar, Pakistan Tele#: +92-0995-111-200-300 Fax#: +92-0995-617275	Accreditation Scope (ISO/IEC-17025)
Platinum Pharmaceuticals (Pvt.) Limited, Karachi A-20, North Western Industrial Zone, Bin Qasim, Karachi, Pakistan Tele#: +92-21-4750112-3 Fax#: +92-21-4750229	Accreditation Scope (ISO/IEC-17025)
Leather Research Centre(LRC), PCSIR, Karachi Pakistan Council of Scientific and Industrial Research, Leather Research Centre, D-102, S.I.T.E., South Avenue, Karachi, Pakistan. Tele#: +92-21-2570765, 2588720 Fax#: +92-21-2578748	Accreditation Scope (ISO/IEC-17025)

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SGS Pakistan Textile Laboratory, Karachi Accreditation Scope (ISO/IEC-17025)
22/D, Block 6, PECHS., P.O. Box 12538,
Karachi-75400, Pakistan
Tele#: +92-21-4540260
Fax#: +92-21-4548824
Website: www.sgs.com

SGS Pakistan Textile Laboratory, Lahore Accreditation Scope (ISO/IEC-17025)
6-D, Upper Mall, Canal Bank Road,
Lahore, Pakistan.
Tel#: +92-42-5716833
Fax#: +92-42-5716837

Efroze Chemical Industries (Pvt) Ltd, Karachi Accreditation Scope (ISO/IEC-17025)
146/23, Korangi Industrial Area,
Karachi-74900, Pakistan.
Tel#: +92-21-5072586-8
Fax#: +92-21-5060116,5072589

Textile Testing International, Lahore Accreditation Scope (ISO/IEC-17025)
Block-A, Faisal Town,
Lahore-54500, Pakistan
Tel# +92-42-111-786-001
Fax# +92-42-5176666

SGS Chemical and Environmental Laboratory, Karachi Accreditation Scope (ISO/IEC-17025)
22-D, Block-6, PECHS,
Karachi-75400, Pakistan
Tel# +92-21-4540260
Fax# +92-21-4523491

Textile Testing International
3rd Floor, Plot No andC, Sunset Commercial St. No 1,
Phase 4, DHA, Karachi-75500
Tel: (92-21) 111 786 001
Fax: (92-21) 3580 0397
Email operations@ttilabs.net

137-A,Faisal Town, Lahore-54500,Pakistan.
Tel: (92-42) 111 786 001
Fax: (92-42) 3517 6666
Email marketing@ttilabs.net

Department of Plant Protection
Government of Pakistan
Jinnah Avenue - Malir Halt,
Karachi-27.
+92-021-9248612-4
+92-021-9248673
info@plantprotection.gov.pk

The International Trade Centre implemented the Trade Policy Capacity Building Component of the European Union funded TRTA II programme. It is aimed at the Ministry of Commerce and Government of Pakistan in developing a coherent trade policy and attendant regulations for export competitiveness. Specifically, it will aim to reinforce the skills of government officers working in trade related ministries and implementing agencies on issues related to trade policy, commercial diplomacy and regulatory reform. The main way in which to achieve this through the institutional capacity building of key local training institutes, which is intended to have an immediate effect on the capacity of government officers working on trade policy issues.

In addition, Component 1 promotes comprehensive, regular and well informed public-private dialogue among the government, private sector and civil society for trade policy development, monitoring and evaluation. To promote local ownership and legitimacy of the dialogue, a steering committee comprising equal representation of the public and private sectors has been established with the formal approval of the Ministry of Commerce of Pakistan. Its mandate is to oversee the planning, implementation and monitoring of public-private dialogue on key issues. To better inform the public-private dialogue process, research studies are commissioned and internationally peer reviewed before dissemination to stakeholders.

The targeted interventions of Component 1 to achieve these goals constitute the following:

Result for Component 1: Coherent trade policy and regulatory reform for export competitiveness

1. The Pakistan Institute for Trade and Development (PITAD) institutional capacity is strengthened.
2. PITAD's and other research institutes' expertise on trade policy strengthened.
3. Government officers' capacity on specific trade policy and international trade negotiations strengthened.
4. Research studies contributing to the development of a national export strategy conducted.
5. Public-private dialogue for a coherent national export strategy is fostered.



For further information about the ITC implemented Component 1 and the TRTA-II programme visit: <http://trtapakistan.org>