

Armenia's graduation from the Generalized System of Preferences (GSP+) of the EU: impact on exports

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Summary

- Armenia is expected to “graduate” from EU’s GSP+ preferential scheme at the beginning of 2022
- As a consequence, Armenia will face significantly higher import tariffs at the EU; this will only affect goods, since services are covered by CEPA, which remains fully in place
- Based on Armenian data from 2019, graduation will affect exports to the EU amounting to USD 313 m per year (out of USD 583 m)
- We expect a reduction in yearly exports to the EU by USD 114 m or 20%
- To some extent, ARM companies will be able to reorientate exports
- However, the drop in total exports will be sizeable; USD 45 m or 0.33% of GDP
- Short term: strong impact on apparel (exports down by USD 39 m), but also effect on ferro-molybdenum and aluminium foil industries
- Medium and long term: graduation reduces the opportunities for new exports to the EU, in particular for textile and apparel as well as for agro-food

Structure

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1. Introduction

- The EU is an important trading partner of Armenia, accounting for 22% of Armenia's total exports of goods in 2019
- In trade in goods, Armenia enjoys a GSP+ status with the EU, thus having a duty-free access to the EU market for a large spectrum of products
- However, Armenia is expected to “graduate” from this status in January 2022, i.e. lose its preferential access to the EU market for goods
- These changes will not affect service trade with the EU as this trade is regulated by the CEPA
- Key questions in this policy briefing
 - How will the expected graduation from preferential treatment affect Armenia's exports to the EU?
 - What will be the impact on Armenia's total exports and on GDP, taking into account possible trade reorientation?

2.1. EU trade regimes

- EU applies different import duties for its partners depending on the trade regime which is in place
- Most relevant trade regimes for our purposes
 - **Most Favoured Nation (MFN)**
 - trade regime envisaged among members of the WTO
 - de-facto applied as the highest possible import duty to all partners that are not eligible for more preferential treatments
 - if a partner country graduates from the GSP or GSP+, MFN duties are applied
 - **Generalised System of Preferences (GSP)**
 - GSP status is provided to countries in the context of autonomous trade measures (see next slide)

2.2. EU's Generalised System of Preferences

- The Generalised System of Preferences (GSP) is a part of the WTO special provisions allowing developed countries to treat developing countries more favorably than other members
- GSP granters: EU, USA, Canada, Japan, Kazakhstan, Norway, Russia, Switzerland, Turkey, among others. Each granter defines its own GSP design

GSP grants by the EU

For low income countries and lower-middle income countries

- *Standard GSP*: full or partial removal of import duties for 2/3 tariff lines
- *GSP+*: zero duties for most of the same 2/3 tariff lines as in Standard GSP for vulnerable countries applying international conventions on human and labor rights, environment protection and good governance

For least developed countries

- *Everything But Arms (EBA)*: duty free regime for all products except arms and ammunition

EU eligibility criteria for GSP and GSP+

- To benefit from **standard GSP**, a country has to fulfill eligibility criteria
 - Be classified as having an income level below "upper middle income" by the World Bank (see Annex 1.A)
 - Do not benefit from another arrangements granting the same or better preferential access to the EU market
- The GSP status is applied automatically if the criteria are met
- See Annex 2 for the list of GSP beneficiaries
- To benefit from **GSP+**, the country has to satisfy
 - Eligibility criteria (the same as for the Standard GSP)
 - Vulnerability criteria (see Annex 3)
 - Sustainable development criteria (see Annex 4)
- The country has to apply for GSP+
- As of 2020, 8 countries benefit from GSP+: Armenia, Bolivia, Cabo Verde, Kyrgyzstan, Mongolia, Pakistan, Philippines and Sri Lanka

2.3. The process of graduation from GSP+

- If a country does not satisfy the income eligibility criteria anymore, it loses its preferences (“graduation”)
- The following rules apply for the graduation process from GSP+
 - The country has to be classified by the World Bank as upper middle income (or high income) during **three consecutive years**
 - Afterwards, the EU Commission decides to remove preferences
 - After this decision is enacted, the country has a 1 year transition period
- Recent examples: Paraguay graduated from GSP+ on 1 Jan 2019; Fiji, Iraq graduated from GSP on 1 Jan 2017
- If a country drops below upper middle income during the transition period, the GSP+ graduation process stops automatically

GSP+ graduation for Armenia

Stage 1: Monitoring of income eligibility criteria

- Armenia was classified by the World Bank as an upper middle income country for three consecutive years: 2017, 2018 and 2019 (in July 2020)
- Stage 2 is launched

Stage 2: Decision regarding graduation

- The European Commission takes a decision regarding the graduation of Armenia based on its income level
- The decision is expected in autumn 2020, with 1 January 2021 as the date of enactment

Stage 3: Graduation

- The graduation occurs **one year** after the enactment of the decision, i.e. on 1 January 2022

***Remark:** Should Armenia's GNI per capita get below upper middle income in 2020, the graduation from the GSP+ will be automatically suspended*

Armenia's income status

	2016	2017	2018	2019
Threshold between lower and upper middle income, USD per capita	3,955	3,895	3,995	4,045
Armenia GNI, USD per capita	3,760	3,950	4,230	4,680
WB Classification	Lower middle income	Upper middle income	Upper middle income	Upper middle income
Deviation from threshold	-4.9%	1.4%	5.9%	15.7%

Sources: World Bank, Atlas method estimates (see Annex 1.B for definition); 2019 estimates for Armenia is based on real GDP growth data.

2.4. EU import duties before and after GSP+ graduation

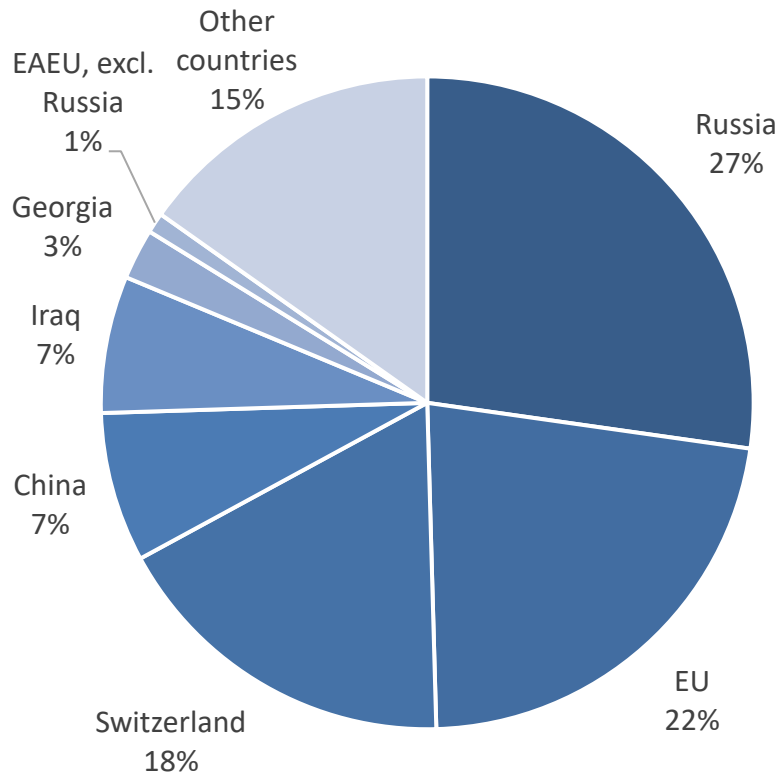
	EU import duty with GSP+, %	EU MFN, %	Difference, p.p.
Animal products	5.5	12.5	+7.0
Vegetable products	3.2	7.4	+4.2
Animal or vegetable fats and oils	2.6	8.8	+6.2
Prepared foodstuffs	5.2	16.6	+11.4
Mineral products	0.0	0.3	+0.3
Chemical products, rubber, plastics	0.1	4.7	+4.6
Textiles and textile articles	0.0	7.7	+7.7
Footwear, headgear, umbrellas	0.0	7.3	+7.3
Base metals and articles of base metal	0.1	2.0	+1.9
Machinery and equipment	0.0	2.7	+2.7
Other manufacturing products	0.3	1.7	+1.4
Simple average	0.8	5.1	+4.2

Sources: Market Access Map, TARIC, own estimates; simple average import duties across all trade nomenclature at 6-digit level

- GSP+ graduation and a switch to MFN increases the EU simple average import duty from 0.8% to 5.1%; strong increase
- Major changes: agro-food products, apparel & shoes, chemical products

3.1. Armenia's exports to the EU

ARM exports of goods by partners, 2019



Main destinations of ARM exports

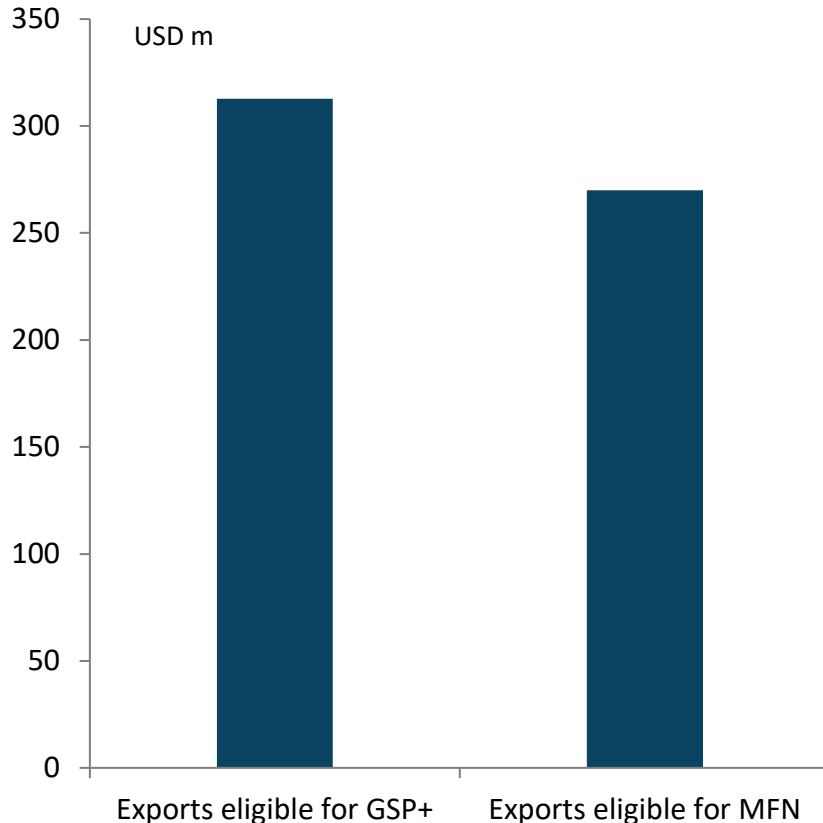
- EAEU: 28% (incl. Russia 27%)
- EU: 22%
- Switzerland: 18%
- China: 7%
- Iraq: 7%
- Georgia: 3%

➤ **EU is the second largest export destination for ARM**

Sources: WITS, own estimates; gross exports including exports under toll scheme

Armenia's total exports to the EU

ARM exports of goods to EU, 2019



Sources: WITS, own estimates; gross exports including exports under toll scheme; comparison with Eurostat data is provided in Annex 5

EU applies two trade regimes on imports from Armenia

- GSP+ for eligible products (ca. 2/3 of EU trade nomenclature), e.g. ferromolybdenum
- MFN for all other products, e.g. copper ores

Armenia's exports to the EU, 2019

- Exports: USD 583 m
- Out of which, exports eligible for:
 - GSP+: USD 313 m (54%)
 - MFN: USD 270 m (46%)

➤ **GSP+: over a half of exports to EU**

3.2. Armenia's exports to the EU eligible for MFN regime

HS	Description	Exports to EU, USD m	% total exports to EU	% exports under MFN
260300	Copper ores and concentrates	206	35.3%	76%
710239	Diamonds; non-industrial	18	3.1%	7%
260800	Zinc ores and concentrates	16	2.8%	6%
710812	Gold, non-monetary, unwrought	8	1.4%	3%
220820	Spirits obtained by distilling grape wine or grape marc	8	1.3%	3%
261390	Molybdenum ores and concentrates; other than roasted	7	1.3%	3%
	Other products	6	1.0%	2%
	Total	270	46.3%	100%

Sources: WITS, TARIC, Market Access Map; own estimates; gross exports

- ARM exports to EU eligible for MFN is comprised mostly of ores
- Copper ores account for 76% of MFN exports: high concentration

3.3. Armenia's exports to the EU eligible for GSP+ regime

HS	Description	Exports to EU, USD m	% exports to EU	% exports under GSP+
720270	Ferro-molybdenum	141	24.1%	45%
61, 62	Apparel	78	13.4%	25%
760711	Aluminium foil, rolled	67	11.5%	21%
240220	Cigarettes	2	0.3%	0.5%
220600	Beverages fermented	1	0.2%	0.4%
740400	Copper; waste/scrap	1	0.2%	0.4%
	Other products	23	3.9%	7%
	Total	313	53.7%	100%

Sources: WITS, TARIC, Market Access Map; own estimates; gross exports including exports under toll scheme

- ARM exports to EU eligible for GSP+ consists mostly of metals and apparel
- Ferro-molybdenum and aluminum foil account for 66% of GSP+ eligible exports, while apparel exported under toll scheme takes almost 25%

4. Impact assessment of Armenia's graduation from GSP+

4.1. Impact on existing exports to the EU and on total exports

- Higher EU tariffs make ARM products more expensive
- Result 1: lower exports to the EU
- At the same time: some exports can be reoriented to other destinations
- Result 2: net impact on total exports, considering possible reorientation

Technical remark: assessment is based on market analysis for individual products or product categories. It is assumed that exporter takes all losses associated with import duty increase

4.2. Impact of potential exports of new products to the EU

- Higher EU tariffs also make potential ARM export products more expensive
- Result 3: impact on potential new exports to the EU in the future

Note: calculations based on 2019 data

4.1. Impact on ARM exports of ferro-molybdenum

Importers	Exports, 2019, USD m	Share in ARM exports, %	Volume, 2019, thsd. tons	Average price, USD/tons
EU	141	99%	8.74	16,081
Russia	2	1%	0.13	14,462

Source: ITC Trade Map; own estimates; gross exports

Impact of the change in trade regime

- MFN import duty: 2.7% (GSP+ import duty: 0%) → moderate shock

Potential for reorientation

- In 2019, the EU was de-facto unique buyer of ARM ferro-molybdenum
- EU is the dominant world buyer (ca. 60%), followed by USA and Mexico
- Russia, the second export destination, offers much lower price
- Reorientation is very unlikely despite the increased import duty → we assume no reorientation

Result 1: change in exports to EU by - USD 3.8 m

Result 2: change in total exports by - USD 3.8 m

Impact on ARM exports of apparel

Importers	Exports, 2019, USD m	Share in ARM exports, %	Volume, 2019, thsd. tons	Average price, USD/tons
EU	78	47.8%	1.8	42,718
Russia	84	51.4%	4.0	21,195
Other countries	1	0.8%	0.2	8,198

Source: ITC Trade Map; own estimates; gross exports including exports under toll scheme

Impact of the change in trade regime

- MFN import duty: 11.8% (GSP+ import duty: 0%); very high
- At the same time: in 2019, only half of ARM apparel exports eligible for GSP+ used the preference
- **Prohibitive duty for half of apparel exports**

Potential for reorientation

- Based on interviews with companies: reorientation to RUS unlikely
- Reason: different market segments

Result 1: change in exports to EU by - USD 39 m

Result 2: change in total exports by - USD 39 m

Impact on ARM exports of aluminium foil

Importers	Exports, 2019, USD m	Share in ARM exports, %	Volume, 2019, thsd. tons	Average price, USD/tons
EU	67	71%	23	2,931
USA	28	29%	10	2,890

Source: ITC Trade Map; own estimates; gross exports

Impact of the change in trade regime

- MFN import duty: 7.5% (GSP+ import duty: 0%) → significant shock

Potential for reorientation

- In 2019, the EU was No.1 buyer of ARM aluminium foil, the USA – No.2
- EU MFN duty makes USA market more attractive
- Reorientation is likely as redirection to USA could reduce the loss → we assume full reorientation from EU to USA under current USA price

Result 1: change in exports to EU by - USD 67 m

Result 2: change in total exports by - USD 0.9 m

Impact on ARM exports of cigarettes

Importers	Exports, 2019, USD m	Share in ARM exports, %	Volume, 2019, thsd. tons	Average price, USD/tons
Iraq	164	60%	15	10,577
Syria	55	20%	8	6,538
UAE	20	7%	2	11,104
Georgia	16	6%	1	13,413
EU	1.5	1%	0*	12,802
ROW	18	6%	2	11,203

Source: ITC Trade Map; own estimates; gross exports, *volume is 121 tons

Impact of the change in trade regime

- MFN import duty: 33.8% (GSP+ import duty: 0%) → prohibitive duty

Potential for reorientation

- EU consumes only 1% of ARM cigarettes, Iraq is the largest importer
- Reorientation is very likely as it allow compensating volume, but at lower price → We assume full reorientation to Iraq under current Iraq price

Result 1: change in exports to EU by - USD 1.5 m

Result 2: change in total exports by - USD 0.3 m

Impact on ARM exports of fermented beverages

Importers	Exports, 2019, USD m	Share in ARM exports, %	Volume, 2019, thsd. tons	Average price, USD/tons
Russia	12.2	82%	6.7	1,835
EU	1.4	9%	0.8	1,645
USA	0.3	2%	0.1	2,406
Israel	0.2	1%	0.1	2,068
ROW	0.9	6%	0.3	2,700

Source: ITC Trade Map; own estimates; gross exports

Impact of the change in trade regime

- MFN import duty: 6.8% (GSP+ import duty: 0%) → significant shock

Potential for reorientation

- EU gets 9% of ARM fermented beverages, volume grew by 3 times in 5 years
- But: other destinations, incl. RUS, offer more attractive prices. ARM increased volume of exports to RUS by 6 times in 2015-2019
- Reorientation is likely but beverages supplied to RUS and EU may differ so they can be offered at EU price → we assume full reorientation with no price gain

Result 1: change in exports to EU by - USD 1.4 m

Result 2: change on total exports by USD 0

Impact on ARM exports of copper waste

Importers	Exports, 2019, USD m	Share in ARM exports, %	Volume, 2019, thsd. tons	Average price, USD/tons
USA	2.1	29%	0.5	4,361
Hong Kong	1.5	20%	0.4	4,137
EU	1.3	17%	0.3	4,607
UAE	1.1	16%	0.3	4,169
Belarus	0.6	8%	0.1	4,182
Japan	0.3	4%	0.1	4,683
ROW	0.5	6%	0.1	4,773

Sources: ITC Trade Map; own estimates; gross exports

Impact of the change in trade regime:

- MFN import duty: 0% (GSP+ import duty: 0%) → no impact due to graduation

Potential for reorientation:

- No need for reorientation

Result 1: change in export value to EU by USD 0

Result 2: change in total export value by USD 0

Summary of impact on Armenia's exports

Description	Exports to EU, USD m	Reorientation	Export loss to EU, USD m	Total export loss, USD m
Ferro-molybdenum	141	Unlikely	-3.8	-3.8
Apparel	78	Unlikely	-39.0	-39.0
Aluminium foil, rolled	67	Likely	-67.1	-0.9
Cigarettes	2	Very likely	-1.5	-0.3
Beverages fermented	1	Likely	-1.4	0.0
Copper; waste/scrap	1	No need	0.0	0.0
Other products under GSP+*	23	n/a	-1.2	-1.2
Total			-114.0	45.2

Sources: ITC Trade Map; own estimates; gross exports including exports under toll scheme; * assuming that the average MFN duty is 5% and import elasticity is 1

- Exports to EU: drop by USD 114 m or 20%; large reduction
- Total exports: lower drop thanks to partial reorientation; but still sizeable impact of USD 45 m
- Main impact on apparel industry: - USD 39 m

4.2. Impact of potential exports of new products to the EU

- GSP+ graduation means that it will be more difficult for ARM exporters to enter the EU market with new products

	ARM exports of “GSP+ entitled” products to non-EU, 2019, USD m	Average GSP+ duty for these products	Average MFN duty for these products
Textiles and textile articles	83	0%	8%
Vegetable products	41	1%	9%
Animal products	28	0%	11%
Machinery and equipment	21	0%	2%
Instruments and apparatus	20	0%	3%
Prepared foodstuffs	10	4%	20%
Plastics; rubber	10	0%	5%
Vehicles, aircraft, vessels	8	0%	5%
Raw hides and skins, leather	7	0%	4%

Sources: ITC Trade Map, Market Access Map, TARIC; own estimates; exports without re-exports

- Result 3:** Exporters of textile and apparel as well as agro-food products planning to enter the EU market will be affected the most

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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Annex 1.A: World Bank income categories

- The World Bank classifies the world's economies into four income groups:
 - High income
 - Upper-middle income
 - Lower-middle income
 - Low income
- The assignment is based on Gross National Income (GNI) per capita in current USD calculated using the Atlas method (see Annex 1.B)
- The classification of countries is determined by two factors:
 - A country's GNI per capita, which can change with economic growth, inflation, exchange rates, and population. Revisions to national accounts methods and data can also influence GNI per capita
 - Classification threshold: The thresholds are adjusted for inflation annually using the SDR deflator

Source: [World Bank](#)

Annex 1.B: GNI per capita, Atlas method

- **GNI per capita** is the gross national income, converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population
- GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income from abroad
- GNI, calculated in national currency, is usually converted to U.S. dollars at official exchange rates for comparisons across economies. To smooth fluctuations in prices and exchange rates, a **special Atlas method of conversion** is used by the World Bank. This applies a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country. From 2001, these countries include the Euro area, Japan, the United Kingdom, and the United States.

Source: [World Bank](#)

Annex 2: The list of GSP beneficiaries

1. Congo
2. Cook Islands
3. India
4. Indonesia
5. Kenya
6. Micronesia
7. Nauru (graduate on 1 Jan 2021)
8. Nigeria
9. Niue
10. Samoa (graduate on 1 Jan 2021)
11. Syria
12. Tajikistan
13. Tonga* (graduate on 1 Jan 2021)
14. Uzbekistan
15. Vietnam

Source: [European Commission](#)

Note: * Tonga was set to lose the GSP beneficiary status on 1 Jan 2017 as the country had the upper-middle income status in 2013, 2014 and 2015. The EU published the respective decision (see Delegated Regulation 2015/1979 of 28 August 2015). However, the WB reduced the income status of Tonga to lower-middle level in 2016, and thus Tonga did not graduate from the scheme in 2017 as planned. As Tonga regained the upper-middle income status since 2017, its graduation from the GSP scheme is currently scheduled for 1 January 2021

Annex 3: Sustainable development criteria a for GSP+

- The country must have ratified the 27 GSP+ relevant international conventions on human- and labour rights, environmental protection and good governance.
- The applicant must not have formulated reservations which are prohibited by these conventions.
- The most recent conclusions of the monitoring bodies under those conventions must not identify any serious failure to effectively implement them

Source: [European Commission](#)

Annex 4: Vulnerability criteria for GSP+

- **Import share criterion:** The import share is the three-year average share of GSP-covered imports of the specific beneficiary country, relative to the GSP-covered imports of all GSP countries. This average has to be lower than 6.5% in order to qualify for GSP+.
- **Diversification criterion:** A country fulfils the diversification criterion if the seven largest sections of the GSP-covered imports represent 75% of total GSP imports by that country over a three-year period

Source: [European Commission](#)

Annex 5: Armenian vs. EU trade data

	ARM exports to EU, 2019, USD m, as reported by Armenia	EU imports from ARM, 2019, USD m, as reported by EU
Total	583	458
<i>out of which:</i>		
GSP+ eligible	313	304
<i>including:</i>		
Ferro-molybdenum	141	146
Apparel	78	78
Aluminium foil, rolled	67	68
Cigarettes	1.5	1.4
Beverages fermented	1.4	1.4
Copper; waste/scrap	1.3	0.7*

Sources: WITS, TARIC, Eurostat Comext database (Adjusted EXTRA-EU imports by tariff regime), own estimates; EU imports is reported in EUR and converted into USD using annual EUR/USD exchange rate from [UNCTADStat](#); * EU reports imports of copper waste and scrap as eligible to MFN zero duty

- As usual, there are some discrepancies between ARM and EU mirror statistics
- However, discrepancies regarding GSP+ eligible goods are small
- **Conclusions of this research not affected by the use of ARM or EU statistics**