

Implications of the GSP+ graduation for the Armenian textile sector

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Summary

- Armenia to “graduate” from EU’s GSP+ preferential scheme in 2022
- As a consequence, exports to the EU will face significantly higher import tariffs; in the case of wearing apparel, they will increase from 0% to 11.8%
- In a previous study, the German Economic Team (GET) came to the conclusion that exports of apparel might be substantially affected by the change in tariff
- As a follow-up, GET conducted interviews with the 9 companies, which export textile and apparel products to the EU

Results of GET research

- Three companies produce almost exclusively for exports to the EU
- They use the toll scheme and benefit from the duty-free access through GSP+
- In those three companies, ca. 3,300 jobs depend on exports to the EU
- Of those, 90% of employees are women, most without higher education
- Very limited room for companies to reduce prices; companies will clearly suffer

Possible: advice to companies to lower cost; potential role for international donors

Outline

1. Introduction
2. Textile and apparel in Armenia
3. Results of a GET survey
4. Conclusions and recommendations

Annex

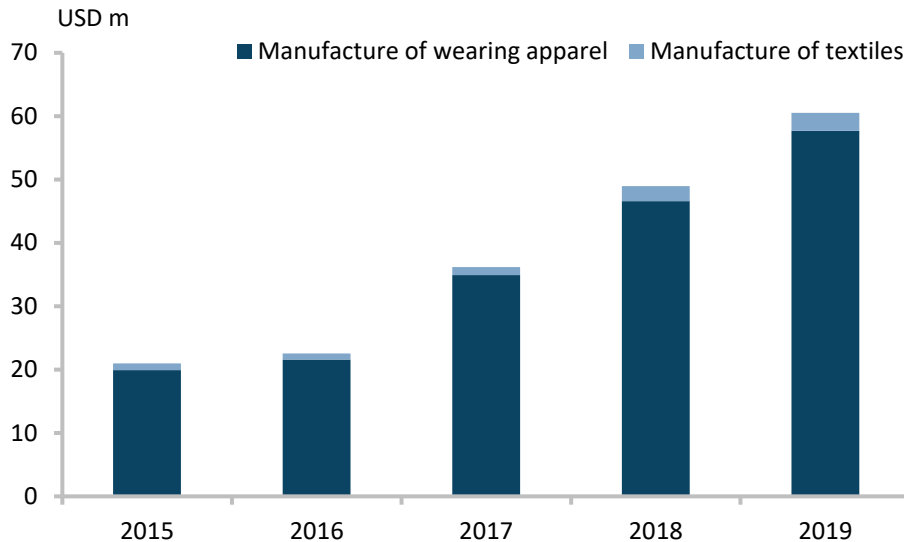
- Business model of surveyed companies
- Employment situation in the textile and apparel sector
- Usage of GSP+ eligibility

1. Introduction

- Armenia currently benefits from duty-free access to the EU market for a number of goods through the EU's Generalised Scheme of Preferences (GSP+)
- Armenia is expected to “graduate” from GSP+ at the beginning of 2022 and will then face higher tariffs; for wearing apparel, the tariff will rise from 0 to 11.8%
- In the analysis “Armenia’s graduation from the Generalised System of Preferences (GSP+) of the EU: impact on exports” (Policy Briefing 04/2020), the German Economic Team came to the conclusion that exports of apparel might be substantially affected by the change in tariff
- As a follow-up, this study aims to assess the possible impacts of the tariff change on the textile sector in Armenia
- It is based on a survey and in-depth individual interviews with representatives of export-oriented textile and clothing production firms in Armenia
- The German Economic Team identified the nine major companies currently exporting to the EU and conducted interviews with them

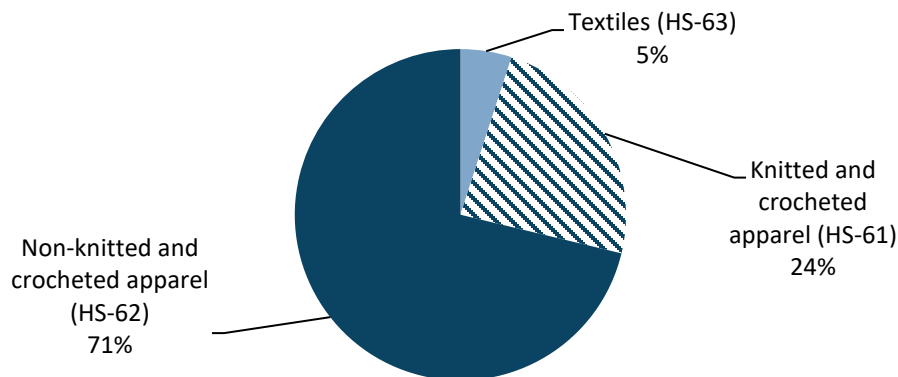
2. Textile and apparel in Armenia: production

Value added of textile and apparel sector



Source: Armstat, Note: AMD/USD annual rate from CBA used for conversion

Textile and apparel output by product



Source: Armstat, data for 2019

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- Historically, the textile and apparel sector in ARM was very strong, but heavily declined in the 1990s
 - 2019: 1% of industrial output, AMD 29.1 bn, approx. USD 61 m
- However, the sector has been growing strongly recently
 - Value added has nearly tripled between 2015 and 2019; further potential possible
- 95% of production is wearing apparel (in HS: chapters 61 and 62)
 - HS-61: mainly hosiery (80%) and knitwear (20%)
 - HS-62: mainly outerwear (45%) and uniforms (17%)

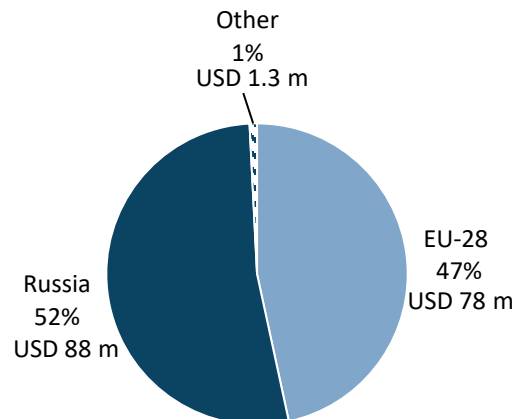
Exports

Armenian exports of apparel and textiles



Source: UN Comtrade; Note: Wearing apparel are product groups HS: 61-62, textiles HS-63

Textile and apparel exports by destination, 2019



Source: UN Comtrade, Eurostat; Note: EUR/USD annual rate from ECB

- Positive export trend since 2015
- 2019: ARM apparel exports to the EU amounted to USD 78 m*
 - ITA (USD 42 m) and DEU (USD 31 m)
 - Other EU include France (USD 1 m) and Czechia (USD 1 m)
- Exports have double since 2015
- Others export destinations include:
 - Russia (USD 88 m)
 - Georgia (USD 2 m)
 - EAEU countries (Belarus, Tajikistan)
 - Canada, USA, Switzerland, Australia

* Figures for export are higher than value added due import of raw materials

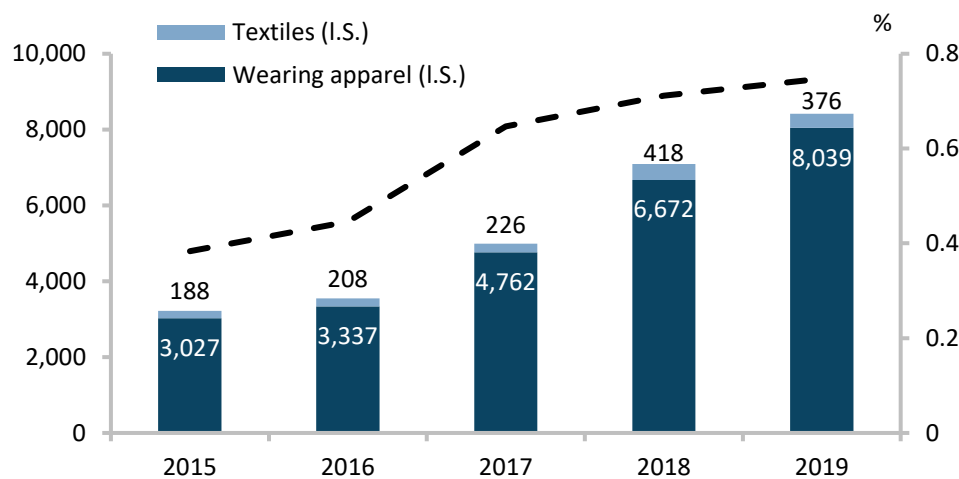
Sectoral structure and employment

Number of companies in textile and apparel sector



Source: Armstat

Number of employees in textile and apparel sector



Source: Armstat

- Number of companies as well as employment have grown in line with production
- 144 companies, but many small or inactive
- Nine companies export to the EU
- Out of which: three companies work almost exclusively for the EU market; workforce: 3,300
- The workforce in the sector is mainly made up of women
 - Roughly 90% of workforce
 - Many without higher education
 - Most previously not economic active

3. Results of GET survey: exposure on exports to the EU

Companies exporting to the EU

Level of exposure to EU market (exports to EU as % of production)	No. of firms	Employees	Employees working on EU exports
Strong exposure (95-100%)	3	3,406	3,276
Medium exposure (20-50%)	4	620	211
Low exposure (0-10%)	2	249	n/a

Source: GET calculations based on interviews

- Out of the nine companies interviewed, three have focused their production on exports to the EU
 - All three are – according to own statements – currently exporting under GSP+ and in the framework of the toll scheme, i.e. main task is processing
- Profit margin currently 3-5%, will likely be unable to offset tariff by price drop
- Expected impact of GSP+ graduation:
 - Loss of long-term contracts with EU partners, ARM could at best get excess capacity orders
 - Effect: drop in efficiency, substantial drop in employment (limited contract work possible)

4. Conclusions and recommendations

Conclusions

- The increase in tariffs resulting from the GSP+ graduation will mainly affect three large companies
- Approx. 3,300 employees are likely to be affected
- Economic and social impact is not be underestimated
 - Vast majority of employees are women; most of them were out of the labour force before starting to work in the company
 - Employees predominantly have low education and few other job prospects
 - Production sites and jobs are mostly located in provincial cities, not in the capital

Recommendations

- No simple way for government to support affected companies
- But: business consultants could provide advice to affected companies in order to increase productivity and lower cost; possible cooperation with donors

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: Business model of surveyed companies

- Companies perform mainly CMT (Cut-Make-Trim) services, FPP (Full Package Production) is uncommon, particularly sourcing / raw material production is rare
 - Companies dependent on EU exports tend to have 1-3 partners (B2B) and perform CMT services, mainly professional wear, sports wear or high-end fashion
- Labour prices and logistical costs tend to lead to low profit margins (3-5% in some cases)
 - Per piece rates paid by partner vary between EUR 3-12, depending on complexity of item
 - Sewer wages are paid by minute (task wage)
 - Approx. 80% of local revenue is paid in local wages
- 80-90% of the import price registered by EU customs stems from raw materials
- Armenian companies' selling point is mainly quality and location
 - Imports from China, Bangladesh are considerably cheaper, but not as high quality and take a long time to transport
 - Truck from ARM to EU: 4-5 days to ITA, 6-7 days to DEU
 - Container ship from China: at least 3-4 weeks
 - Main competitors are Turkey, South-Eastern EU Members and Western Balkans
 - No tariff (customs union), but higher labour prices than in ARM
 - Shorter transport time (also no or shorter customs control), lower cost

Annex: Employment situation in the textile and apparel sector

- Companies have trouble finding technical specialists, most left ARM after collapse of the textile sector in ARM
 - Technical specialists are now hired from abroad (sometimes from partner companies), either to operate machinery or – more often – to train local staff on temporary basis
- Companies have problems in recruiting sewers, in particularly in regions where other jobs are readily available
- Employee profile: 70-80% without higher education doing manual labour
 - Vast majority of employees are women
 - Many previously not part of the labour force
- Wages depend on specialisation: technical specialists earn more, for manual sewers task wage per number of pieces sown is paid
 - Average around AMD 120,000 to 170,000 (USD 270 to 350) per month
 - Compare: Average nominal wage in ARM: AMD 182,673 (2019, Armstat)
 - Lowest wage reported slightly above minimum wage: AMD 70,000

Annex: Usage of GSP+ eligibility

EU imports of textile and apparel from Armenia, 2019

STAT_REGIME	ELIGIBILITY	PRODUCT/ IMPORT_REGIME	Imports value, EUR	Imports, % of total HS 61-62
1 – NORMAL	E2 - ONLY GSP	U11 - MFN NON ZERO	566,674	1%
1 – NORMAL	E2 - ONLY GSP	U20 - GSP ZERO	1,296,053	2%
3 - OUTWARD PROCESSING	E2 - ONLY GSP	U11 - MFN NON ZERO	35,571,963	51%
3 - OUTWARD PROCESSING	E2 - ONLY GSP	U20 - GSP ZERO	32,303,560	46%
TOTAL for HS 61-62			69,738,250 <i>(approx. USD 78 m)</i>	100%

Source: Eurostat

- During our interviews, the largest exporters to the EU claimed to use the GSP+ benefits
- This makes sense, given the significant difference between MFN (11.8%) and GSP+ (0%) duty
- However, according to EU statistics, only half of imports use the preference
- **Statements from companies don't match with EU statistics; issue to be clarified**