BUSINESS RECORDER
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GSP plus potential: 15x!

The European Union (EU) Generalized Scheme of Preferences (GSP) Plus is under review for Pakistan and over the next few months, the EU will issue a third review report on Pakistan's standing in the 27 International Conventions outlined under the GSP plus agreement. The challenge for Pakistan since the status was granted is two-fold: not only must Pakistan preserve the GSP plus status; it must also optimize its utilization. The latter is even more crucial now when the economy is trying to build long-term exporting avenues and in the process, reduce the recurrence of the current account deficit.

Some context here is important. Prior to GSP plus status, Pakistan exported an average of 25 percent of its total world exports to EU countries for the period FY11-13. This grew to an average of 32 percent during the period FY14-18 once Pakistan became as a beneficiary of the status. In absolute terms, exports from Pakistan to EU countries since FY13 have increased by 27 percent as of FY18.

Pakistan was granted this important status on 1st January 2014. The status allowed exemption from tariffs and duties on two thirds of total exports to EU countries. The remaining exports were subject to preferential tariffs. The benefits were hinged with a conditionality that required Pakistan to ratify and effectively implement 27 core international conventions on human and labour right, environmental protection and good governance.

EU is importing mainly textile, leather items, foot wear, sportswear and surgical instruments from Pakistan but the biggest industry that was set to benefit from the status was apparel and garment (2-digit HS code: 61,62, and 63) which have found a substantial market in the bloc. These goods constituted an average 64 percent of the total exports of Pakistan to the world from FY14-18. They have evidently benefited from GSP. For instance, garments saw a 22 percent increase in export value for first year as beneficiary for GSP plus, while from FY13-18 the increase was 52 percent.

A comparison with Sri Lanka paints a favourable picture for Pakistan. Like Pakistan, bulk of Sri Lanka's exports to EU is concentrated in apparel and garments. During the first year when Pakistan posted a 22 percent increase in apparel and garments exports, Sri Lanka without the benefits saw a 10 percent increase. As of FY17 since the status has been granted to the country, Pakistan saw a 32 percent increase in apparel and garments exports as opposed to Sri Lanka's 2 percent during the same period.

In the same category under consideration, Bangladesh is also a big provider. The country has an arrangement which grants duty free, quota free access for all exports, except arms and ammunition to EU countries, called 'Everything but arms'. Apparel and garments consist of more than 90 percent of Bangladesh's export to EU. Since Pakistan was granted the GSP plus status, it recorded a 13 percent increase in apparel and garments as of FY15, while Bangladesh saw a 37 percent rise during the same period. Bangladesh exports more than twice as much to EU than Pakistan

While there has been growth, many argue that the GSP Plus is not fully utilized. As per EU policy on trade, imports from a single country are restricted at 2 percent of the total imports into EU countries. Pakistan at an average during the five years accounted for 0.13 percent of the total imports by EU countries, which essentially provides room for Pakistan to beef up exports by 15 times.

With market access to over 27 countries (sans the UK) under concessionary treatment, the GSP plus remains the biggest opportunity for Pakistani exports, and not just textile. Policymakers must identify specific challenges for domestic sectors to cater to this mammoth market—whether it is the cost of doing business, lack of competitiveness, or absence of the right linkages—GSP plus is a golden goose whose eggs Pakistan needs to collect before they turn stale.

Byco Petroleum Pakistan Limited-Unconsolidated

Rs(mn)	FY19	FY18	YoY
Turnover-net	197,831	166,290	19%
Cost of sales	195,871	157,134	25%
Gross profit	1,960	9,156	-79%
Administrative expenses	908	832	9%
Selling and Dist. Expenses	498	405	23%
Other expenses	740	1,331	-44%
Other income	1,018	1,660	-39%
Operating profit	832	8,248	-90%
Finance costs	3,070	2,878	7%
Profit after tax	(1,684)	5,020	-134%
EPS	(0.32)	0.940	-134%
Gross margin	0.99%	5.51%	
Operating margin	0.42%	4.96%	
Net margin	-0.85%	3.02%	

Source: PSX