2003

Labor Standards and the Generalized System of Preferences: The European Labor Incentives

Anthony N. Cole

University of Michigan Law School

Follow this and additional works at: http://repository.law.umich.edu/mjil

Part of the International Trade Law Commons

Recommended Citation


Available at: http://repository.law.umich.edu/mjil/vol25/iss1/6

This Note is brought to you for free and open access by the Journals at University of Michigan Law School Scholarship Repository. It has been accepted for inclusion in Michigan Journal of International Law by an authorized editor of University of Michigan Law School Scholarship Repository. For more information, please contact mlaw.repository@umich.edu.
INTRODUCTION

The question of how, if at all, trade relations should be conditioned upon or even tied to the international imposition of labor standards has been a major source of conflict within the trading community for many years, but has risen to particular prominence during the last decade. Arguments raised in these disputes have varied from substantive discussions about the economic desirability of such linkage to more

---

* JD, University of Michigan, 2004; Peggy Browning Fund Fellow, 2002; Researcher, European University Institute, Fall 2003; Graduate Student in Philosophy, University of Virginia, 1998–present; President's Fellow, University of Virginia, 1998–2001; Adjunct Assistant Professor of Philosophy, Virginia Military Institute, Spring 2001. Thanks to Professor Christopher McCrudden and Professor Robert Howse, out of whose classes this Note developed, and to the editors who worked on it.


impassioned disputes involving accusations of "protectionism" and "exploitation."  

While it remains unclear whether any genuinely enforceable global labor standards will be set in the near future, one approach adopted by the European Communities ("EC"), in which tariff discounts are granted to those developing countries whose labor regulations conform to certain standards, has generated much optimism. These discounts are offered as part of the European Communities' Generalized Scheme of Preferences ("GSP"), one of many such programs set up by developed countries in the early 1970's to assist industries in developing countries, through preferential access to the developed country's market. However, on December 9, 2002, India requested that a World Trade Organization ("WTO") dispute resolution panel be formed to evaluate the EC's GSP, claiming that the scheme is inconsistent with the EC's obligations under the WTO charter.

This Note offers an introduction to the history of the GSP system, and critiques India's claim that the particular GSP scheme enacted by the EC is unacceptable under WTO law. It ultimately concludes that while the EC's GSP scheme does indeed raise issues not raised by the GSP scheme of any other country, it is nonetheless not inconsistent with the EC's WTO obligations. Part 2 discusses the development of the international GSP regime, as incorporated into the legal structure of the WTO, and thereby establishes what originally was and was not seen as permiss-
sible within such schemes. Part 3 then details the specifics of the EC’s GSP, particularly those parts that have given rise to the current dispute with India. Finally, Part 4 analyzes the legal arguments at the center of the dispute over the EC’s GSP scheme, and explains why such a scheme should ultimately be held to be WTO-consistent.

I. HISTORY AND DEVELOPMENT OF THE GSP

Although the current international trading system for a long time has operated largely free from constraint by social concerns, various countries have at one time or another pushed the idea that trade should be viewed as merely one consideration among others, rather than an end in itself. Indeed, the birth of the current system was originally only a temporary measure introduced after the failure of the Havana Charter, a comprehensive trade/social agreement that was negotiated after World War II. The United States’ refusal to ratify the Charter made it worthless as the basis for an international system, as it could not operate effectively without the participation of one of the largest economies in the world. Nonetheless, the countries involved agreed that rather than lose all the benefits of the agreement, the trade component of the Charter should remain in place until another comprehensive trade/social agreement could be negotiated. Thus was born the General Agreement on Tariffs and Trade (“GATT”), the foundation of the WTO. Of course, the desired comprehensive trade/social agreement was never achieved, and

---


8. See Demaret, supra note 7, at 127 (“Due to the United States’ failure to ratify the Havana Charter, the Charter never entered into force, and the General Agreement, by force of circumstances, remained in force.”).


the GATT simply continued as an independent agreement, severed from all concerns other than promoting trade.\(^1\)

The cornerstone of GATT is the principle of non-discrimination ("MFN"),\(^2\) according to which no country can give the products of one Member country better treatment than it gives to those of any other Member. This means, for example, that England cannot attempt to benefit a former colony by giving its products special tariff discounts. However, it also means that developed countries cannot give special discounts to developing countries to help them cultivate domestic industries. Consistent with the historical excision of social concerns from the GATT, the MFN principle rejects all "discrimination" outright, disregarding any justification offered for differential treatment.\(^3\)

Despite the fundamental place of the MFN principle within the GATT, discrimination has never been completely excluded from the system. Even at the time of the initial adoption of the agreement, countries with preferential trading agreements already in place were allowed to continue them, though special exemptions from the MFN principle had to be arranged.\(^4\) Moreover, Article XXIV of GATT permits "preferential trading arrangements", or free trade zones, between countries.\(^5\) Nonetheless, apart from such special exceptions necessary to gain the accession of major developed countries, non-discrimination was agreed upon as the basis for the trading system.

This was a particular source of contention for those developing countries participating in the original negotiations for GATT. They argued strongly that unequal countries should not be treated equally, and

---

11. Id. It should be noted that there is some consideration given to non-economic concerns in Article XX of GATT. GATT, supra note 10, art. XX. Indeed, at least one author has specifically argued that Article XX of GATT can itself act as a legal foundation for imposing labor rights conditionality upon imports. Robert Howse & Makaü Mutua, Protecting Human Rights in a Global Economy: Challenges for the World Trade Organization (2000), available at http://www.ichrdd.ca/english/commdoc/publications/globalization/wtoRightsGlob.html (last visited Aug. 12, 2003).

12. The abbreviation stands for Most Favored Nation, the name given to the non-discrimination principle. It is in Article I of GATT, reflecting its importance to the subsequent agreement. GATT, supra note 10, art. I. Most Favored Nation clauses had actually become popular even before GATT, as a way of avoiding difficulties created by the need to negotiate numerous bilateral tariff agreements. Krueger, supra note 7, at 105. See also Lothar Ehring, De Facto Discrimination in WTO Law: National and Most-Favored-Nation Treatment—Or Equal Treatment?, Jean Monnet Working Paper No. 12/01 (2001), available at http://www.jeanmonnetprogram.org/papers/01/013201.html (last visited Aug. 13, 2003).


14. Rolf J. Langhammer & André Sapir, Economic Impact of Generalized Tariff Preferences 2 (1987). This has special relevance to the current case, as these were agreements often designed to help developing former colonies. Id.

15. GATT, supra note 10, art. XXIV.
that developing countries should be given special preferences within the agreement to compensate for their inferior economic capacity. 16 However, developed countries, particularly the United States, insisted that developing countries would actually benefit most by taking part in a system of free trade, and that special benefits would merely retard their development. 17 Moreover, the developed countries saw the problems of developing countries as similar to those faced by European countries after the war, and believed that if free trade would help the European countries recover, then it should do the same for developing countries. 18

Although failing in their general demand for preferential treatment under GATT, the developing countries did succeed in some respects, such as the acceptance of Article XVIII of GATT, which allows developing countries to deviate temporarily from GATT standards. 19 Still, they had been seriously hurt by the failure of the Havana Charter, which had included far more extensive benefits for them, and they viewed the non-discrimination approach of the GATT as itself discrimination by developed countries against developing countries. Consequently, they played little part in the subsequent unfolding of the trading system for over a decade. 20

As a result, it is perhaps not surprising that the GATT was initially administered in a way overwhelmingly beneficial to the developed countries, confirming the belief of the developing countries that the GATT was really just an institution designed to fulfill the needs of developed nations, often to the detriment of the developing ones. 21 Various attempts to set up an organization with the more general responsibilities of the Havana Charter ultimately all failed. 22

By the late 1950's, however, the developing countries began to get more involved in the international trading system, due to a combination of their own increased political stability and a change in attitude about

16. LANGHAMMER & SAPIR, supra note 14, at 6–7.
18. See id.
19. GATT Article XVIII(4)(a) states:

Consequently, a contracting party, the economy of which can only support low standards of living and is in the early stages of development, shall be free to deviate temporarily from the provisions of the other Articles of this Agreement, as provided in Sections A, B and C of this Article.

GATT, supra note 10, art. XVIII(4)(a).
20. LANGHAMMER & SAPIR, supra note 14, at 3.
21. GANDIA, supra note 17, at 34.
22. These attempts came at the instigation of the USSR and developing countries themselves. Id.
the benefits of free trade. They had generally converted to the free trade agenda consistently pushed by the developed countries, but still objected that the trading system as it actually existed was primarily designed to benefit developed countries, and was not truly aimed at achieving genuine equality. Since they were now a part of the trading system, though, and no longer simply objecting from outside, their complaints began to receive more serious attention, until finally, in 1958, GATT formed an expert committee of economists to investigate their claims.

The Haberler Report concluded that developing countries were indeed lagging in trade growth, and that at least part of the cause of this lag was discriminatory policies within developed countries. In response to this report, the GATT contracting parties established another committee to investigate whether the developed countries were indeed responsible for the retarded growth of the developing countries. When this committee also answered in the affirmative, the GATT contracting parties finally agreed to deal with the problem, even in cases in which the policies in question were not strictly GATT-inconsistent. The developing countries thus had their first major success in forcing the international trading system to take account of their views, although the concessions given by the developed countries still only extended to

29. The established committee found

[T]hat high tariffs faced the exports of developing countries over a wide range of products—vegetable oils, coffee, tea, cocoa, jute products, cotton products, leather goods and a variety of sophisticated manufactured products. The report also revealed that in addition, these exports faced domestic taxes and levies that in fact restrained consumption. Since there were no ‘equivalent’ domestic products, the internal taxes were not seen as a violation of GATT, and yet they came in the way of demand and hence imports.

*Id.*
removing trade barriers, and did not encompass the positive trade assistance that developing countries had long sought.\textsuperscript{30}

The developing countries took their next major step in 1962, when what would eventually become the "Group of 77"\textsuperscript{31} held its first conference, on the Problems of Developing Countries.\textsuperscript{32} The Declaration issued after this conference was presented at the next UN General Assembly, and called for the holding of an international economic conference on trade and development in the near future. When the same idea was again presented at the 1962 Session of the Economic and Social Council (ECOSOC),\textsuperscript{33} it was agreed that ECOSOC would indeed convene a Conference on Trade and Development (UNCTAD).\textsuperscript{34} The first UNCTAD conference was subsequently scheduled for March 23 to June 16, 1964.\textsuperscript{35}

Not content merely to wait for the UNCTAD conference, however, developing countries continued to push their agenda at the 1963 GATT ministerial meeting.\textsuperscript{36} As a result of this pressure, the Contracting Parties endorsed, with reservations, an action program under which developed countries would remove those trade barriers that handicapped developing countries.\textsuperscript{37} They also proposed that GATT itself should be altered to

\textsuperscript{30} Note, Developing Countries and Multilateral Trade Agreements: Law and the Promise of Development, 108 Harv. L. Rev. 1715, 1719 (1995); Robert E. Hudec, Developing Countries in the GATT Legal System 44–45 (1987).

\textsuperscript{31} The Group of 77 describes itself in the following way: "As the largest Third World coalition in the United Nations, the Group of 77 provides the means for the developing world to articulate and promote its collective economic interests and enhance its joint negotiating capacity on all major international economic issues in the United Nations system, and promote economic and technical cooperation among developing countries." Group of Seventy-Seven at the United Nations, at http://www.g77.org/main/main.htm (last visited Mar. 16, 2003). Although the Group of 77 continues to exist and remains active, one commentator has noted that "over the years, the differences between developing countries (large/small, middle income/least developed, industrialised/commodity exports, agricultural importers/exporters, and others) have grown, to the point that in the Uruguay round a grand coalition of all developing countries does not exist in any active sense." John Whalley, Non-Discriminatory Discrimination: Special and Differential Treatment Under the GATT for Developing Countries, 100 Econ. J. 1318, 1318 (1990).

\textsuperscript{32} Thirty-six developing countries attended. Gandia, supra note 17, at 35.

\textsuperscript{33} "ECOSOC is responsible for promoting higher standards of living, full employment, and economic and social progress; identifying solutions to international economic, social and health problems; facilitating international cultural and educational cooperation; and encouraging universal respect for human rights and fundamental freedoms." United Nations Economic and Social Council Website, at http://www.un.org/esa/coordination/ecosoc/about.htm (last visited Mar. 16, 2003).

\textsuperscript{34} The major trading nations initially opposed UNCTAD when it was first proposed in 1962, but even then suggested that they could change their minds. Gandia, supra note 17, at 35.

\textsuperscript{35} Id.


\textsuperscript{37} The U.S. and Europe were divided over this idea, as the U.S. was insistent on non-discrimination, while Europe had no objection, since the European countries already had a
facilitate the trade of developing countries. Finally, Belgium and the United Kingdom both proposed early attempts at a system of tariff preferences for all developing countries. None of these proposals ultimately succeeded. The Belgian and United Kingdom plans were simply rejected, and the proposed action program, though endorsed, was never officially adopted. The one apparent success was the most ambitious proposal: changing the very structure of GATT itself. Incorporated into GATT two years later, Part IV encourages developed countries to give special consideration to developing countries, and suggests that developed countries should not ask for reciprocity from developed countries in the granting of preferences. However, because Part IV was only aspirational, and hence not binding in its commitments, it ultimately had little real effect.

Many developed countries were convinced that the combination of adding Part IV to the GATT and the tariff reductions expected in the upcoming Kennedy Round of negotiations would satisfy developing countries. Yet, developing countries continued their efforts to change the international trading system, particularly the MFN principle. Finally, in 1964, the first UNCTAD conference took place, with 120 countries taking part. Each country had one vote, and there were no
vetoes, which meant that the developing countries could, from sheer numbers, guarantee passage of any resolution they supported.\footnote{Gandia, supra note 17, at 37.} However, the resolutions would be non-binding, and have no real effect unless the powerful developed countries endorsed them. Sometimes developing countries passed a resolution over the dissent of the developed countries, knowing that no practical steps would be taken immediately.\footnote{Id. at 35; Wall, supra note 44, at 89.}\footnote{Prebisch, supra note 49, Part II.} The proposal of the GSP was such a resolution. It was not passed by consensus, and so not instituted by UNCTAD, but majority voting led to passage of the principles supporting it, and formation of committees for further study.\footnote{Prebisch, supra note 49, at 36.}

The proposal for a GSP took center stage at the UNCTAD conference not just because of the wishes of participating developing countries, but also because it was highlighted by the intellectual centerpiece of the conference, a presentation by Argentinian economist Raul Prebisch.\footnote{Prebisch was also an observer for the UN at the first meeting of the Group of 77.}\footnote{Gandia, supra note 17, at 35.} Prebisch, who later became UNCTAD’s first Secretary-General,\footnote{Id. at 36.} had been in charge of preparations for the conference and delivered a speech titled “Towards a New Trade Policy for Development,”\footnote{This being also the policy pursued under the Havana agreements. Langhammer & Sapiro, supra note 14, at 7.} now better known simply as the Prebisch Report. Although his primary procedural purpose was to outline the main issues to be discussed at the Conference, Prebisch also used it to propose a comprehensive program of his own. Most notably, his program called for a complete change from the usual GATT policy of simply removing obstacles to the trade of developing countries,\footnote{Prebisch, supra note 49, at 65–72.} proposing instead that positive assistance be given.\footnote{Prebisch, supra note 49, Part II.}

Among other things, the Prebisch Report proposed that developed countries should grant temporary preferences to the manufactured and semi-manufactured exports of developing countries.\footnote{Prebisch, supra note 49, at 65–72.} Prebisch suggested a 10-year duty-free period for each manufactured or semi-manufactured export from the time a country began exporting it, that the tariff on some
products be reduced to zero immediately, and that the tariff on others drop immediately by at least 50% and then be gradually phased out within 5 years.\textsuperscript{55} Other existing preferences would be abolished immediately without compensation, but some special measures would be introduced for the least developed countries.\textsuperscript{56}

The emphasis on manufactured exports in Prebisch's plan is important to note. Prebisch's proposal was a temporary program to help developed countries create successful industries, and was not meant to be a source of continual support.\textsuperscript{57} Prebisch believed that tariff preferences were necessary to protect infant industries in developing countries.\textsuperscript{58} Domestic markets in developing countries were too small to support the establishment of industries on a cost-effective scale, making access to the larger developed country markets necessary for their success.\textsuperscript{59} However, once the 10-year period of beneficial tariff treatment allowed these industries to establish a foreign market, tariffs could be normalized again and the developing country industries would then compete successfully on a level playing field with the industries of developed countries.\textsuperscript{60}

Of course, most developed countries, and particularly the United States, opposed Prebisch's proposal, reiterating the traditional GATT stance that the removal of trade barriers was the proper approach to improving the trade of developing countries.\textsuperscript{61} They also objected that there was no empirical evidence that Prebisch's plan would work, and that the real problem was the developing countries' own policies.\textsuperscript{62} Moreover, even those developed countries not opposed to Prebisch's plan insisted

\begin{itemize}
\item \textsuperscript{55} GANDIA, supra note 17, at 37.
\item \textsuperscript{56} Id.
\item \textsuperscript{57} Prebisch stated "[e]xternal cooperation is important, but only as a means of supplementing and stimulating internal action, not as a substitute for it." Michael Cornell Dypski, The Caribbean Basin Initiative: An Examination of Structural Dependency, Good Neighbor Relations, and American Investment, 12 J. TRANSNAT' L. & POL'Y 95, 98 n.17 (2002).
\item \textsuperscript{58} LANGHAMMER & SAPIR, supra note 14, at 8.
\item \textsuperscript{59} Id. Prebisch's academic work also emphasized the thesis that whereas the benefits of technical progress in developed countries is retained in those countries through higher incomes, similar benefits generated in developing countries are transferred overseas through lower prices. See generally RAUL PREBISCH, TOWARDS A DYNAMIC DEVELOPMENT POLICY FOR LATIN AMERICA (1963); RAUL PREBISCH, THE ECONOMIC DEVELOPMENT OF LATIN AMERICA AND ITS PRINCIPAL PROBLEMS (1950); Raul Prebisch, Commercial Policy in the Underdeveloped Countries, 49 AM. ECON. REV., PAPERS & PROC. 251 (1959). For a critical discussion of this idea, see Andrea Maneschi, The Prebisch-Singer Thesis and the 'Widening Gap' Between Developed and Developing Countries, 16 CANADIAN J. ECON. 104 (1983). For an outline of Prebisch's later views, see Raul Prebisch, Raul Prebisch on Latin American Development, 7 POPULATION & DEV. REV. 563 (1981).
\item \textsuperscript{60} LANGHAMMER & SAPIR, supra note 14, at 8–9.
\item \textsuperscript{61} Id.
\item \textsuperscript{62} Id. at 9.
\end{itemize}
that other developed countries, including the United States, participate in the plan, if implemented. This was a substantial barrier, given the United States' open opposition to any plan of tariff preferences.

Consequently, even though the developing countries at UNCTAD unanimously supported a GSP and agreed on a joint recommendation, this recommendation finally had to be withdrawn after the outright rejection of tariff preferences by the United States. Ultimately all the developed countries participating in UNCTAD either voted against the resolution endorsing the Prebisch plan of preferences or abstained.

But the discussion of a GSP at UNCTAD did lead to one immediate minor success. Noting that its economic structure prevented it from granting preferences on the scale proposed by Prebisch, Australia nonetheless offered to institute its own GSP scheme. Australia applied for and received a waiver of the MFN principle in 1966, making it the first country in the world to institute a GSP scheme.

Moreover, the European Economic Community ("EEC") also responded positively to the developing countries. By 1966, a large number of developing countries either had formed preferential trade agreements with the EEC, or had approached it with the intent of doing so. Although not the generalized system proposed by Prebisch, these bilateral agreements served the same purpose for those countries able to negotiate them. In December 1966, the EEC Commission recommended to the Council of Ministers that a GSP be implemented.

Perhaps the most important effect of the EEC's willingness to make tariff agreements was its insistence that those agreements be reciprocal, meaning that developing countries receiving the preferences also had to give tariff discounts to European products. Although designed to reduce

63. Gandia, supra note 17, at 36.
64. The countries of Western Europe broadly supported preferences, but differed on how to handle existing preferential agreements, with the British favoring across the board preferences, while the EC favored a selective approach with safeguards for their former African colonies. Langhammer & Sapiro, supra note 14, at 9–10. Part of the U.S. opposition was optimism about the Kennedy round of negotiations, after which it was thought that tariffs would be so low that any preferences would be of negligible worth, particularly after taking into account the cost of running the system. Moreover, the U.S. felt that allowing preferential trade could create an undesirable precedent. Gandia, supra note 17, at 37.
65. Not all developed countries were present at the conference. Gandia, supra note 17, at 37.
66. Langhammer & Sapiro, supra note 14, at 11.
67. Developing countries did, however, criticize the scheme for being too limited. Products that were already competitive from developing countries were excluded from the scheme, as were those which competed with local products, and those already receiving the benefit of the British Commonwealth preference scheme. Gandia, supra note 17, at 38.
68. Id.
69. Id.
70. Id.
the benefits developing countries gained through the agreements, this policy ultimately played a major role in the general global adoption of non-reciprocal GSP schemes. The United States worried that the EEC was gaining a competitive advantage through these agreements, which made EEC products cheaper than comparable American products in certain developing countries. Consequently, within a year, at the Conference of Latin American Presidents in Punta del Este, the U.S. announced that it too would endorse a global GSP, but only a non-discriminatory and non-reciprocal one.

Building on this increased willingness to adopt a GSP, the Group of 77 met in Algiers before the 1968 UNCTAD II conference and produced the Charter of Algiers, which included a request for the introduction of a GSP. The developed countries also moved closer to embracing a GSP. The Special Group on Trade with Developing Countries, at the OECD, produced a report for presentation at UNCTAD II, which described in general terms how an acceptable GSP could be implemented.

Eventually, UNCTAD II made little progress toward the introduction of a GSP. Still, the conference allowed developing countries to further delineate their position. They moved beyond Prebisch’s original proposal—that only manufactured and semi-manufactured items should be covered—and instead insisted that tariff preferences should be given

71. Id.
72. Latin American countries had been complaining at this conference about the EEC’s preferential relations with African countries. Id. at 40; Langhammer & SaPir, supra note 14, at 10; Wall, supra note 44, at 90.
74. Gandia, supra note 17, at 39.
75. Wall states:

The document was extremely vague, and in a fundamental sense reflected only the fear of European countries that following the apparent change of attitude of the U.S.A. Administration a generalised scheme of preferences had become a strong candidate for implementation. As a result the document read like a list of hedging positions of the potential donor countries, bringing to light those attitudes towards the scheme which the European countries had left unspoken while the scheme seemed to have been vetoed by the United States.

Wall, supra note 44, at 91. Moreover, different OECD countries wanted the GSP to take different forms. The U.S. wanted uniform, non-reciprocal preferences, and a single plan. France and the U.K. particularly opposed this, as they both already had agreements with their former colonies. Gandia, supra note 17, at 39.
76. Indeed, according to one commentator, “an impasse was reached on almost every feature of the proposed scheme.” Wall, supra note 44, at 91.
to primary commodities and agricultural products. The developed countries, of course, objected to this proposal, but they agreed that some form of GSP was desirable, and a resolution passed both embracing a GSP and committing the participating countries to a specific timetable. Subsequently, a Special Committee on Preferences was established under UNCTAD, which met annually until it dissolved in 1996.

Despite the agreement to create some form of GSP, the lack of consensus as to the GSP's precise nature created predictable problems. Initial attempts to arrange a single GSP on an international level could not draw consensus on the details. As a result, it was decided that each willing nation should simply introduce its own GSP, even though this would mean differing schemes being introduced at different times.

By 1969, almost all the members of the OECD had submitted their individual GSP proposals to the Secretary-General of UNCTAD. Although the schemes would benefit any country claiming "developing" status, every plan explicitly reserved the right to refuse preferences to any given country. The existence of these reservations is an essential

77. GANDIA, supra note 17, at 40.
78. Id. See also LANGHAMMER & SAPIR, supra note 14, at 10.
80. Wall, supra note 44, at 92; GUIDE TO THE EUROPEAN UNION'S SCHEME OF GENERALISED TARIFF PREFERENCES 13, at http://europa.eu.int/comnm/development/body/theme/spg_en.pdf (last visited Dec. 27, 2002). For an account of the less-than-cooperative approach of the developed countries in this committee see Wall, supra note 44, at 92–94.
81. LANGHAMMER & SAPIR, supra note 14, at 11.
82. GANDIA, supra note 17, at 40.
83. The U.N. states:

There is no established convention for the designation of "developed" and "developing" countries or areas in the United Nations system. In common practice, Japan in Asia, Canada and the United States in northern America, Australia and New Zealand in Oceania and Europe are considered "developed" regions or areas. In international trade statistics, the Southern African Customs Union is also treated as developed region and Israel as a developed country; countries emerging from the former Yugoslavia are treated as developing countries; and countries of eastern Europe and the former USSR countries in Europe are not included under either developed or developing regions.

84. Initially, the EEC listed no exceptions, but stated nonetheless that it might add some. The U.S. and the U.K. included an escape clause, allowing them to reduce or withdraw preferences altogether. The EEC also insisted that the preference schemes they already had in
point for understanding the political context of the current Indian complaint, as the adoption of a GSP involved no contractual obligation on the part of the developed country concerned, but was instead a free gift that could be withdrawn at any time. Thus, the developed countries historically have been given a free hand to manipulate their GSP programs at any time and for any reason.

The final step in the creation of the GSP system occurred in 1971, when the GATT Contracting Parties voted a 10-year waiver from the MFN clause, thereby allowing the institution of the proposed GSP schemes. The next month, the EC introduced its GSP, and most OECD countries followed soon thereafter. The US, however, delayed institution of its own scheme until five years later, when the EC replaced the reciprocal preference schemes it was still operating for its former colonies with non-reciprocal schemes.

Still, at this point, the GSP system was not actually part of the law of GATT, but based upon a temporary exemption from that law. However, when the stark distinction between developing and developed countries persisted at the end of the original 10-year period, it was decided that the tariff preferences needed to be continued. Instead of merely renewing the short-term exemption, the GATT contracting parties decided to add the GSP permanently into GATT, and in 1979 enacted the “Enabling Clause”. This provision officially allows differential treatment for developing countries, without any requirement of GATT-waiver. However, it also envisages that developing countries will gradually lose those preferences as they develop, and so retains the vision of the GSP as only a temporary helping hand.

place benefiting their former colonies would continue, and their GSP system was designed to ensure that these agreements weren’t undermined. Gandia, supra note 17, at 41-42.

85. Langhammer & Sapid, supra note 14, at 11.
89. Langhammer & Sapid, supra note 14, at 11.
90. Id.
91. Langhammer & Sapid, supra note 14, at 12.
92. Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries, GATT Doc. L/4903 (Nov. 28, 1979) [hereinafter Enabling Clause].
93. Id.
94. Langhammer & Sapid, supra note 14, at 12.
II. THE EC'S GSP SYSTEM

Adopted in 1994, the EC's most recent GSP scheme divides imported products into two categories, sensitive and non-sensitive. The distinction is designed to protect domestic producers of certain products from excessively strong competition from GSP-benefiting developing countries. For a similar reason, the scheme also includes a "safeguard clause," which allows accelerated reestablishment of normal tariffs if GSP-based imports "cause, or threaten to cause, serious difficulties to a Community producer of like or directly competing products."

Consistent with the emphasis in the Enabling Clause that developing countries should only receive GSP preferences as long as they are necessary, the EC's scheme includes a "graduation" mechanism. This section of the scheme also includes a "de minimis" clause, however, so that if the GSP-covered exports of the country concerned within the sector in question compose less than 2% of the entire GSP-covered imports into the EC within that sector in the previous year, then the graduation mechanism will not be applied to its products.

Finally, the least developed countries are given additional benefits through a special "everything but arms" clause, which allows completely


96. Council Regulation 2501/2001 of 10 December 2001 on Applying a Scheme of Generalised Tariff Preferences for the Period from 1 January 2002 to 31 December 2004, art. 7, 2001 O.J. (L 346) 1, 5-6 [hereinafter GSP Regulation]. Before 2001 there were four categories: "very sensitive" (15% tariff reduction), "sensitive" (30% tariff reduction), "semi-sensitive" (65% tariff reduction) and "non-sensitive" (100% tariff reduction). EC GSP HANDBOOK, supra note 95, at xii.


98. GSP Regulation, supra note 96, art. 12.

99. Id. art. 12, ¶ 1(b). This means that that when a developing country is judged to be competitive with respect to a particular product that single product is then excluded from GSP preferences. There is also a more general "country graduation mechanism," by which an entire country can be excluded from participation in the GSP once it reaches a certain level of development. This occurs when the country has for three consecutive years both (1) been classified by the World Bank as a high income country, and (2) had a "development index" of a certain size, the formula for which is provided in Annex II of the EC's GSP regulation. Id. art. 3.

100. Id. art. 12, ¶ 1(b).
duty-free access to the EC for all products of such countries, except arms and ammunition. 101

The source of the current dispute with India, however, is the three special "incentive" preferences that are included in the scheme: (1) special arrangements supporting measures to combat drugs, (2) special incentive arrangements for labor rights, 102 and (3) special incentive arrangements for environmental protection. 103 These "incentives" consist in additional reductions to the already GSP-reduced tariff rate. 104 The "drug" preferences are given to specific countries judged to be effectively combating drug production and trafficking, while the labor and environment incentives are given to countries that adhere to certain labor and environmental standards. 105 The incentives are substantial enough that the tariff reduction for industrial products can double, and nearly double for agricultural products.

When the EC's labor incentive was originally instituted, developing countries had to demonstrate that they had adopted and applied in their national legislation the substance of International Labor Organization ("ILO") Conventions 87 and 98 (the right to organize and to bargain collectively) 106 and 138 (minimum age for employment). 107 Since 2001, however, the incentives have been explicitly linked to the ILO's Core Labor Standards ("CLS"): 108 the elimination of forced labour (Conventions 29 and 105), 109 freedom of association and the right to collective bargaining (Conventions 87 and 98), 110 elimination of

---

101. This access being phased in over time for fresh bananas, rice and sugar, which are judged to be particularly sensitive areas. EU User's Guide, supra note 97, ¶ 4.
103. GSP Regulation, supra note 96, arts. 14–25.
104. Id. art. 8, 10.
105. Id. art. 10, 14, 21.
110. Freedom of Association Convention, supra note 106; Collective Bargaining Convention, supra note 106.
discrimination in employment (Conventions 100 and 111),111 and the
abolition of child labor (Conventions 138 and 182).112 Developing
countries no longer need to have adopted the conventions, but must have
incorporated the substance of them into their laws.113 They must also be
able to demonstrate to the EC that the relevant laws are being effectively
applied. Moreover, to keep the "incentives," developing countries have to
certify that individual shipments, and not just an industry as a whole,
comply with the requirements.

When the EC receives a request from a developing country for these
"incentive" preferences, it publishes a notice in the Official Journal of
the European Communities, inviting parties to make comments and
submit information.114 The authorities of the applying country are in-
volved throughout the evaluation process, but the EC reserves the right
to demand such things as spot inspections, to ensure that standards are
actually being met.115 It is estimated that a decision as to whether a de-
veloping country is entitled to receive these benefits should take less
than a year, but the requesting country can ask for a delay on the deci-
sion if it requires more time to adhere to the requirements.116

The "incentives" are designed to be adaptable to the reality of a de-
veloping country as the applicant country can exclude certain sectors in
which the requirements are not fulfilled.117 Moreover, acceptance or re-
jection by the EC is not an "all or nothing" matter, as the EC itself can
also exclude products from certain sectors in which the conditions are
not fulfilled, even if they were part of the application filed.118 Even the

111. Convention concerning Equal Remuneration for Men and Women Workers for
Work of Equal Value, June 29, 1951, 165 U.N.T.S. 303; Convention concerning Discrimina-
112. Minimum Age Convention, supra note 107; Convention concerning the Prohibition
and Immediate Action for the Elimination of the Worst Forms of Child Labour, June 17, 1999,
38 I.L.M. 1207.
113. GSP Regulation, supra note 96, art. 14.2.
114. Id. art. 16.1.
115. Id. art. 16.3.
116. The EU states:

The examination of a request should be completed within a year. After consultation
of the Generalised Preferences Committee, the Commission decides whether to
grant the benefit of the special incentive arrangements or not. However, where the
requesting country needs more time in order to conform to the requirements, it may
ask that the decision be postponed. The Commission may decide to exclude certain
sectors where, according to its findings, the conditions for granting the additional
preferences are not fulfilled.

EU User's Guide, supra note 97, ¶ 8:
117. Id.
118. Id.
The fact that a sector has been previously "graduated" will not exclude it from receiving the additional "incentive" preferences.\textsuperscript{119}

The next section analyzes in detail the arguments at the center of the dispute over labor conditionality in the EC's GSP, and explains why it is not WTO-inconsistent.

III. THE INDIA/EC DISPUTE

On March 12, 2002, India requested consultations with the EC\textsuperscript{120} about its GSP scheme, specifying their objection to the labor/environment/drug preferences. Although there is evidence that India is now only challenging the EC's "drug preference" and not its "labor preferences,"\textsuperscript{121} the following discussion will address how a dispute between India and the EC over the EC's "labor preferences" should be resolved, as a way of explaining why such a scheme is indeed WTO compliant.

First, it is important to note that India is not complaining about the EC's GSP itself, but rather about the "incentives" that the EC has added to its scheme.\textsuperscript{122} The argument suggested by India in its request for consultations is that GSP preferences are only permitted under the Enabling Clause "in order to increase the export earnings, to promote the industrialization and to accelerate the rates of economic growth of [developing] countries."\textsuperscript{123} Since the "incentives" in the EC scheme are designed for

\begin{enumerate}
\item[119.] \textit{Id.} \S 6.
\item[120.] "Consultations" are required prior to bringing a case at the WTO. Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, art. 4, Legal Instruments—Results of the Uruguay Round vol. 1, 33 I.L.M. 1225, 1228–29 (1994).
\item[121.] European Communities—Conditions for the Granting of Tariff Preferences to Developing Countries, Request for Consultations by India, WTO Doc. WT/DS246/1 (Mar. 12, 2002) [hereinafter Request by India]. Third party submissions in the case by the U.S. suggest that India may have narrowed its argument, to solely challenge the drug preferences. See Third Party Submission of the United States regarding European Communities—Conditions for the Granting of Tariff Preferences to Developing Countries, WTO Doc. WT/DS246 (Apr. 30, 2003), available at http://www.wto.org. However, it is unclear whether the U.S. submissions reflect a change in India's argument, or just the specific interests of the United States, as the United States itself has a regional tariff "preference" scheme to help reward specified Latin American countries engaged in the fight against drugs, the Andean Trade Preferences Act, 19 U.S.C. §§ 3201–3206 (2000). For details on this scheme, see First Report to the Congress on the Operation of the Andean Trade Preference Act as Amended. THE OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, FIRST REPORT TO THE CONGRESS ON THE OPERATION OF THE ANDEAN TRADE PREFERENCE (2003) available at http://www.ustr.gov/reports/2003atpa.pdf.
\item[122.] Request by India, \textit{supra} note 121.
\item[123.] This being the language used in the Preamble to the 1971 Decision that first introduced the Generalized System of Preferences, \textit{supra} note 87, pmbl.
\end{enumerate}
social purposes and not economic ones (India argues), they cannot be justified by the Enabling Clause, and so are illegal under the MFN clause of the WTO agreement.

To understand the rationale behind the case, it is important to identify where the burdens will lie. As the complaining party, India/Thailand has the initial burden of showing that there is a prima facie case that the EC’s regulation violates WTO obligations. The EC then bears the burden of showing that it can nonetheless justify its regulation under WTO standards. However, as will be argued later, this does not preclude India from bearing the burden on a specific issue.

Given that the EC’s tariff “incentives” clearly violate the MFN principle, if they do not qualify under the Enabling Clause, India would seem easily to be able to carry their burden of demonstrating that the EC’s “incentive” scheme is prima facie discriminatory, meaning that now the presumption is in their favor. The EC has to show that its preference system is consistent with the enabling clause, rather than merely contending that India has not shown that it is not. As I will now argue, the EC should be able to do that, and so India will ultimately fail in their challenge.

A. The EC’s Case

India seems able to make a very strong point that the incentives are not being offered for economic reasons. The text of the Enabling Clause and the original waiver emphasize that the goal of these preferences is to benefit the trade of developing countries. Hence, if offered for any non-economic reason, incentives will not qualify under the Enabling Clause waiver to MFN, and so will be illegal under WTO law.

The EC can respond to this argument in two ways. First, it can argue that GSP preferences, in fact, do not need to be offered for economic

124. “The general rule is that the initial burden of proof rests with the claimant. This holds true even when it requires the claimant to demonstrate the negative, such as raising a presumption that there are no relevant studies or reports supporting another party’s measures.” Andrew W. Shoyer & Eric M. Solovy, The Process and Procedure of Litigating at the World Trade Organization: A Review of the Work of the Appellate Body, 31 LAW & POL’Y INT’L BUS. 677, 689 (2000).

125. “Once the claimant establishes a prima facie case of a breach of a covered agreement, the burden shifts to the defendant to refute the claimed inconsistency.” Id.

126. As the GSP tariff discounts are only offered to developing countries. As a result, the GSP discriminates against developed countries.

127. However, for an argument that the WTO’s legal structure should not concern itself with labor standards in any situation, but avoid any direct consideration as a “political question,” see Guzman, supra note 2.

reasons, but only have to have a desirable economic effect. \(^{129}\) Second, it can argue that their preferences are indeed being offered for economic reasons, as adherence to the ILO’s Core Labor Standards \(^{130}\) helps economic development.

That economic motives may not be required for a GSP scheme is questionable. While the Enabling Clause does specifically justify the allowance of tariff preferences by reference to the trade needs of developing countries, it also states that they shall be “designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries.” \(^{131}\) The inclusion of “development” along with trade may provide some support for an argument that the preferences need not be designed solely to benefit the developing country recipient economically, as long as they do in fact create such a benefit. \(^{132}\) However, “development” can also be a purely economic term, and the fact that the other two “needs” mentioned in the sentence are themselves purely economic strongly suggests that this is the reading that should be given to “development” as well. Moreover, as illustrated above, historically the arguments for a GSP were consistently economic. Given the ambiguity of the meaning of “development” and the historical arguments for the GSP, it is at the very least unclear whether the EC can carry its burden with this argument.

Nonetheless, there is still some support for this position in WTO jurisprudence, through a parallel with the Appellate Body’s reasoning in the Shrimp/Turtle decision. \(^{133}\) In Shrimp/Turtle, a central part of the dispute was the meaning of “exhaustible natural resources” in GATT Article XX, which allowed measures to conserve such resources, even though they would otherwise be GATT-inconsistent. \(^{134}\) This provision had historically referred to things such as oil and minerals, \(^{135}\) but the US attempted to argue that it applied to living creatures, specifically turtles, as well. \(^{136}\) In interpreting the term in question, the Appellate Body

---

129. That is, that the motivation of the granting country is irrelevant, as the GSP waiver is intended to allow economic assistance to be given to developing countries. To deny assistance that would indeed benefit a developing country’s economy merely because of the motives of the granting country is inconsistent with that goal.

130. As is required by the EC’s labor incentive.

131. Enabling Clause, supra note 92, ¶ 3(c).

132. This latter qualifier being required by the fact that the sentence says “development, financial and trade needs,” rather than “development, financial or trade needs.” \(\text{Id.}\)


134. GATT, supra note 10, art. 20(g).


136. \(\text{Id.}\) at 501.
appealed to the fact that the preamble to the WTO Agreement describes "sustainable development" as a goal of the international trading system, and held that the term should, therefore, be interpreted in the light of contemporary conceptions of "sustainable development." After referring to numerous international agreements and resolutions, the Appellate Body then held that despite the fact that "exhaustible natural resources" had not covered living creatures when initially adopted, evolving understandings of "sustainable development" as reflected in international law had now extended the concept to the point where it did.

Likewise, the EC can argue that many international economic agreements now include labor conditionality, showing that the international community now acknowledges labor standards to be essential to economic development. The WTO's own recent endorsement of "sustainable development" further supports this argument, much as the Rio Declaration on the Environment helped sway the Appellate Body in U.S.-Shrimp/Turtle.

India could claim that explicit statements made at the WTO Ministerial Conference in Singapore in 1996—and implicitly endorsed in Doha in 2001—that "the ILO is the competent body to deal with [labor] standards," argue strongly against such an understanding of economic development as applied to the GSP system. Yet the Appellate Body's

137. Id. at 502.
138. Id.
140. WTO Ministerial Declaration, WTO Ministerial Conference, 4th Sess. (Doha), WTO Doc. WT/Min(01)/DEC/W/1 ¶ 6, (Nov. 9–14, 2001) ("We strongly reaffirm our commitment to the objective of sustainable development . . . ."). Note, though, that the WTO's discussions of "sustainable development have centered on environmental, not labor issues. See generally, Mathieu Regnier, Trade and Sustainable Development at Doha (2001), at http://oikosinternational.org/centers_of Excellence/titas/Lidija.pdf (last visited Oct. 20, 2003). However, the notion of "sustainable development" is not restricted to an environmental context. For example, the Sustainable Development Department of the Inter-American Development Bank has a "Labor Markets" division. Sustainable Development Department, Inter-American Development Bank Website, at http://www.iadb.org/sds/soc/site_12_e.htm (last visited Oct. 30, 2003).
142. World Trade Organization, Singapore Ministerial Declaration, Dec. 13, 1996, WTO Doc. WT/Min(96)/DEC, para. 4, reprinted in 36 I.L.M. 218, 221 (1997). However, Prof. Howse criticizes this stance:
apparent willingness to bring social concerns into the WTO\textsuperscript{143}, combined with the negative publicity that would result if the EC regulations were struck down, may lead to a holding for the EC.

Turning to the argument that the "incentives" are indeed being offered for economic reasons, the EC's case is very strong, as there is now a great deal of evidence indicating that adhering to the Core Labor Standards does indeed benefit an economy. For example, adherence to the Core Labor Standards has been clearly linked to a reduction in income inequality within a country.\textsuperscript{144} Arguably one restraint to the economies of developing countries is that the workers are so lowly paid that they do not have sufficient buying power, and so the economy is unable to grow.\textsuperscript{145}

Moreover, many recent studies have explicitly stated that adherence to Core Labor Standards can contribute to economic growth.\textsuperscript{146} As stated by one economist, "economic theory predicts, and empirical evidence indicates, lax enforcement of workers' rights encourages

\begin{quote}
The ILO, which concerns itself with international labor rights, does not possess the jurisdiction to determine whether trade sanctions undertaken by its members for labor rights reasons are consistent with trade rules under the General Agreement on Tariffs and Trade (GATT) or other WTO treaties, much less to waive or override such rules in the event of inconsistency. Indeed, according to the WTO Dispute Settlement Understanding, any determination concerning the violation of a WTO agreement must be taken within the ambit of the WTO's own institutional framework for settling disputes.
\end{quote}

Robert Howse, \textit{The World Trade Organization and the Protection of Workers' Rights}, 3 J. SMALL & EMERGING BUS. L. 131, 134 (1999). Moreover, the WTO's claim must also be evaluated in the context of the fact that the ILO has already rejected a suggestion that it should certify and label products from countries complying with the core labor standards. Christopher McCrudden & Anne Davies, \textit{A Perspective on Trade and Labor Rights}, 3 J. INT'L ECON. L. 43, 47 (2000).

\textsuperscript{143} This, at least, being one possible reading of the Shrimp/Turtle decision.

\textsuperscript{144} Bakvis, \textit{supra} note 139, at 8–9.

\textsuperscript{145} This, notably, being one of Prebisch's own arguments. \textit{See supra} note 59, and accompanying text.

prolonged reliance on less-skilled-labor-intensive activities and does little to encourage economy-wide capital formation, the development of more advanced industries, and long-term growth.¹⁴⁷

The evidence seems weaker for free association than for the other Core Labor Standards, arguably because whether free association is beneficial depends upon the type of association that takes place, which itself depends on many things. Werner Sengenberger, for instance, has argued that a comparative study of the attitudes of labor unions to industrial change, raises:

The general question of whether it is really excessive institutionalization or over-regulation that are to blame when standards run into apparent conflict with economic objectives; or whether, on the contrary, it is rather the "under-development" of labour institutions—be it lack of participation, or lack of representation at particular levels of organization—which is at the root of the problem.¹⁴⁸

It also has been argued:

When workers can organize and bargain collectively, they will be able to push for decent working conditions and for better wages; they will be able to garner a larger share of the fruits of globalization. This will lead to workers becoming owners of other types of property and will help give incentives for workers to invest more in their own skills and in the success of the companies for which they work. It will help build a middle class. In fact, the ability of workers to organize and bargain was instrumental in helping the United States develop a strong middle class during and after the industrial revolution.¹⁴⁹

Hence, while free association itself may not correlate strongly with economic growth, free association, properly handled, may.

Although the connection between high labor standards and economic development is still highly contested, it seems clear that the neither a panel nor the Appellate Body will demand unanimity among economists favoring labor standards before any country can utilize the


argument that standards promote economic development. After all, it is arguably even more highly contested whether a GSP program promotes economic development, so a strong stance by the WTO's dispute resolution system would be completely unworkable as an approach to analyzing GSP problems. The only reasonable approach, then, is for the Appellate Body simply to require that a GSP-granting country be able to provide solid evidence that its specific program in fact aids economic development, in order to be able to qualify under the "economic" conditionality of the GSP waiver.

Once it is accepted that the "incentives" are indeed inducing developing countries to adopt standards that will help their economic development, the only problem for the EC's case is that it might seem objectionable for a developed country to be using the GSP system as a way of forcing its own values onto developing countries. After all, while high labor standards may indeed contribute to economic growth, they are clearly not the only way to get such growth. The WTO's dispute resolution system might, then, be wary of endorsing such a use of the GSP, particularly when, as shown above, such a use is antithetical to the motivating intent behind the GSP system.

One defense of the EC on this point might be to note that India is itself a member of the ILO. Indeed, India was a founding member of the ILO, and has been permanent member of its governing body since 1922. However, India did not withdraw when the ILO announced that it regarded the Core Labor Standards as obligations to all members,

150. Such a conclusion is supported by the Appellate Body's comment on the kind of scientific consensus required to justify reliance upon scientific evidence in the context of the Agreement on the Application of Sanitary and Phytosanitary Measures:

Article 5.1 does not require that the risk assessment must necessarily embody only the view of a majority of the relevant scientific community. In some cases, the very existence of divergent views presented by qualified scientists who have investigated the particular issue at hand may indicate a state of scientific uncertainty. Sometimes the divergence may indicate a roughly equal balance of scientific opinion, which may itself be a form of scientific uncertainty. In most cases, responsible and representative governments tend to base their legislative and administrative measures on "mainstream" scientific opinion. In other cases, equally responsible and representative governments may act in good faith on the basis of what, at a given time, may be a divergent opinion coming from qualified and respected sources.


151. For a discussion of relevant economic studies of the effect of the GSP on developing country economies see Whalley, supra note 31, at 1323–24 (concluding that "[w]hen combined with the seeming frailness of GSP schemes under graduation pressures, the overall benefits to developing countries seem of limited consequence" [footnote omitted]).

152. See generally Srinivasan, supra note 3.

whether they had signed the relevant conventions or not.\textsuperscript{154} This point is unlikely to play a significant role in a WTO panel’s reasoning, but may help to reduce their concerns about over-riding the autonomy of a contracting party by interpreting a GATT provision in an unconventional way.

Finally, it should also be noted that the traditional objections of developing countries to the imposition of high labor standards cannot be made in this case, as it is difficult to portray the GSP incentives as “protectionist.”\textsuperscript{155} Indeed, these “incentives” actually serve as a means by which the EC can at least partially carry the cost of improving labor standards in developing countries. Of course, the additional costs from better labor regulations would be imposed even on those products not sold to the EC, so some additional cost would be borne by India. However, since conforming to the EC’s standards is voluntary, this is merely a factor that India can consider, and is not directly a cost imposed on them by the EC. Again, a WTO panel should not find this point significant, but could alleviate some of their misgivings.

Ultimately, it seems clear that the strongest argument that the EC can make for the WTO-consistency of its preferences is that they are indeed being offered for economic reasons. It is certainly controversial amongst economists whether high labor standards are economically beneficial,\textsuperscript{156} but a WTO panel is very unlikely to demand that a nation conform its policies to economic orthodoxy, even in the name of non-discrimination, as long as there is some significant body of reputable economic opinion that supports its actions.

\subsection*{B. India’s Best Arguments}

Even if the EC successfully argues that the “incentives” are being offered in the name of economic development, India may argue that the specific nature of the EC’s program is unacceptable under the WTO. This argument might generate sympathy, but ultimately will not be strong enough to win the case.


\textsuperscript{155} For the general argument that labor standards are a protectionist move by developed countries see Srinivasan, supra note 3. It should also be considered, however, that the GSP can be used as leverage for protectionist purposes, even though it is not itself protectionist. Whalley argues that “[t]he threat of graduation from GSP has, itself, been used on a number of occasions by developed countries as a mechanism to force developing countries to make changes requested by developed countries in other non-trade policy areas (such as intellectual property).” Whalley, supra note 31, at 1322.

India may reiterate the statement by the WTO Ministerial at Singapore (1996) that “the ILO is the competent body to deal with [labor] standards.” However, when properly understood, that pronouncement simply does not apply to this particular case. By allowing the labor incentives to remain part of the EC’s GSP program, the WTO would not itself be enforcing labor standards, any more than it enforces the substantive aspects of trade policies generally. Rather, it would be explicitly avoiding the issue, and leaving each State to determine its own policy. To argue otherwise requires a premise that any trade-related measure not precluded by the WTO is necessarily endorsed by it. The WTO’s statement at Singapore, then, can only be understood as meaning that the WTO does not wish to become a global enforcer of labor rights, not that Member States are forbidden from including labor conditionality in their trade agreements.

A stronger argument for India is that the EC’s regulations do not take fair account of the nature of the labor markets in developing countries, and hence cannot be designed to benefit developing economies. The claim here is not that developing countries are unwilling to enforce strong labor laws, but rather that they are unable to because of the large amount of unofficial work in their countries. Consequently, India may argue, the EC’s GSP system is clearly not a genuine attempt to help developing countries develop economically, since it allows a problem inherent to developing countries to disqualify them from receiving its benefits.

158. For example, Mishra argues:

There is a notion in the developing countries that labour standards improve only when economies and job opportunities grow. Globalisation aims at improving our growth rate and thereby improving labour standards, though not at the same rate. So far this has not really happened. The condition of labour in the formal sector [in India] is reasonably good as they are covered by comprehensive labour laws. Here wages are relatively high and working conditions relatively good. However, this sector covers just about 8% of the workforce while it contributes nearly 40% of national output. The hard Indian reality is that the vast majority of the underprivileged workers are found in the informal sector which covers almost 92% of the workforce. The working conditions in the informal sectors are extremely bad and the workers are nearly totally bypassed by labour laws. The incidence of child labour is common in this sector. The labour in this sector finds it difficult to organise because of the fear of being dismissed or antagonised by their employers. To believe that the kind of labour standards being invoked under the WTO aegis can be applied to India’s informal sector, at least to a large part of it is almost like living in a dream.

Although there does seem to be a genuine problem pointed out by this argument, its effectiveness as an objection to the EC’s GSP program is largely undercut by the fact that the EC’s incentive scheme only requires that the laws be “effectively applie[d].” This requirement seems flexible enough to require taking into account the facts of the specific situation in question, and to allow that laws are “effectively applied” when they have as great an effect as they can and there are no readily available options that would do more. There is no clear requirement in the EC’s GSP Regulation that the problem be completely solved. This leaves a WTO panel with the option of ruling that the EC’s regulation itself is acceptable, but that any given denial of the preferences can be challenged by the developing country concerned if it can demonstrate discriminatory application of the rule in its case.

Finally, India may attempt to advance an MFN-based “moral” argument to buttress its more strictly legal arguments. The MFN requirement for GATT-consistent trade rules is that the regulation must not be discriminatory amongst WTO member parties. The GSP systems, of course, are themselves explicit exceptions to this provision. However, India may argue that the way the EC grants preferences discriminates between developed and developing countries by placing developing countries in a secondary position in the trading system. That is, it is not that particular countries are being discriminated against, but that developing countries as a whole are being reduced to a secondary status through a provision designed to benefit them.

It is unclear how strong this argument is, since developing countries originally wanted the GSP, and it has long been accepted that GSP-granting countries can stop giving preferences to specific developing countries for any reason at all. The United States’ GSP scheme, for example, has included a labor conditionality provision for decades, and countries have indeed lost their preferences for violation of fundamental labor rights. Thus, the way that GSP schemes have always been adopted seems itself to place developing countries in the secondary position that this objection attempts to build upon. Because a WTO panel is

159. GSP Regulation, supra note 96, art. 14.2.
161. HENRY J. FRUNDT, TRADE CONDITIONS AND LABOR RIGHTS: U.S. INITIATIVES, DOMINICAN AND CENTRAL AMERICA RESPONSES 9 (1998). This provision, however, is not an “incentive” scheme as the EC is offering, and does not face exactly the same challenge. For a generally positive review of the effect of the U.S.’s GSP labor conditionality on labor rights in developing countries, see Compa & Vogt, supra note 73.
not bound by past practice, it may choose to ignore this fact but India’s argument will be substantially weakened.

C. The Outcome

The determinative factor in the resolution of this dispute, however, is not one of the above arguments regarding WTO-consistency of the EC’s GSP. It is rather the reality of the approach WTO jurisprudence has taken towards national regulatory schemes. Enormous deference is given to national regulations, and a regulation will not be struck down as WTO-inconsistent unless it is unavoidably inconsistent. If it is at all possible to operate the regulatory scheme in question in a way consistent with the WTO, then it will be upheld, allowing only that any given application of the regulation can be challenged for its WTO consistency. The difficulty in challenging a national regulation is even greater than this might suggest, however. It has been held that even if a regulation is textually WTO-inconsistent, if the country concerned is willing to make representations at the hearing that it will not apply the regulation in a WTO-inconsistent manner, the regulation will be upheld, despite its text.


163. The panel in United States—Measures Affecting the Importation, Internal Sale and Use of Tobacco stated:

Panels had consistently ruled that legislation which mandated action inconsistent with the General Agreement could be challenged as such, whereas legislation which merely gave the discretion to the executive authority of a contracting party to act inconsistently with the General Agreement could not be challenged as such; only the actual application of such legislation inconsistent with the General Agreement could be subject to challenge.


164. Id.

165. In U.S.—Sections 301/310, the panel found:

[T]he statutory language of Section 304 constitutes a serious threat that determinations contrary to Article 23.2(a) may be taken and, in the circumstances of this case, is prima facie inconsistent with Article 23.2(a) read in the light of Article 23.1. We then found, however, that this threat had been removed by the aggregate effect of the SAA and the US statements before this Panel in a way that also removes the prima facie inconsistency and fulfils the guarantees incumbent on the US under Article 23. In the analogy described in paragraph 7.65, the sign "No Trespassing. Trespassers may be shot on sight" was construed by us as going against the mutual
The problem this creates for India/Thailand is that if an incentive-based scheme can be operated in a way functionally equivalent to a traditional "give-and-take-away" scheme, then the EC can simply enter the hearing and state that even if the incentive-based approach is unacceptable, it will simply treat the regulation from now on as giving preferences to all developing nations, but then removing them from those who cannot demonstrate that they meet the required labor standards. Consequently, since there is no functional distinction in this case between give-and-take-away preferences and giving-as-an-incentive, India needs to offer a reason why even the former approach would leave the EC's scheme WTO-inconsistent.

India could argue that a give-and-take-away approach is unacceptable. The EC's approach allows creation of a scheme in which it accords benefits to all developing countries, but then takes them away unless they can meet requirements designed in such a way that only a single country could meet—thus, getting around the non-discrimination basis of the GSP.\(^6\) Consequently, even a give-and-take-away scheme must be subject to some scrutiny.

There does seem to be one way to draw a distinction between acceptable and unacceptable give-and-take-away GSP schemes, as by the demonstrated intent of the scheme. A scheme so finely tailored that only a select few developing countries can qualify under it does not benefit developing countries merely for being developing countries. It capitalizes on this benefit available to developing countries in order to give benefits for a completely different reason—this reason determined by the developed country. Yet, as mentioned earlier, the language of the Enabling Clause indicates that the preferences need to be given to convey an economic benefit upon the developing country, and for no other reason.\(^7\)

promise made among the neighbours always and exclusively to have recourse to the police and the courts of law in any case of alleged trespassing. Continuing with that analogy, we would find in this case that the farmer has added to the original sign which was erected for all to read another line stating: "In case of trespass by neighbours, however, immediate recourse to the police and the courts of law will be made". We would hold—as we did in this case—that with this addition the agreement has been respected.

\(U.S.\)\textemdash\textit{Sections 301–310, supra note 160, at 1149, \textsection 7.131.}

166. Keeping in mind that the discretion given to GSP-giving countries as to when they can refuse to give preferences is large enough to have allowed the U.S. to refuse to give them to communist countries, for a purely political motive. \textit{The U.S. Generalized System of Preferences Program, supra note 86, at 4.}

167. Of course, it was acknowledged earlier that this reading of the text is open to some dispute, but then this entire argument of incentive versus give-and-take-away only becomes necessary if one accepts the "pure economic" reading, so presumes as its basis that any other reading has already been rejected.
A WTO panel evaluating such a case, then, could merely require that the challenging country demonstrate that the GSP scheme in question is indeed an attempt to illegitimately get around the WTO’s constraints. If, however, the panel determines that the intent behind the scheme is legitimate, then the scheme should be held to be so as well, no matter how restricted the beneficiaries ultimately are.

In the dispute at hand, then, the simple fact that the regulations concerned are labor regulations is irrelevant, since, as argued above, it is not implausible for a country to claim that higher labor standards will indeed convey an economic benefit to a developing country. However, the precise labor standards at issue might be judged to be so unreasonably high or so irrationally put together, or the procedures for applying for the preferences so imposingly complex, that the scheme cannot plausibly be taken to be a genuine attempt to convey an economic benefit. Rather, it can only be seen to be an attempt to induce the developing country concerned to change its social policies.

Unfortunately, the result of this analysis in the dispute at hand requires far more facts than are currently available, so would have to actually be left to a WTO dispute resolution panel. However, as things stand currently there does not seem to be any reason to believe that the EC’s scheme is anything other than a genuine attempt to raise labor standards in an economically plausible way.

Finally, of course, there remains the question of who should bear the burden on the specific issue of the intent of the regulation. It may seem that the EC should be required to demonstrate their own good intent since, as discussed above, they will at this point have the burden of showing that their regulation is WTO-consistent. However, there is a suggestion in WTO case law that India will be expected to prove the EC’s wrongful intent. While confirming that a principle of good faith is operative in WTO disputes, the Appellate Body has rejected “the conclusion that simply because a WTO Member is found to have violated a substantive treaty provision, it has therefore not acted in good faith. In our view, it would be necessary to prove more than mere violation to support such a conclusion.”168 This statement seems to embrace a presumption of good faith on the part of WTO disputants. Applying the same rationale here would mean that if the EC could reasonably be understood to have instituted their GSP scheme to convey an economic benefit, as required by GATT, then they should be held to have done so, and it is India’s responsibility to prove their wrongful intent. Thus, although it is the EC’s responsibility to demonstrate that its regulation is

The European Labor Incentives

WTO-consistent, in this particular case the question of the regulation’s consistency will turn upon an issue that must be demonstrated by India. Hence, India will bear both the prima facie burden and the ultimate burden, and as argued above, will have difficulty carrying the latter.

CONCLUSION

Developing countries had to fight long and hard for GSP preferences, and it is clear that they benefit from them greatly. However, if a benefit is freely given it can become a chain as well as an aid, and that is the problem with which developing countries are now faced. Unable to secure the agreement of developed countries to a scheme of mandatory tariff preferences, or even significant constraints on when voluntary preferences could be withdrawn, they were forced to settle for a discretionary system that ultimately conveys to developed countries the ability to influence the domestic policies of developing countries. However, while this may be a desirable tool when used to help the disempowered, as is arguably so in the current case, it can, of course, also be abused. As a result, while it should be a great cause of celebration when the EC’s scheme is upheld as WTO-consistent, this should not serve as a disincentive from closer examination of the GSP system, in order to find a way that developed countries might best be constrained from using it in objectionable ways within a WTO system that goes out of its way to avoid striking down national regulations.