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COMMISSION STAFF WORKING DOCUMENT

IMPACT ASSESSMENT REPORT

Accompanying the document

Proposal for a Regulation of the European Parliament and of the Council

on applying a generalised scheme of tariff preferences and repealing Regulation (EU) No 978/2012 of the European Parliament and of the Council

{COM(2021) 579 final} - {SEC(2021) 330 final} - {SWD(2021) 267 final}

Table of contents

1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT 5
   1.1. The EU Generalised Scheme of Preferences 5
   1.2. What is the prevailing political/legal context as to why the initiative is being brought forward now? 7
   1.3. Are there European Council conclusions, Council conclusions, EP resolutions or College decisions? 8
   1.4. Are related initiatives also under preparation? Which issues will each initiative tackle? 9
2. PROBLEM DEFINITION 9
   2.1. Problems identified 11
   2.2. What are the problem drivers? 16
   2.3. How will the problems evolve? 23
3. WHY SHOULD THE EU ACT? 23
   3.1. Legal basis 23
   3.2. Subsidiarity: necessity of EU action 23
4. GENERAL AND SPECIFIC OBJECTIVES OF GSP: WHAT IS TO BE ACHIEVED? 24
   4.1. General Objective No 1: To further contribute to poverty eradication in countries most in need 27
   4.2. General Objective No 2: To further contribute to sustainable development and good governance in beneficiary countries 29
   4.3. General Objective No 3: To ensure protection of EU economic interests in the functioning of the scheme 30
5. WHAT ARE THE AVAILABLE POLICY OPTIONS? 31
   5.1. What is the baseline from which options are assessed? 31
   5.2. Description of the policy options 32
6. WHAT ARE THE IMPACTS OF THE POLICY OPTIONS? 42
   6.1. Impact of the options under Cluster 1: arrangements and beneficiary countries 42
   6.2. Impact of the options under Cluster 2: products coverage and graduation mechanism 48
   6.3. Impacts of the options under Cluster 3: conditionality 49
   6.4. Impacts of the options under Cluster 4: transparency 54
   6.5. Impacts of the options under Cluster 5: safeguards 56
7. HOW DO THE OPTIONS COMPARE? 57
   7.1. A comparison among the options proposed to address problems related to Cluster 1: arrangements and beneficiary countries 58
   7.2. Comparison among the options proposed to address problems related to Cluster 2: products coverage and graduation mechanism 59

7.3. Comparison among the options proposed to address problems related to Cluster 3: conditionality (positive, negative, international conventions, withdrawal procedure) 61
7.4. Comparison among the options proposed to address the problems related to the Cluster 4: transparency 66
7.5. Comparison among the options proposed to address the problem related to Cluster 5: safeguards 67
8. PREFERRED OPTIONS 68
8.1. Preferred option related to Cluster 1: arrangements and beneficiary countries 68
8.2. Preferred option related to Cluster 2: products coverage and graduation mechanism 69
8.3. Preferred options related to Cluster 3: conditionality 70
8.4. Preferred options regarding Cluster 4: transparency 71
8.5. Preferred option regarding Cluster 5: safeguards 72
9. HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED? 73
9.1. Measuring performance with regard to GSP overarching objectives (at the mid-term review and/or at the end of the Regulations' application) 74
9.2. Measuring performance with regard to GSP specific objectives (to be measured in line with GSP monitoring cycle) 75
ANNEX 1: PROCEDURAL INFORMATION 78
ANNEX 2: STAKEHOLDER CONSULTATION 80
ANNEX 3: WHO IS AFFECTED AND HOW? 85
ANNEX 4: ANALYTICAL METHODS 90
ANNEX 5: SUMMARY OF THE MID-TERM EVALUATION 94
ANNEX 6: EXECUTIVE SUMMARY AND FULL INTERIM REPORT OF THE SUPPORTING STUDY 95
ANNEX 7: DETAILED DESCRIPTION OF BASELINE SCENARIOS 96
ANNEX 8: THE CURRENT TEMPORARY WITHDRAWAL PROCEDURE 102
ANNEX 9: DETAILED DESCRIPTION OF INTERNATIONAL CONVENTIONS ANALYSED BY THE SUPPORTING STUDY 104
ANNEX 10: PERFORMANCE MEASUREMENT FRAMEWORK FOR THE GSP REGULATION 114

Acronyms

Acronym	*Definition*
CGE	Computable General Equilibrium
COVID-19	Coronavirus disease
CSD	Civil Society Dialogue
CTEO	Chief Trade Enforcement Officer
EBA	Everything But Arms
EEAS	European External Action Service
EP	European Parliament
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GHG	Green House Gas
GSP	EU Generalised Scheme of Preferences
GSP+	Special Incentive Arrangement for Sustainable Development and good Governance
HS	Harmonised System
ILO	International Labour Organisation
LDC	Least Developed Country
LMIC	Low- and Middle- Income Countries
MFN	Most Favoured Nation
MTE	Mid-Term Evaluation of the EU GSP
OECD	Organisation for Economic Cooperation and Development
OPC	Open Public Consultation
RoO	Rules of Origin
TPR	Trade Policy Review

Glossary

Term	Meaning or definition
Product coverage	The list of products included in the EU GSP arrangements
Effective implementation	The integral implementation of all obligations undertaken under the international conventions listed in Annex VIII to the EU GSP Regulation
Export diversification	A change in a country's export structure, which is typically reflected in the range of goods that is exported from the same sector or from different sectors
Product graduation	Imports of particular group of products and originating in a given GSP beneficiary country lose GSP tariff preferences. It concerns imports that are competitive on the EU market and thus no longer need the GSP to boost their exports to the EU
Non-sensitive products	In the GSP scheme, non-sensitive products enjoy duty free access
Preference erosion	The process by which the preference granted to a specific good loses its nominal or relative value (in particular in light of EU trade agreements which have recently been negotiated with other countries in the world which may grant these other countries access to the EU market which is similarly generous as the GSP preferences once granted only to GSP beneficiary countries)
Sensitive products	In the GSP scheme, sensitive products benefit from tariff reductions compared to the standard most favoured nation tariff, but these reductions are somewhat less favourable than the duty-free access accorded to non-sensitive products.
Standard GSP	The general arrangement provided for in Art. 1(2)(a) of the EU GSP Regulation
Utilisation rate	GSP preferential imports as a percentage of eligible imports under the respective GSP arrangement
Everything But Arms or 'EBA'	The special arrangement for least developed countries in Art.1(2)(c) of the EU GSP Regulation
GSP+	A special incentive arrangement for sustainable development and good governance in Art.1(2)(b) of the EU GSP Regulation
The GSP Arrangements	The Standard GSP, GSP+ and EBA arrangements
Vulnerability criteria	A set of two economic criteria for GSP+, limiting access to the scheme to beneficiaries with less diversified exports and limited export competitiveness.

1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT

The European Commission services prepared this Impact Assessment Report (IAR) in support of a new regulation for the EU Generalised Scheme of Preferences (hereafter 'the GSP').

The GSP is a multifaceted instrument covering a variety of economic and sustainability obligations, which all impact the drivers for improvement and the related policy options. To facilitate the analysis, the problems' underlying drivers have been grouped in clusters according to the main aspect they are related to: GSP arrangements and beneficiary countries coverage, the products, conditionality, transparency, and safeguard mechanisms (see Table 5 in Section 5.2.).

The GSP is a very mature part of the EU's trade policy tool box. Its review is about fine-tuning the way the GSP works and improving its efficiency and effectiveness – hence, the drivers and policy options defined and further explored in the External Study and IAR have a high level of granularity. A Midterm Evaluation (MTE) of the current GSP Regulation was completed in 2018[1]. An External Study (hereafter the Study) undertaken by BKP Economic Advisors GmbH, as well as an open public consultation[2] (OPC) supported the preparation of the IAR. This document builds upon the Inception Impact Assessment[3] published in May 2019.

1.1. The EU Generalised Scheme of Preferences

The EU's GSP is a well-established EU trade policy instrument with development objectives, which has been in place since 1971[4]. The legal basis was made permanent by the GATT's Enabling Clause[5], which grants a permanent exemption from the Most Favoured Nation (MFN[6]) principle, for developed countries to unilaterally grant reductions in the tariffs paid on imports from developing countries.

The current GSP scheme is based on Regulation (EU) No 978/2012 of 25 October 2012[7] (hereafter 'the Regulation'). The scheme offers easier access to the EU market for goods exported from developing countries by eliminating or reducing import tariffs *unilaterally* (i.e., on a non-reciprocal basis). Lower tariffs enable these countries to increase their exports to the EU and contribute to economic growth and jobs creation. Preferential access to the EU market also helps developing countries to generate additional revenues,

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[1] Commission Staff Working Document *Midterm Evaluation of the Generalised Scheme of Preferences* (SWD(2018) 430 final)

[2] Preferential tariff scheme between the EU and developing countries (update), completed on 15/7/2020. https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/2136-Towards-the-future-Generalised-Scheme-of-Preferences-legal-framework-granting-trade-advantages-to-developing-countries/public-consultation

[3] https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc_158624.pdf

[4] In 1971, the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) approved a waiver to Article I of the GATT that gave a legal basis for a 'Generalised System of Tariff Preferences'

[5] The Enabling Clause is officially called the "Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries". https://www.wto.org/english/docs_e/legal_e/enabling1979_e.htm

[6] https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm#seebox

[7] Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008 https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=uriserv%3AOJ.L_.2012.303.01.0001.01.ENG

which can be reinvested to diversify their economies. Finally, the EU's GSP scheme supports beneficiary countries' sustainable development, because the promise of lower-tariff or tariff-free access to the EU's large market is an incentive for developing countries to promote respect for human rights, labour rights, environmental protection, and good governance.

The current Regulation sets up **three distinct arrangements**, adapted to the needs of different categories of developing countries:

(1) **Standard GSP[8]:** The general arrangement for low and lower-middle income countries, which offers a partial or full removal of customs duties on two-thirds of the EU's tariff lines. It is granted automatically to all developing countries in WTO context. At present, there are **15 beneficiary countries**.

(2) **GSP+**[9]: The special incentive arrangement for sustainable development and good governance. To qualify for GSP+, the countries must benefit from Standard GSP and be considered "vulnerable" in terms of low level of diversification of their exports to the EU, and insufficient integration in the international trading system. It reduces import duties for the same tariff lines as Standard GSP to 0% for countries that have ratified and implement 27 major international conventions. At present, there are **9 GSP+ beneficiary countries**.

(3) **EBA**[10] (*Everything But Arms*): The special arrangement for least developed countries (LDCs) is one of the world's most generous and inclusive scheme[11], providing LDCs with duty-free, quota-free access to the EU market for all products except arms and ammunition. At present, there are **48 EBA beneficiary countries**.

The Standard GSP covers a wide range of products, split into non-sensitive and sensitive categories:

- ***Non-sensitive*** products enjoy duty-free access;
- ***Sensitive*** products (a mixture of agricultural, chemical, textile, clothing and footwear items) benefit from a tariff reduction of 3.5 percentage points (20% in case of textiles and clothing) on ad valorem duties or a reduction of 30% on specific duties compared to the MFN levels.

[8] GSP standard arrangement beneficiary countries (as of 1 August 2021): Congo, Cook Island, India, Indonesia, Kenya, Micronesia, Nauru, Nigeria, Syria, Niue, Samoa, Tajikistan, Tonga, and Vietnam.

[9] GSP+ beneficiary countries (as of 1 August 2021): Armenia, Bolivia, Cabo Verde, Kyrgyzstan, Mongolia, Pakistan, Philippines, Sri Lanka, and Uzbekistan.

[10] EBA beneficiary countries (as of 1 August 2021): Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia (preferences were partially and temporarily withdrawn in August 2020), Central African Republic, Chad, Comoros, Congo (DRC), Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea Bissau, Haiti, Kiribati, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania and Mozambique, Myanmar/Burma, Nepal, Niger, Rwanda, Sao Tome & Principe, Senegal, Vanuatu, Yemen and Zambia.

[11] EBA provides nearly 100% tariff-free quota-free goods coverage except for arms and ammunitions. "This makes the EU GSP one of the most generous in the world." Japan GSP provides about 98% product coverage. The US GSP (plus other schemes) provide less than 97% as it excludes textile products (which are of main importance to developing countries). China's and India's GSP schemes cover around 97% and 94% respectively (source WT/COMTD/LDC/W/68)

Under the GSP+ arrangement, tariffs for most of the sensitive products are removed, making the GSP+ much more attractive in comparison to the Standard GSP. The EU is willing to open up its market for sensitive products for the EU industry, provided the aim is to support beneficiaries' sustainable development. EBA countries get more than 99% duty-free quota-free coverage together with the EU MFN zero tariff lines.

Additional major features to enjoy GSP preferences are: **conditionality**, **graduation** and **safeguards**.

The tariff treatment of beneficiary countries is **conditional** on the respect of 27 international Conventions on human rights, labour rights, environmental protection, and good governance listed in Annex VIII to the GSP Regulation.

The GSP Regulation uses two different ways of conditioning preferences: a "negative" conditionality for Standard GSP and EBA beneficiaries, and a "positive" conditionality only for GSP+ beneficiaries. Conditionality remains one of the key EU instruments to promote respect for human and labour rights, environment and good governance in GSP beneficiary countries: a country should not benefit from preferential trade arrangements if it is acting in a way that is contrary to its own developmental needs or contrary to international standards and principles.

Negative conditionality implies that beneficiaries lose GSP preferences for non-compliance with a series of obligations, including failure to respect the main principles of the relevant international Conventions. Such a procedure is referred in the GSP Regulation also as a "withdrawal" of GSP preferences. The withdrawal of preferences results in EU customs authorities applying the standard Most Favoured Nation WTO tariffs with respect to the affected imported products.

Positive conditionality, applicable only to GSP+ countries, implies that beneficiaries must take certain actions to become eligible and maintain the GSP+ preferences, namely to ratify the conventions and effectively implement them.

In addition to the withdrawal procedure, there is also the "**graduation**" procedure that can lead to a GSP country losing wholly or partially is preferential treatment, for which we need to distinguish between "product graduation" and "countries graduation".

Product graduation (according to Article 8 of the GSP Regulation) takes place when imports of a particular group of products originating in a GSP beneficiary country exceeds a given threshold. In that case, imports of that group of products from that country are considered too competitive on the EU market and thus no longer need the GSP to boost their exports to the EU. This mechanism currently applies only to the Standard GSP, but not to the GSP+ or EBA arrangements. At present, the list of graduated products is revised every three years.

Countries' **graduation** apply to all GSP beneficiaries'.

- Graduation out of EBA takes place when a country loses the "Less Developed Country" status granted by the UN Committee for Development Policy (CDP). Following graduation from the EBA arrangement, these countries could move to Standard GSP or, pending their application (and meeting the eligibility criteria) to GSP+.

- Graduation out of standard GSP and GSP+ takes place if that country (i) has another type of special trade arrangement with the EU, granting the same tariff preferences (e.g. an FTA), or (ii) it has achieved high or upper-middle income status during three consecutive years on the basis of the World Bank's classification.

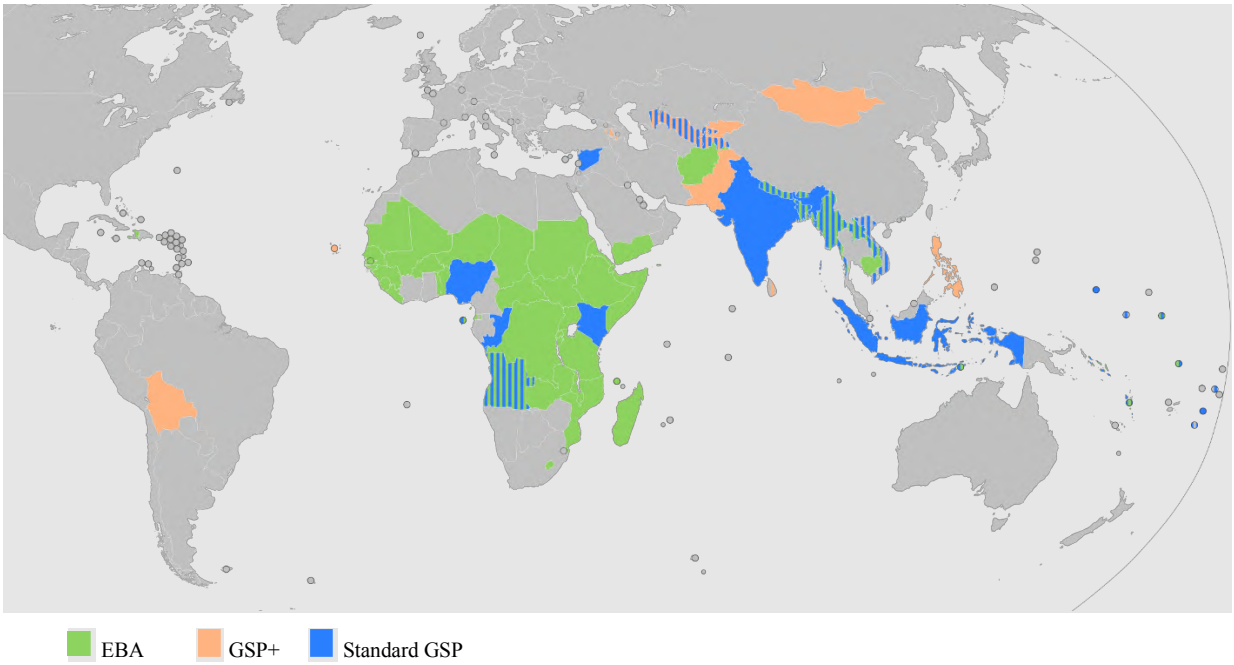
Free Trade Agreements by their nature, offer substantially more benefits to parties (e.g., legal certainty, chapters on services, SPS/TBT issues, IPR, cooperation, etc.) beyond market access for goods and, thus, are significantly more advantageous in commercial terms than unilateral preferences which are limited to goods. In terms of goods, Economic Partnership Agreements with ACP countries provide the same 100% tariff-free quota-free benefits as the EBA. Other bilateral FTAs provide better benefits than Standard GSP or GSP+, which cover around 66% of tariff lines; the average product coverage of an EU FTA is above 90%.

Finally, beneficiary countries can lose preferential tariff treatment as a result of the application of **safeguards**, which can be "general" or "automatic".

The **general safeguard** mechanism applies to all GSP beneficiaries and products, where products are imported in volumes and/or at prices that cause, or threaten to cause, serious difficulties to Union producers of like or directly competing products. The first investigation under the general safeguards was concluded in 2019 on rice imports from Cambodia and Myanmar.

The **automatic safeguard** mechanism applies only to specific product groups which are indicated to be sensitive in the GSP Regulation, primarily textiles and garments as well as a few selected other products. The automatic safeguard measures do not apply to EBA beneficiary countries; and, among the Standard GSP and GSP+ countries, only to those that meet certain minimum thresholds in EU imports. The Commission has never activated the automatic safeguard mechanism because the conditions provided in the GSP Regulation have not been met. This reflects the exceptional nature of the automatic safeguard mechanism.

Figure 1: World map – GSP beneficiary countries by arrangement[12]



1.2. What is the prevailing political/legal context as to why the initiative is being brought forward now?

The current GSP Regulation will **expire on 31 December 2023**. Unless a new regulation is adopted, the Standard GSP and the GSP+ arrangements will cease to apply. Imports from developing countries under Standard GSP and GSP+ would thus be charged with higher duties as from 1 January 2024. However, imports from least developed countries (LDCs) would still be covered by the EBA arrangement which does not have a fixed expiry date.

The GSP pursues three main objectives, namely, to assist developing countries in their efforts to reduce poverty, to promote good governance and sustainable development, while taking into account the situation of the sectors manufacturing the same products in the EU. This is in line with EU's Policy Coherence for Development (PCD) which constitutes a key pillar of EU efforts to enhance the positive impact and increase effectiveness of development cooperation[13].

The supporting Study for this Impact Assessment showed that the highest positive impact of GSP was the support given to growth and trade diversification through EBA, which benefits LDCs.

Building on what the GSP has achieved, because of the continued relevance and coherence of its general objectives, and even more so in view of the recovery from the Covid-19 pandemic, this GSP review aims to maintain the scheme as such, while

[12] Countries whose assumed status in the baseline of the Computable General Equilibrium (CGE) modelling differs from the current legal status are striped, e.g. indicates a current EBA country that is treated as a Standard GSP country in the baseline scenario for modelling purposes (see Section 2.2.1).

[13] Article 208 of the Treaty on the Functioning of the EU concerning PCD reads: "*The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries*".

improving its efficiency and effectiveness. The EU's overarching objectives in revising the GSP Regulation are to maintain the essential features of the present Regulation, and specifically the focus of the 2012 reform on the three goals of poverty eradication, support for sustainable development and good governance, while also better defending EU industries that may face serious difficulties as a result of increased imports from GSP beneficiary countries.

The continuation of GSP is part of the EU's political commitment to support sustainable development globally, as reflected in the implementation of the UN Agenda 2030 for Sustainable Development and Sustainable Development Goals (SDGs), to which all WTO Members have committed.

The Midterm Evaluation[14] (MTE) of the implementation of the GSP Regulation concluded that overall the GSP was delivering on its objectives[15] and there was no need to amend the Regulation before its expiry on 31 December 2023. However, the MTE made several recommendations to improve the effectiveness and efficiency of the scheme. These recommendations underpinned the identification of the problems defined in detail in Section 2.

1.3. Are there European Council conclusions, Council conclusions, EP resolutions or College decisions?

On 14 March 2019, the European Parliament (EP) adopted a non-legislative resolution on the implementation of the GSP Regulation[16] (hereafter 'the Resolution'). The Resolution acknowledged the overall positive impact of GSP on developing countries, but made a number of recommendations for improving the scheme, including: further encouraging export diversification of beneficiary countries; placing more emphasis on improving environmental standards, reinforcing stakeholders' involvement in order to ensure better monitoring of the scheme's implementation; and introducing additional tariff preferences for products that have demonstrably been produced sustainably.

European Commission President Ursula von der Leyen promised that under her leadership the Commission would further strengthen the use of trade tools in support of non-trade policy objectives. In her *Agenda for Europe 2019-2024*, she stressed, "*Trade is not an end in itself. It is a means to deliver prosperity at home and to export our values across the world*" including "*the highest standards of climate, environmental and labour protection, with a zero-tolerance policy on child labour*"[17].

The Commission Communication *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy*, reflecting the above objectives, was adopted on 18 February

[14] http://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156085.pdf
[15] For instance, since 2011, EBA-beneficiary Bangladesh has almost doubled its exports to the EU from EUR 9 billion to approximately EUR 18 billion in 2018. Exports from GSP countries, in particular the LDCs expanded significantly over the last few years. Economic operators used the scheme's safeguards. Through promotion of socio-economic development while respecting the core values the GSP contributed positively to promoting and protecting human and labour rights. The MTE noted, however, that impact of GSP on environment protection was less clear.
[16] https://www.europarl.europa.eu/doceo/document/TA-8-2019-0207_EN.html
[17] https://ec.europa.eu/info/sites/info/files/political-guidelines-next-commission_en_0.pdf

2021[18]. It sets the medium-term direction of trade policy in response to a variety of new global challenges, including the post-Covid-19 economic recovery. The Trade Policy Review (TPR) confirms that *"One of the key objectives of the upcoming review of the Generalised System of Preferences (GSP) will be to further increase trading opportunities for developing countries to reduce poverty and to create jobs based on international values and principles, such as labour and human rights*"[19].

The TPR also notes that the EU has a "*strategic interest to support the enhanced integration into the world economy of vulnerable developing countries*" […] "*The EU must fully use the strength provided by its openness and the attractiveness of its Single Market […]*" to support multilateralism and to ensure adherence to universal values, adding a focus on climate and environmental challenges, while also remaining ready to act assertively in defending its interests. For GSP specifically, the TPR notes its important role to promote "respect for core human and labour rights".

1.4. Are related initiatives also under preparation? Which issues will each initiative tackle?

The Action on GSP Trade Preferences (GSP Hub)

The 2018 Mid-Term Evaluation of GSP called *inter alia* for more transparency and inclusiveness of stakeholders in the scheme. Along the lines of the Resolution adopted by the EP, the MTE also asked the Commission to raise the utilisation and impact of GSP through increased awareness and engagement with stakeholders, including industry.

In 2020 – in order to address some of the concerns highlighted by the MTE and the EP Resolution – the Commission launched a dedicated two-year project: the Action on GSP Trade Preferences (GSP Hub)[20]. Its overall aim is to increase the effectiveness, inclusiveness, and transparency of the GSP (including the GSP+ monitoring process) via a dedicated GSP platform/website along with other activities and engagements with stakeholders.[21]

2. PROBLEM DEFINITION

The identified problems and their underlying drivers are set out in a **problem tree** in **Figure 2** below. This builds on the results and recommendations of the 2018 Mid-Term Evaluation (MTE) and the 2020 External Study on GSP[22]. Both studies confirmed that a

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[18] COM(2021) 66 final, 18.2.2021. https://eur-lex.europa.eu/resource.html?uri=cellar:5bf4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC_1&format=PDF

[19] See Trade Policy Review Communication, page 13.

[20] https://gsp-hub.eu/

[21] See for instance the third biennial GSP Report to the Council and the European Parliament of 10 February 2020, JOIN(2020) 3 final.

[22] Study in support of an impact assessment to prepare the review of GSP Regulation No 978/2012, Final Report, 2021: https://op.europa.eu/en/publication-detail/-/publication/706f539c-f0db-11eb-a71c-01aa75ed71a1/language-en/format-PDF/source-221478841 . Annexes: https://op.europa.eu/en/publication-detail/-/publication/be174994-f337-11eb-aeb9-01aa75ed71a1/language-en. Executive Summary : https://op.europa.eu/en/publication-detail/-/publication/f7031da3-f0dc-11eb-a71c-01aa75ed71a1/language-en

major overhaul of the existing legal framework would not be justified and identified ways to improve the efficiency and effectiveness of the GSP instrument.

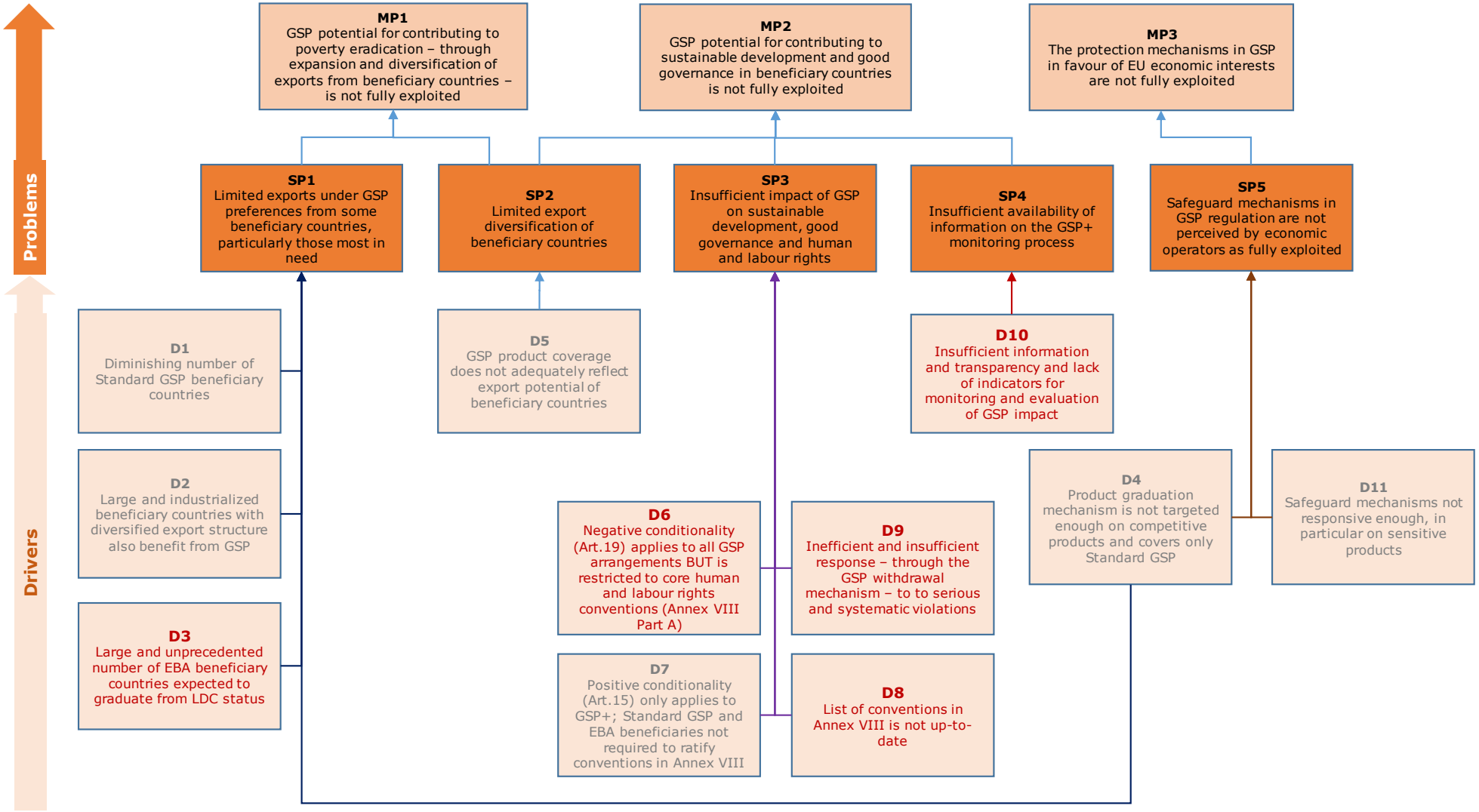
The MTE pointed out to areas for improvement that – if addressed by appropriate policy options – could enhance the efficiency and effectiveness of the GSP.

The 2020 External Study focused on several policy options that could improve achieving the overall objectives of the GSP instrument.

In open public consultations, the vast majority of respondents supported maintaining GSP preferences with its three arrangements, on the grounds that it helped to eradicate poverty, create jobs (notably for women), and support economic growth (including economic recovery of beneficiary countries severely impacted by the COVID-19 pandemic), while contributing to sustainability of development and possibly serving as a stepping stone to reciprocal trade agreements as countries graduate from the GSP.

In Figure 2 below, some of the underlying drivers are shown in **red**, others in **grey**. As will be seen in sections 5 (policy options) and 6 (impact of the policy options) of this impact assessment report, options to address **each** of the specific problems and their underlying drivers have been considered and analysed. In some cases that analysis led to the conclusion that the options for specific new policy measures would be ineffective or inefficient. In those cases, the underlying drivers are shown in **grey**.

Figure 2: Problem definition tree



2.1. Problems identified

The three main (overarching) problems identified correspond to weaker than intended performance for each of the three main objectives of the GSP[23]. To address these issues, the analysis has identified five specific implementation problems to look at. They are briefly summarised in Table 1.

Table 1: Main problems identified

Main Problems (MP)	Specific problems (SP)
Main Problem #1 (MP1) *The GSP potential for contributing to poverty eradication – through expansion and diversification of exports of beneficiary countries, especially those most in need – is not fully exploited*	SP1: Limited exports under GSP from some beneficiary countries, particularly those most in need
	SP2: Limited export diversification of beneficiary countries
Main Problem #2 (MP2) *The GSP potential for contributing to sustainable development and good governance in beneficiary countries is not fully exploited*	SP3: Insufficient impact of GSP on sustainable development, good governance, and human and labour rights
	SP4: Insufficient availability of information on the GSP+ monitoring process
Main Problem #3 (MP3) *The protection mechanisms in GSP in favour of EU economic interests are not fully exploited*	SP5: Safeguard mechanisms in the GSP Regulation are not perceived by economic operators as fully exploited

2.1.1. Main Problem #1: The GSP potential for contributing to poverty eradication – through expansion and diversification of exports of beneficiary countries, especially the most in need – is not fully exploited

By providing preferential access to the EU market, the GSP instrument can assist developing countries in their efforts to reduce poverty.

As the causal link between the GSP and poverty reduction is difficult to ascertain with precision[24], GSP effectiveness is primarily measured through its impact on exports and its diversification.

Trade statistics prove GSP has positive impact on improving trade flows from GSP beneficiaries to EU. Between 2014 and 2019, EU27 imports from current GSP beneficiaries utilising any of the existing arrangements increased by 25%[25], whereas overall imports from third countries increased by 16% over the same period. Imports under EBA even outperformed this increase with 47% (from 17.1 billion EUR in 2014 to

[23] See Section 1.2.
[24] Also noted in the MTE.
[25] COMTEXT – TARIC

25.2 billion EUR in 2019). Imports from LDCs accounted for 2% of total EU imports in 2019; 67% of these imports from LDCs benefitted from EBA preferences.

During the same time, the share of imports under EBA in total imports from LDC increased from less than half to over two thirds, suggesting a diversification away from fuels and other items not receiving EBA preferences. For GSP beneficiaries as a whole, this increase was from 32% to 39%.

Ensuring the continuing relevance of the scheme requires in the first place focusing the GSP preferences on the developing countries most in need, to help them to boost their exports.[26] At the same time, the contribution of GSP to export diversification is modest and depends more on how well export opportunities under GSP are integrated into the broader domestic policy mix in the beneficiary country[27]. Moreover, extending to GSP beneficiaries certain advantages related to GSP status (in compliance with the rules of origin in the EU Custom legislation) should respond to the country's development, financing and trade needs as well as future perspectives with regards to the product benefitting from preferential tariffs.

This Main Problem #1 (i.e., not fully exploiting GSP's potential for contributing to poverty reduction) results in part from the concentration of GSP preferences in a limited number of countries. Bangladesh (EBA, 25% of total GSP), India (Standard GSP, 23% of total GSP), Indonesia (Standard GSP, 10% of total GSP), Vietnam (Standard GSP, 14% of total GSP) and Pakistan (GSP+, 8% of total GSP) are the five biggest users responsible for 80% of total GSP imports to the EU in 2019.

Around 99% of imports from countries covered by Standard GSP are from three beneficiaries: India, Indonesia, and Vietnam. Vietnam will leave GSP in 2023 (because since August 2020 it has preferential access to the EU market under a bilateral free trade agreement) and Indonesia reached upper middle-income status in 2020 and may be out of the Standard GSP by 2024 (though Covid-19 may have an impact). This development will concentrate the preferences even more in two countries, India, and Bangladesh, with Pakistan coming third, raising doubts about the accuracy of the targeting.

Another risk relating to Main Problem #1 is that several EBA beneficiaries will soon lose their status as LDCs, and will consequently move into another GSP arrangement (under Standard GSP they will enjoy a less preferential access). This would be of some concern because of their poorer performance and because of their vulnerability to trade shocks on the current account.

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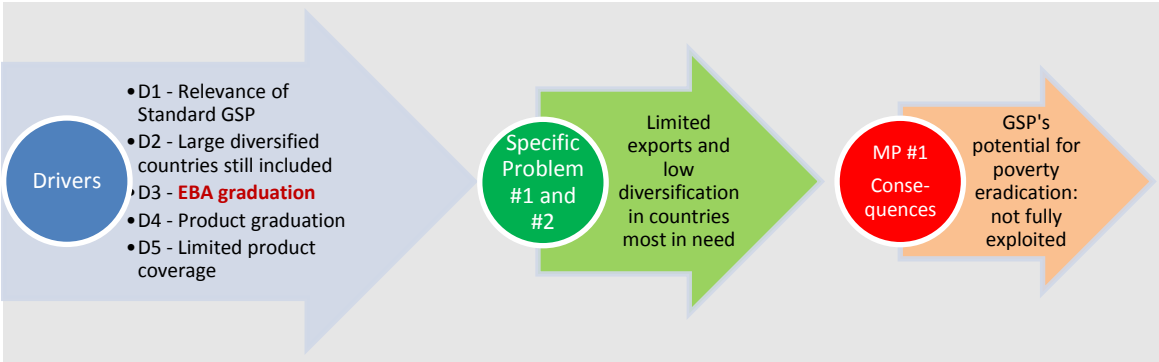
[26] While most academic research on the economic effects of GSP focuses on the impact of trade preference on exports, the scheme aims at both expanding and diversifying exports of the beneficiary countries. But over time the focus shifted to the quantitative objective while neglecting diversification. See also: Persson M. and Wilhelmsson F., 2016 EU Trade preferences and Export Diversification, The World Economy 39 (1): 16-53, and a 2015 Study 'Assessment of economic benefits generated by the EU Trade Regimes towards developing countries' found that GSP preferences had a positive and causal impact on the growth and diversification of exports from developing countries to the EU. https://trade.ec.europa.eu/doclib/docs/2015/july/tradoc_153595.pdf

[27] The Generalised Scheme of Preferences Regulation (No 978/2012) - European Implementation Assessment, EPRS (European Parliamentary Research Service), 2018. https://www.europarl.europa.eu/RegData/etudes/STUD/2018/627134/EPRS_STU(2018)627134_EN.pdf

Finally in connection with Main Problem #1, the MTE identified modest overall improvements in export diversification but could not establish a clear link with the GSP Regulation. Any positive impact largely depended on whether the beneficiary countries had policies and administrative capacity in place to effectively channel the extra resources to social[28] and distribution-improving policies. These findings were corroborated by the 2020 External Study. In the public consultation, some stakeholders noted that the GSP had not contributed to economic diversification in beneficiary countries in the way that had been expected.

Figure 3: The causal link between Main Problem #1 and its underlying drivers



2.1.2. Main Problem #2: The GSP potential for contributing to sustainable development and good governance in beneficiary countries is not fully exploited

The present GSP instrument has contributed to the promotion of sustainable development and good governance, in particular through the EU's monitoring of the implementation of the international conventions relevant to GSP+.

The MTE recognised that overall, the GSP has created incentives for ratifying international conventions and has, therefore, contributed to a better framework for progress. However, one aspect highlighted by the MTE that contributes to Main Problem #2 is the need to put further measures in place in order to ensure that the GSP supports positive environmental development. In particular, it recommended that the Paris Agreement on Climate Change should be added to the list of 27 international conventions that GSP+ beneficiary countries must comply with.

The 2020 External Study confirmed that GSP has fostered the potential for sustainable development and brought benefits in terms of respect for human rights, labour standards promoted by the International Labour Organization (ILO), environmental and governance conventions in the beneficiary countries. Aspects proposed for improvement include: extending negative conditionality to the environmental and good governance conventions; improving transparency towards and inclusiveness of civil society; raising awareness of the scheme in the GSP beneficiary countries.

Overall, across stakeholder groups, stakeholders consulted for the External Study consider that the GSP has positive impacts across all areas, with the exception of combating corruption, where it is seen as substantially less successful.

Another aspect identified by the MTE which contributes to Main Problem #2 is that the scheme might not sufficiently incentivise beneficiary countries to improve the respect for human rights and other core rights and obligations related to sustainable development.

Two aspects seem to be relevant. Firstly, *negative*[29] conditionality (which means that eligibility for any of the three GSP arrangements can be withdrawn in case of serious and systematic violation of the *principles* laid down in the 15 core human rights and labour rights conventions of Annex VIII of the GSP Regulation) currently does not extend to environmental and governance issues. Secondly, *positive*[30] conditionality (which makes eligibility for enhanced GSP benefits conditional upon ratification and effective implementation of international conventions) *only* applies to GSP+ countries; it does not apply to the beneficiaries of the Standard GSP and EBA.

As noted by the MTE and by stakeholders in the open public consultation, the list of international conventions in Annex VIII to the GSP Regulation needs to be updated. Some additional conventions would be of particular relevance to the GSP objective of promoting sustainable development and good governance, including making the respect of certain international standards (e.g. on migration) a ground for possible withdrawal of preferences.

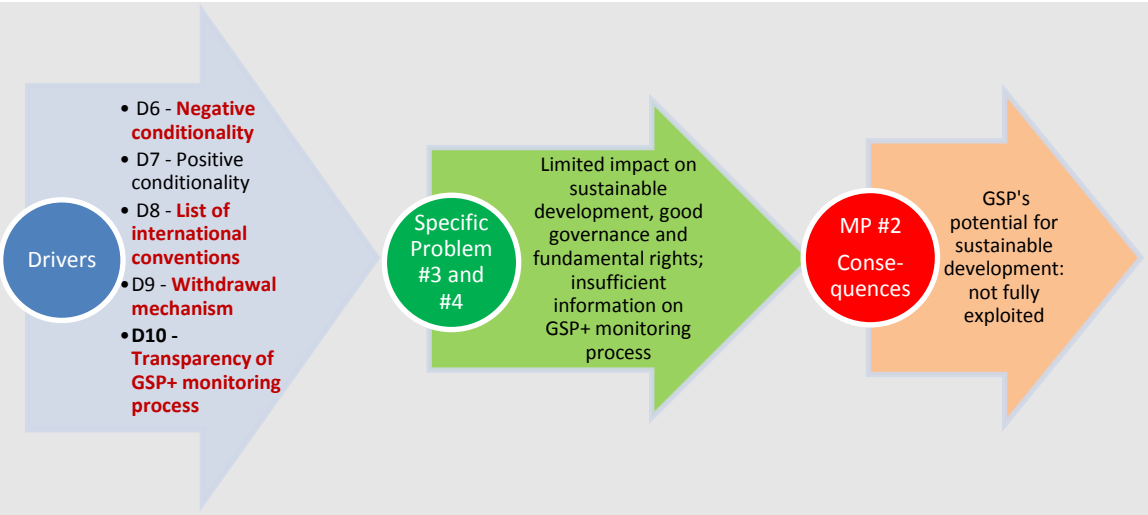
Civil society stakeholders **across beneficiary countries** consulted during the MTE called for more information and transparency in the GSP+ monitoring process, and criticised in particular the lack of transparency of the written communication between the Commission and the beneficiary countries. They argued that greater transparency, accountability and standartisation of the monitoring mechanism could lead to improved effectiveness of the monitoring process. Indeed, based on input from the stakeholder consultations, the 2020 External Study recommended that transparency in the GSP+ monitoring process could be improved.

Another aspect of GSP which can contribute to Main Problem #2 is the lack of flexibility in the withdrawal mechanism. This lack of flexibility makes it difficult to react promptly to seriously adverse developments in beneficiary countries. Some stakeholders contend that the lack of flexibility makes GSP leverage for improving the respect for human rights and sustainable development weaker than intended.

Figure 4: The causal link between Main Problem #2 and its underlying drivers

[29] Negative conditionality requires all GSP beneficiary countries to respect the principles enshrined in the human and labour rights international core conventions listed in **Part A of Annex VIII** to the GSP Regulation.

[30] Positive conditionality requires GSP+ beneficiary country to ratify and effectively implement all 27 conventions on human and labour rights, environmental protection and governance listed in **Part A and Part B of Annex VIII to the GSP Regulation**.



2.1.3. Main problem #3: The protection mechanisms in favour of EU economic interests are not fully exploited

There are two safeguard mechanisms built into the GSP. Their aim is to prevent serious difficulties for EU producers arising as a result of growing imports under GSP, by allowing for the re-introduction of normal Common Customs Tariff duties.

In the context of GSP, there is a set of 'offensive' EU interests to promote values, international standards, and sustainable development through generous tariff reductions or the full removal of tariffs. We also have a set of 'defensive' EU interests focused on protecting EU producers in cases of serious market difficulties. Here, the views of industry are more nuanced, reflecting differences between the interests of domestic producers/competitors, of producers/users of imported inputs, and of export/importers.

In terms of product sections, the majority of GSP imports remains in apparel and clothing (48%), followed by footwear (11%), mechanical appliances (7%), fish products (4%), leather (3.7%) and plastics (2.7%) – and this is where the pressure on EU industry can be felt.

While the reduction in the number of beneficiaries has generally weakened the competitive pressure on EU industry, this is not the case in specific industry sectors such textiles, clothing, agricultural products, and tyres. That is why ensuring better safeguards for the EU's economic interest remains among the Commission's objectives.

The MTE found that the present GSP scheme has improved the provisions for protecting the EU's economic interests. Products that represent a high level of competitive threat to domestic EU producers are regularly removed from the scheme, and there are safeguard measures in force until 2022 for rice imports. However, the MTE study recommended that the Commission should more effectively use the safeguard mechanisms in the application of the current GSP.

The **general safeguard mechanism** (Articles 20-28 of the GSP Regulation) applies to all beneficiaries and products covered by any of the GSP arrangements. The safeguard

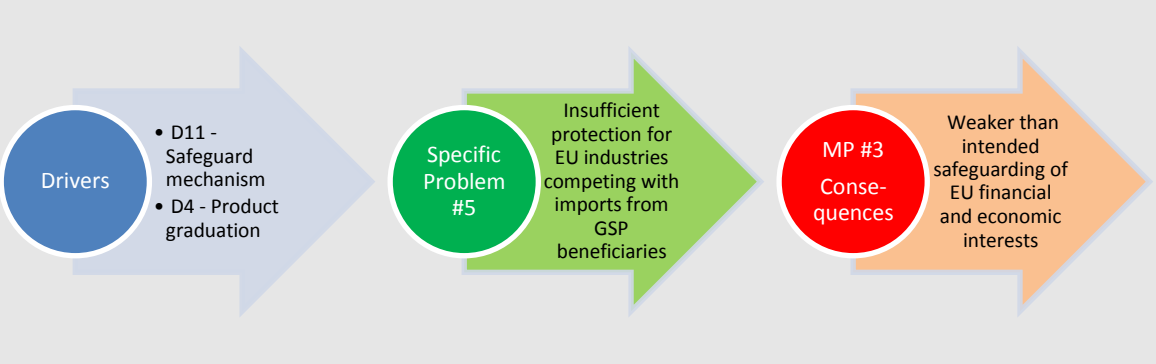
investigations on imports of rice from Cambodia and Myanmar/Burma have been the first test of the new safeguard provisions[31].

An **automatic safeguard mechanism** (Article 29 of the Regulation) applies only to specific product groups and does not cover EBA beneficiaries. The Commission has never applied this specific safeguard mechanism since the conditions have not been met.

The 2020 External Study's recommendations called for the automatic safeguard to be better connected to its purpose – averting harm to EU industry.

The public consultations carried out for the MTE and for the 2020 External Study provided opportunities for the EU **private sector** to point to cases of alleged suboptimal protection of EU economic interests due to insufficient use of the safeguards mechanism inbuilt in the scheme. A system of preferential tariffs in favour of developing countries is acceptable for European stakeholders only insofar it is perceived to offer sufficient protection against economic difficulties resulting from competition by developing countries.

Figure 5: The causal link between Main Problem #3 and its underlying drivers



2.2. What are the problem drivers?

The underlying drivers for each of the identified problems can be grouped in clusters (see Table 2) according to the main aspect they are related to: GSP arrangements and beneficiary countries coverage; product coverage and graduation; conditionality; transparency; and safeguard mechanisms.

Table 2: Clusters of drivers of problems in the GSP implementation

Main Problems (MP)	Clusters of drivers	Drivers and their description
Main Problem No 1 (MP1) *The GSP potential for contributing to poverty eradication – through*	**Coverage of beneficiary countries under GSP**	**Driver No 1** (D1) Diminishing number of Standard GSP beneficiary countries

[31] Commission Implementing Regulation (EU) 2019/67 of 16 January 2019 imposing safeguard measures with regard to imports of Indica rice originating in Cambodia and Myanmar/Burma, OJ L 15 of 17.1.2019. https://trade.ec.europa.eu/doclib/press/index.cfm?id=1970

Main Problems (MP)	Clusters of drivers	Drivers and their description
expansion and diversification of exports of beneficiary countries, especially those most in need – is not fully exploited	**arrangements**	**Driver No 2** (D2) Large and industrialised beneficiary countries with diversified export structure also benefit from GSP
		Driver No 3 (D3) Unprecedented number of EBA beneficiary countries expected to graduate from LDC status and thus exit EBA
	Products coverage and graduation	**Driver No 4** (D4) Product graduation mechanism is not targeted enough on competitive products and covers only Standard GSP
		Driver No 5 (D5) GSP product coverage does not adequately reflect the export potential of beneficiary countries
Main Problem No 2 (MP2) *The GSP potential for contributing to sustainable development and good governance in beneficiary countries is not fully exploited*	**Conditionality of GSP preferences with sustainability objectives**	**Driver No 6** (D6) Negative conditionality (Article 19) for all GSP arrangements is restricted to the core international conventions (human and labour rights) listed in Part A of Annex VIII to the GSP Regulation
		Driver No 7 (D7) Positive conditionality (Art. 15) is only provided for GSP+. Standard GSP and EBA beneficiaries are not required to ratify the conventions listed in Part A and B of Annex VIII to the Regulation
		Driver No 8 (D8) The list of international conventions in Annex VIII to the Regulation is not up to date
		Driver No 9 (D9) Inefficient or insufficient response – through the GSP withdrawal mechanism – to "serious and systematic violations"
	Transparency	**Driver No 10** (D10) Insufficient information and transparency and lack of indicators for monitoring and evaluation of GSP impact
Main Problem No 3 (MP3) *The protection mechanisms in favour of EU economic interests are not fully exploited*	**Safeguards**	**Driver No 11** (D11) Safeguard mechanism not responsive enough, in particular on sensitive products
		Driver No 4 (D4) Product graduation mechanism is not targeted enough on competitive products and covers only Standard GSP

2.2.1. Drivers regarding the coverage of beneficiary countries under GSP arrangements

- **Driver No 1**: Diminishing number of Standard GSP beneficiaries

The 2012 GSP reform restricted access to the scheme only to those countries classified below Upper Middle Income by the World Bank, and which do not have an FTA with the EU. This resulted in the reduction of GSP beneficiaries from 178 to 92 countries. Subsequent economic growth in beneficiary countries, or new FTAs with the EU, has meant that in 2021 only 18 countries continue to benefit from the Standard arrangement.

Since 2014, the share of imports under the Standard arrangement in total EU imports has decreased. By contrast, the shares of total EU imports for GSP+ and EBA countries has increased. The two largest beneficiaries of Standard GSP (India and Indonesia) now account for a large part of all Standard GSP imports.

The large reduction in the number of beneficiary countries of the Standard arrangement raises the question of its relevance as a preferential arrangement distinct from GSP+ beyond 2023. This question was analysed in the supporting External Study.

- **Driver No 2**: Large and industrialised beneficiary countries with a diversified export structure also benefit from GSP

Since 2004[32], the Commission has aimed to focus GSP on the countries most in need, such as LDCs and the most vulnerable developing countries (small economies, land-locked countries, and low-income countries) in order to help them play a greater role in international trade. This was also one of the main objectives of the 2012 GSP reform.

Taking into account all GSP preferential imports under the three different arrangements, Bangladesh (an EBA beneficiary) has become the EU's top GSP partner with 25% of all GSP imports.

However, some large industrialised lower-middle-income countries remain GSP beneficiaries and can dominate GSP imports into the EU. Preferences given to these countries may aggravate the competitive pressure on exports from LDCs and other vulnerable GSP countries.

India is the Standard GSP beneficiary with the largest share (23%) of overall GSP imports into the EU, followed by Vietnam (14%) and Indonesia (10%). Other GSP users are smaller by comparison in percentage terms.

[32] Communication of 2004 on 'Developing countries, international trade and sustainable development: the function of the Community's generalised system of preferences (GSP) for the ten-year period from 2006 to 2015': https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52004DC0461&from=EN

- **Driver No 3:** Unprecedented number of EBA beneficiaries expected to graduate from LDC status (and thus exit EBA)

Reports from the UN and UNCTAD indicate that several countries benefitting from the EBA could graduate from LDC status by 2024[33]. They would thus be removed from the list of EBA beneficiary countries, following a transition period of three years, and, depending on their World Bank classification, they would transition to Standard GSP only or graduate entirely out of the GSP.

The unprecedented number of countries exiting the EBA poses the challenge of ensuring that this transition does not harm the results achieved in terms of economic development and eradication of poverty.

2.2.2. Drivers regarding the products coverage and graduation

- **Driver No 4**: Product graduation mechanism is not targeted enough on sensitive products and covers only the Standard GSP arrangement

Some stakeholders contend that the graduation mechanism of the GSP does not sufficiently support the aim of concentrating benefits on countries most in need. Currently, product graduation is calculated at Harmonized System section level[34] and applies only to Standard GSP beneficiary countries (it does not cover EBA and GSP+ countries). Although the MTE did not make any recommendations, it found that the graduation of textiles from India had helped to expand the exports of other more vulnerable GSP beneficiaries.

- **Driver No 5:** GSP product coverage does not adequately reflect export potential of beneficiary countries

EBA beneficiaries enjoy duty-free access to the EU market for all their exported products except arms and ammunition – but the range of products benefitting from preferential access from Standard GSP and GSP+ countries is more limited. Extending product coverage could help with export diversification.

The EP Resolution called on the Commission to consider expanding GSP product coverage, in particular with regard to semi-finished and finished products.

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[33] At the time of writing (August 2021) planned LDC graduations include: Bhutan, Angola, Sao Tome and Principe, with Vanuatu having recently graduated in 2020.
https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-graduation.html
The Committee for Development Policy in its 2021 report, reflecting the economic and publich health crisis caused by COVID-19, recommended further three countries for graduation (Bangladesh, Lao DPR, and Nepal) post 2024; noted that Cambodia, Comoros, Djibouti, Senegal and Zambia met the graduation criteria for the first time, and deferred decision on the graduation of Myanmar and Timor-Leste until 2024.
https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-excerpt-2021-3.pdf

[34] The "Harmonized System" is a standardized numerical method of classifying traded products. The *Nomenclature governed by the Convention on the Harmonized Commodity Description and Coding System*, commonly known as "HS Nomenclature" was elaborated under the auspices of the World Customs Organization (WCO). The HS comprises approximately 5,300 article/product descriptions that appear as headings and subheadings, arranged in 99 chapters, grouped in 21 sections. Therefore, sections are the most aggregated grouping, followed by chapter, followed by heading, followed by sub-heading.

The diversification of a beneficiary country's exports depends on a variety of factors, including resource endowments and domestic policy choices that favour the development of a country's productive capacity[35]. This goes beyond the GSP instrument and relates more to EU development assistance and improving policy coherence in practice, notably between trade and development policies.

2.2.3. Drivers regarding conditionality of GSP preferences with sustainability objectives

- **Driver No 6:** Negative conditionality (Article 19) for all GSP arrangements is restricted to the core international conventions (human and labour rights) listed in Part A of Annex VIII to the GSP Regulation

Tariff preferences can be withdrawn, in respect of all or certain products, in cases of serious and systematic violation of the principles enshrined in the core human rights and labour rights conventions listed in Part A of Annex VIII. Article 19 refers to a ***negative*** conditionality to respect human rights and labour rights, as well as other conditions indicated therein.

The use of the withdrawal procedure so far (against Sri Lanka, Belarus, Myanmar, and Cambodia[36]) has shown that conditionality can contribute to the creation of the necessary platform of dialogue on issues covered by the GSP Regulation and can increase EU's leverage in pushing for respect of fundamental rights.

Negative conditionality does not apply to the environmental or governance conventions in Part B of Annex VIII to the Regulation. At present, negative conditionality is restricted to core conventions on human and labour rights (Part A of Annex VIII). The conditions laid down in Article 19(1)(a) should also apply to the conventions relating to protection of the environment and governance listed in Part B of Annex VIII.

Moreover, Article 19(1)(c) provides as a ground for withdrawing preferences "*failure to comply with international conventions on anti-terrorism and money laundering*". This should be extended to cover other important areas for which international conventions for the respect of human rights and good governance standards exist.

[35] Persson M. and Wilhelmsson F., EU Trade Preference and Export Diversification, in *The World Economy*, 2016.

[36] Only the temporary withdrawal of EBA preferences from Cambodia took place under the current GSP Regulation: see Commission delegated regulation 2020/550, OJ L 127, 22.4.2020, p. 1–12

- One such area is migration. It is essential for both origin and destination countries to address common challenges, such as stepping up cooperation on readmission of own nationals and their sustainable reintegration in the country of origin, in particular in order to avoid a constant drain in active population in the countries of origin, with the ensuing long-term consequences on development, and to ensure that migrants are treated with dignity. **Driver No 7:** Positive conditionality (Art. 15) applies only to GSP+ beneficiaries. Standard GSP and EBA beneficiaries are not required to ratify the international conventions listed in Part A and B of Annex VIII to the GSP Regulation

There is no obligation for Standard GSP or EBA beneficiary countries to ratify the international conventions listed in Annex VIII (Parts A and B) in order to be eligible for GSP or EBA preferences. This condition exists for GSP+ countries only. In other words, there is no ***positive*** conditionality for Standard GSP and EBA beneficiaries in relation to the conventions listed in Annex VIII.

The extension of positive conditionality to all GSP countries is supported by some stakeholders (e.g. international trade unions and civil society organisations as well as some EU industries such as footwear) as a measure to ensure a level playing field. Other stakeholders warn that such an extension could overburden the administrative capacity of especially the smallest and least developed GSP beneficiaries.

- **Driver No 8:** The list of international conventions in Annex VIII is not up to date

By making GSP+ status dependent on the ratification and implementation of a number of international conventions, the EU has leverage to directly contribute to sustainable development and human rights, through the adherence to these conventions by GSP+ beneficiaries.

Expanding the list of conventions would provide an opportunity to ensure that GSP beneficiaries ratify and comply with further treaty obligations relating to human rights, sustainable development, and good governance.

The economic and development challenges facing GSP+ beneficiaries are often long-term and structural; their alleviation may require major reforms over a long period. Thus, the fact that a convention must be ratified, and that the country has no serious failures in its implementation as a precondition to receive GSP+ status can induce positive sustainability effects, but over the long run.

- **Driver No 9**: Inefficient or insufficient response – through the GSP withdrawal mechanism – to "serious and systematic violations"

Some stakeholders consider withdrawal of preferences to be an effective way of inducing compliance with key human and labour rights obligations – and recommend more stringent enforcement of withdrawal. Others note that it would generate great uncertainty and disrupt supply chains, thereby undermining the purpose of the preference schemes themselves[37].

[37] Study in support of an impact assessment to prepare the review of GSP Regulation No 978/2012, Final Report, 2020.

As pointed out in the EP Resolution, a decision to withdraw preferences has to be consistent with the objectives of GSP. Some stakeholders argue that removing preferences – even if for reasons of serious human rights violations – can have a negative effect on poverty eradication by negatively affecting employment. However, others contend that in cases of serious violations of human rights or environmental protection, the objectives of GSP are being seriously prejudiced. Removing GSP preferences due to violations of human rights, labour rights, environmental and governance rules (including in new areas such as migration) could thus be seen as consistent with the scheme's objectives. The introduction of the possibility of a partial withdrawal, under the current GSP regulation already laid down the possibility to calibrate the withdrawal. Moreover, experience has shown that when exercising the option of a temporary withdrawal, it is appropriate to carefully assess the socio-economic impact of any such withdrawal to avoid hurting disproportionately the most vulnerable part of the population.

The MTE study recommended that the Commission should take immediate steps to initiate the relevant withdrawal procedures whenever a monitoring body reports serious and systematic violations (or findings of a similar gravity). The Commission, in its response to the MTE report, considered that such an approach might remove much of the leverage that GSP brings for pushing – over time – to resolve problematic issues related, for instance, to human rights.

*The 2020 External Study, however, noted there were situations where negative developments in beneficiary countries required the EU to respond faster than is currently possible under the withdrawal procedure. It highlighted that the current mechanism is administratively burdensome and lengthy and does not provide enough flexibility to react promptly to urgent situations. In addition, the current GSP scheme provides for full or partial withdrawal of preferences vis-à-vis a country, but no flexibility to apply a more targeted approach vis-à-vis individual operators from a given country.****2.2.4. Driver regarding transparency***

- **Driver No 10:** Insufficient information and transparency, and lack of indicators for monitoring and evaluation of GSP impact

A robust monitoring system is crucial to ensure effective dialogue and support for beneficiary countries in GSP implementation, as well as to ensure that the possibility of withdrawal is seen as a likely outcome for failing to meet the GSP+ requirements.

The MTE study, the EP resolution, as well as civil society in the public consultation, have all called for the monitoring process to be made more transparent and inclusive, in order to help increase the GSP impact on sustainable development. They highlight the lack of public access to the written communication part of the GSP+ monitoring; the lack of formal structures for involving civil society in the monitoring; and the lack of a complaint mechanism linked to GSP+ monitoring.

2.2.5. Driver regarding safeguard mechanism

- **Driver No 11:** Safeguard mechanisms are not responsive enough, in particular on sensitive products

The MTE study recommended that the Commission should **more effectively use** the safeguard mechanism in the application of the Regulation.

The EP Resolution pointed out that the GSP safeguard mechanisms were not responsive enough, in particular in the case of "sensitive products". The Commission considers that the **general** safeguard mechanism laid down in Article 22 of the Regulation to be functioning well, but acknowledges concerns about the adequacy of the **automatic** safeguard mechanism established in Article 29.

Driver No 4[38], point 2.2.2 above, is also relevant when responding to concerns about sensitive products. EU industry representatives maintain that the current product graduation provisions may sometimes result in a failure to target competitive products, when these are only a part of a broader Section classification.

2.3. How will the problems evolve?

The identified problems will persist and increase if the EU does not act with an appropriate policy initiative.

If no policy action is taken, upon expiry of the current GSP Regulation, exports from a number of developing countries (all those under Standard GSP and GSP+) will lose preferential treatment on the EU market. The GSP's three-tier architecture, with its sliding scale of preferences, aims precisely at addressing the varying needs of different developing countries. No other instruments offer an adequate and timely response to the differing needs of different developing countries.

Depending on how much a GSP beneficiary country exports to the EU, higher duties could negatively affect economic growth, employment, and investment. Often their export products compete mainly on price, making them especially vulnerable to tariff increases.

GSP+, which offers the best incentives to work towards sustainable development, would be discontinued – reducing the EU's ability to pursue its values agenda and development objectives.

While some European producers would face less competition from developing countries in some sectors, EU businesses that currently rely on goods imported under the benefit of GSP tariff preferences would be negatively impacted, as would the consumers of those products.

Moreover, maintaining GSP preferences with the three arrangements is seen as ensuring continuity and predictability for exporters and their trade partners and supporting

[38] Product graduation mechanism is not targeted enough on sensitive products and covers only the Standard GSP arrangement.

economic recovery of the beneficiary countries, many of which have been severely impacted by COVID-19.

3. WHY SHOULD THE EU ACT?

3.1. Legal basis

The legal basis for a new GSP Regulation lies in Article 207 of the Treaty on the Functioning of the European Union (TFEU), which sets out the EU's common commercial policy.

3.2. Subsidiarity: necessity of EU action

The common commercial policy is listed in Article 3 of the TFEU among the areas of exclusive competence of the Union.

Pursuant to Article 5(3) of the Treaty on European Union (TEU), the subsidiarity principle does not apply in areas of exclusive EU competence.

The principle of proportionality is satisfied since the Regulation is the only appropriate type of action that the Union can take to establish unilateral, non-reciprocal, preferential market access for developing countries.

4. GENERAL AND SPECIFIC OBJECTIVES OF GSP: WHAT IS TO BE ACHIEVED?

The EU's overarching objective of economic and trade relations derives from the TFEU, which in Article 3(1)(e) establishes the EU's exclusive competence for the common commercial policy. Furthermore, Article 206 provides that the overall objective of EU policy on economic and trade relations is to '*contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers'*. As established by Article 205 of the TFEU, the common commercial policy also serves the more general objectives of the Union's external action as described in Article 21 of the TEU.

The three main objectives of the GSP[39] are in line with the common commercial policy and the Union's external action. The recent Trade Policy Review Communication confirmed the continued importance of and focus on these objectives. [40]

The current legal framework for GSP is largely effective and overall is delivering on the objectives pursued by the 2012 reform.[41] However, Section 2 identified several problems to address, based *inter alia* on the recommendations of the MTE, the EP Resolution, the

[39] See Section 1.2.
[40] See Section 1.3.
[41] See the MTE and the 2020 External Study on GSP. The EP Resolution also acknowledged the positive impact of the Regulation on beneficiary countries.

supporting External Study, the public consultation, and the associated discussions with stakeholders.[42]

The overall task, therefore, is to identify, for each of the three main (general) objectives of the GSP, those changes that should be introduced to the new GSP regulation so as to further strengthen its effectiveness and efficiency.

The **objectives tree** in Figure 6 reflects the general and specific objectives for the GSP Regulation as a whole. As explained above (p.11), options to address each of the specific problems and their underlying drivers have been considered and analysed. In some cases that analysis led to the conclusion that the options for specific new policy measures under consideration would be ineffective or inefficient[43]. The Commission believes that overall, the present GSP scheme is functioning well – and that view has been corroborated in first the MTE and latterly the supporting Study for this impact assessment. New operational objectives (and specific measures by which to attain them) are, therefore, proposed only for some of the identified specific objectives. Once again, the distinction is marked by showing operational objectives where policy intervention is proposed in **red**; operational objective where no new intervention is propose are shown in **black**.

[42] While some respondents focused more on the objectives of poverty eradication and promotion of sustainable development. Others suggested modifications corresponding to current trends or MTE findings, in particular, to include more emphasis on SDGs, trade and climate change, and on monitoring of implementation of international conventions. Some respondents emphasised the objective to provide greater protection of EU production sectors competing with imports (e.g., textiles and garments).

[43] … or at any rate, *less* effective or *less* efficient than the measures currently in force under the present GSP regulation.

Figure 6: GSP objectives tree

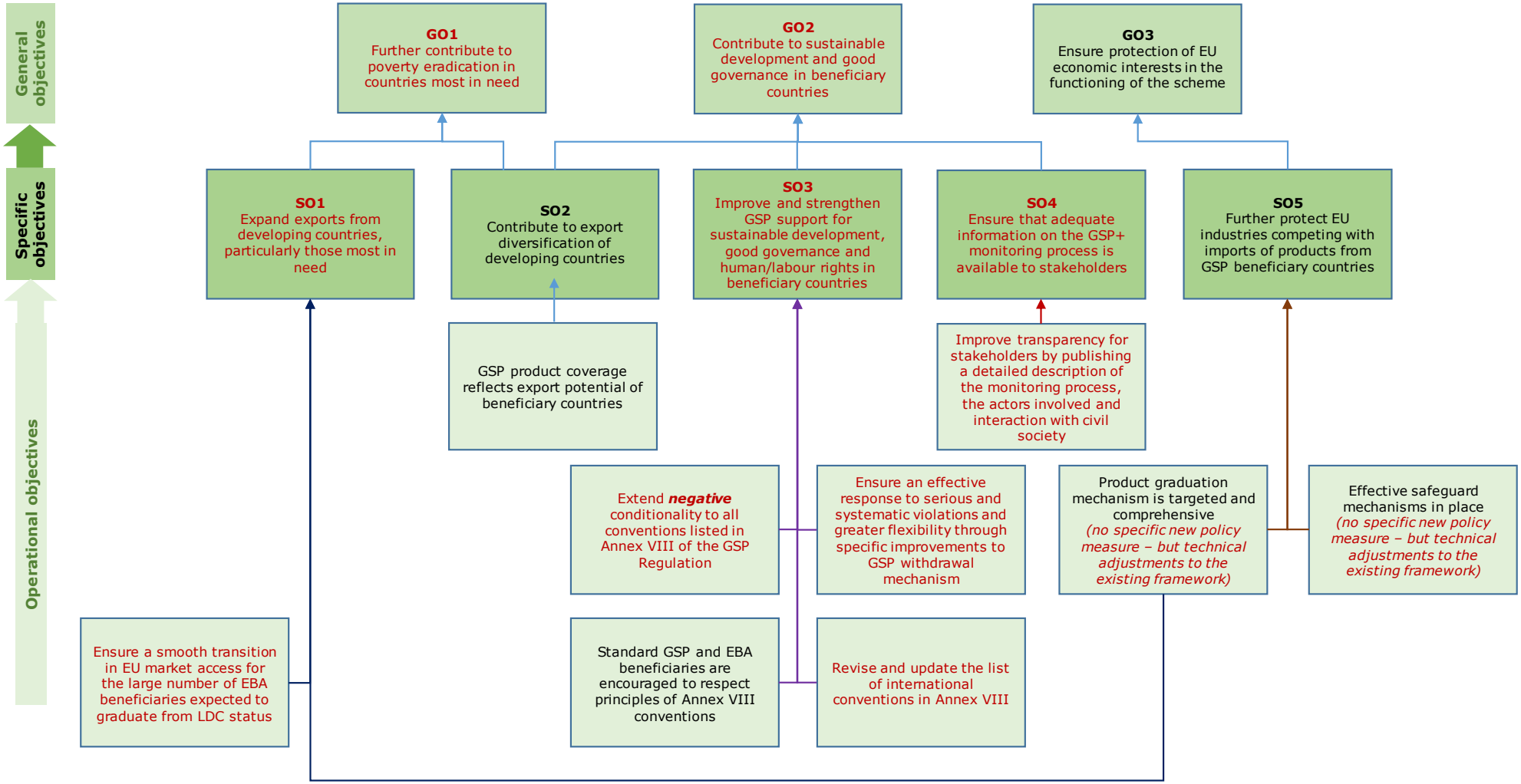


Table 3: Problem drivers linked to the Specific and General Objectives of the GSP review

Problem drivers	Specific Objectives (SO)	General Objectives (GO)
Driver No 1 (D1) Diminishing number of Standard GSP beneficiary countries	**Specific Objective No 1** (SO 1) Expand exports from developing countries, particularly those most in need	**General Objective No 1** (GO 1) Contribute to poverty eradication in countries most in need
Driver No 2 (D2) Large and industrialised beneficiary countries with diversified export structure also benefit from GSP		
Driver No 3 (D3) Unprecedented number of EBA beneficiary countries expected to graduate from LDC status and thus exit EBA		
Driver No 4 (D4) Product graduation mechanism is not targeted enough on competitive products and covers only Standard GSP		
Driver No 5 (D5) GSP product coverage does not adequately reflect the export potential of beneficiary countries	**Specific Objective No 2** (SO2) Contribute to export diversification of developing countries	
Driver No 6 (D6) Negative conditionality (Article 19) for all GSP arrangements is restricted to the core international conventions (human and labour rights) listed in Part A of Annex VIII to the GSP Regulation	**Specific Objective No 3** (SO 3) Improve and strengthen GSP support for sustainable development, good governance, and human and labour rights in beneficiary countries	**General Objective No 2** (GO 2) Contribute to sustainable development and good governance in beneficiary countries
Driver No 7 (D7) Positive conditionality (Art. 15) is only provided for GSP+. Standard GSP and EBA beneficiaries are not required to ratify the conventions listed in Part A and B of Annex VIII to the Regulation		
Driver No 8 (D8) The list of international conventions in Annex VIII to the Regulation is not up to date		
Driver No 9 (D9) Inefficient and insufficient response – through the GSP withdrawal mechanism – to "serious and systematic violations"		

Driver No 10 (D10) Insufficient information and transparency and lack of indicators for monitoring and evaluation of GSP impact	**Specific Objective No 4** (SO4) Ensure that adequate information available on the GSP+ monitoring process is available to stakeholders	
Driver No 11 (D11) Safeguard mechanism not responsive enough, in particular on sensitive products	**Specific Objective No 5** (SO5) Further protect EU industries competing with imports from GSP beneficiary countries	**General Objective No 3** (GO 3) Ensure protection of EU economic interests in the functioning of the scheme

4.1. General Objective No 1: Further contribute to poverty eradication in countries most in need

Following entry into force of the reform in 2014, a significant decline in the value of imports under Standard GSP was observed because a large number of beneficiary countries[44] were no longer eligible for GSP. The introduction of income classification and vulnerability criteria caused this reduction, and also resulted in benefits being better targeted towards the least developed countries. Overall, the positive economic impact of the GSP reform is significant[45].

Specific Objective 1 (*Expand exports from developing countries, particularly those most in need*):

The objective to support beneficiary countries in their potential for expanding exports is already built into the GSP instrument through the graduation of upper-middle income countries and globally competitive sectors. However, more can be done, notably by:

- Ensuring that the graduation of EBA beneficiaries from LDC status is followed by a move to another GSP arrangement (D3); and/or
- Ensuring that tariff preferences under GSP are withdrawn (i.e., product graduation) from competitive products in order to provide further opportunities in the EU market for the exports of countries most in need (D4).

As regards the **graduation of EBA beneficiaries**, several LDCs currently benefitting from the EBA arrangement are expected to graduate from LDC status over the next ten years[46]. Accordingly, these countries will be removed from the list of EBA beneficiary countries "*following a transitional period of three years.*"[47] Although the standard

[44] This notably included China, an upper middle-income country since 2010.
[45] 2018-2019 Report from the Commission to the European Parliament and the Council on the application of Regulation (EU) No 978/2012 applying a scheme of Generalised Tariff Preferences and repealing Council Regulation (EC) No 732/2008. https://trade.ec.europa.eu/doclib/docs/2018/january/tradoc_156536.pdf
[46] Any other countries that might graduate from LDC status in the future could not leave the EBA earlier than 2031 (based on current transition periods): the earliest decision on LDC graduation could take place at the UN CDP triennial review meeting in 2024, so that graduation from LDC status could at the earliest be during 2027, and graduation from the EBA in 2031.
[47] See e.g., Commission Delegated Regulation (EU) No 2018/148 of 27 September 2017 amending Annexes II, III and IV to Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences, OJ L 26/8, 31 January 2018.

transition period between the UN General Assembly decision on graduation and graduation itself is three years, recent practice has been to grant longer preparatory periods. Considering the economic impact of Covid-19, it some the scheduled decisions for 2021 have been deferred.[48]

Following graduation from LDC status and exit from the EBA, these countries could move to other preferential arrangements: notably to the Standard GSP, or, in case of compliance with the vulnerability conditions and the ratification and implementation of international conventions listed in Annex VIII of the Regulation, to GSP+.

The expiry of a country's eligibility for the EBA arrangement raises two issues. First, what would be the economic, social, human rights and environmental consequences for EBA countries moving to the Standard GSP arrangement or GSP+? Second, what should be the appropriate transition period for moving from EBA to Standard GSP or to GSP+ upon graduation from LDC status?

The operational objective would be to ensure a smooth transition in EU market access for the large number of EBA beneficiaries expected to graduate from LDC status.

Product graduation (defined under Article 8 of the GSP Regulation) provides for the suspension of preferences for products the exports of which exceed certain thresholds in total EU imports from all GSP beneficiaries. This mechanism currently applies only to the GSP Standard arrangement, but not to the GSP+ or EBA.

Product graduation is applied at the level of GSP product sections. This is a relatively aggregated level, which combines fairly different products within sections.

Various options to amend the product graduation mechanism have been tested as part of this impact assessment (see §6.2 below); but none was found to have a significant positive impact on exports to the EU by countries most in need. No operational objective has therefore been taken up – instead, the Commission proposes to make technical adjustments to the existing framework.

Specific Objective 2 (*Contribute to export diversification of developing countries*):

Both the MTE and the 2020 supporting study found that for the Standard GSP, the GSP+ and EBA country groups, the GSP contributed in only a limited way to diversification of production and trade in the developing countries.

Various options to further encourage export diversification among beneficiary countries were tested as part of this impact assessment (see §6.2 below); but none was found to be

[48] Statement of the UN Committee for Development Policy (CDP) issued a on how it intended to address the impacts of Covid-19 on its work in LDCs, 12 May 2020: "*At the 2021 triennial review, the CDP will decide whether to recommend the following five countries for graduation, provided they continue to meet the criteria: Bangladesh, Lao PDR, Myanmar, Nepal, and Timor-Leste. In making this decision, the CDP will not only consider the LDC criteria scores, but also additional information in the form of supplementary graduation indicators and country-specific analysis. This material will include information on Covid-19 and its impacts.*" https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-Covid-graduation-statement.pdf
See also 2021 CDP report from 19 March 2021: https://www.un.org/development/desa/dpad/publication/2021-cdp-report-ecosoc-and-ga-resolutions/

effective. No operational objective has therefore been taken up – instead, the Commission proposes to make technical adjustments to the existing framework.

4.2. General Objective No 2: Contribute to sustainable development and good governance in beneficiary countries

The Trade Policy Review (TPR) communication of 18 February 2021 confirmed that the promotion of sustainable development is an integral part of the EU's trade policy, since trade is one of the essential instruments that can support economic and social development through better access to the EU market. The TPR also underlined the specific role of GSP as an instrument creating trade opportunities that contribute to economic growth and jobs creation, as well as sustainable development in beneficiary countries. [49]

This function of the GSP has several limitations, as many of the problem drivers are influenced by factors outside the remit of the scheme. For instance, implementation of international conventions is costly. The chances of a successful outcome also depend on domestic political dynamics within the countries concerned. Government priorities, budgetary constraints, availability of appropriate development and technical assistance are powerful determinants of actual progress, irrespective of the contribution made by the EU's tariff preferences. Ambition in this regard must, therefore, be tempered with realism: the scheme will help but it cannot alone ensure sustainable development and good governance.

Specific Objective 3 (*Improve and strengthen GSP support for sustainable development, good governance, and human and labour rights in beneficiary countries*):

Conditionality remains one of the main mechanisms that the EU uses to promote respect for human rights and good governance in GSP beneficiary countries: a country should not benefit from preferential trade arrangements while it is acting in a way that is contrary to its own developmental needs.

Overall, GSP can be considered to have made a positive contribution to the improvement of social and human rights in the beneficiary countries. Nevertheless, the conditionality mechanisms built into the GSP have shown some limitations.

In particular, with respect to environmental protection, the MTE concluded that the EU currently has very limited leverage through Standard GSP and EBA to directly contribute to environmental sustainability in the beneficiary countries.[50]

The operational objective would be to extend negative conditionality to all conventions listed in Annex VIII of the GSP Regulation.

Moreover – as confirmed by the MTE study – the list of international conventions in Annex VIII is outdated and incomplete.

[49] See Section 1.3.

[50] Under the Standard GSP and EBA arrangements, there is no requirement for beneficiary countries to comply with international conventions on climate change and environmental protection (listed in Part B of Annex VIII of the Regulation) and there is no mechanism for sanctioning violations of the principles of such conventions as the withdrawal of preferences applies only to the respect of the principles of certain core human rights and labour conventions (as outlined in Part A of Annex VIII).

The operational objective would therefore be to revise and update the list of international conventions in Annex VIII.

GSP benefits have been suspended in only a limited number of cases and have been triggered by criteria established in the Regulation. Better use of the withdrawal mechanism could reinforce the positive impact of GSP on the promotion of sustainable development.

The withdrawal mechanism could be made more flexible, to provide the EU with a tool that can be used to react faster to exceptionally grave situations in beneficiary countries. The withdrawal mechanism could also be made more targeted and flexible, if it allowed the EU to target the withdrawal of preferences against specific individual operators or to exempt individual operators from a country-level withdrawal.

The revision of GSP should be used to promote sustainable development objectives linked to migration. The withdrawal mechanism can be used to underline the interlinkages between trade and migration by adding the possibility to withdraw tariff preferences for violations of the principles of international migration conventions.

The operational objective would be to ensure an effective response to serious and systematic violations and greater flexibility through specific improvements to the GSP withdrawal mechanism.

Specific Objective 4 (*Ensure that adequate information is available to stakeholders on the GSP+ monitoring process*):

In line with feedback from stakeholders during the MTE, the Commission has already started to put in place tools to improve knowledge and awareness about the role played by GSP in supporting sustainable development in beneficiary countries.[51]

However, there is a need to further enhance the transparency of the current GSP monitoring system, so as to make the monitoring system more robust and, therefore, to contribute towards a more effective dialogue with and support for beneficiary countries,[52] as well as to enhance the buy-in of European stakeholders in the GSP scheme.[53]

The operational objective would be to improve transparency for stakeholders by publishing a detailed description of the monitoring process, the actors involved and interaction with civil society.

4.3. General Objective No 3: Ensure protection of EU economic interests in the functioning of the scheme

Specific Objective 5 (*Further protect EU industries competing with imports from GSP beneficiary countries*).

[51] For instance, GSP Hub is an online platform put in place following the recommendations of the MTE which provides information to companies, investors and stakeholders in general about the EU GSP.
[52] For a general treatment on the importance of monitoring for enforcing rules, see Ostrom (2005). As she notes, "*the worst of all worlds may be one where external authorities impose rules but are able to achieve only weak monitoring and sanctioning*" (Ostrom 2005, 130).
[53] The temporary withdrawal of GSP preferences is analysed in more detail in 5.1.3.4 and 5.2.3.4 below.

Many stakeholders that participated in the open public consultation called for the review of the safeguard mechanism, in light of a perception of inadequate protection of sensitive sectors, particularly the rice sector. They called for the creation of an automatic safeguard (as is the case for other sensitive products), as well as arguing that the automatic safeguard should apply to EBA countries as well.

The 2018 MTE recommended that the Commission should more effectively use the safeguard mechanism in the application of the Regulation. It also called to launch investigations in accordance with its mandate, and to provide notice of its procedural decisions, deadlines, and findings. The EP in its Resolution noted that the GSP safeguard mechanisms should be more responsive, in particular in the case of sensitive products.[54]

The Commission considers the current safeguard mechanisms to be effective. Nonetheless, various options to amend the automatic safeguard mechanism have been tested as part of this impact assessment (see §6.2 below); but none was found to have a significant positive impact in terms of protecting competing EU producers. No operational objective has, therefore, been taken up – instead, the Commission proposes to make technical adjustments to the existing framework.

5. WHAT ARE THE AVAILABLE POLICY OPTIONS?

This section describes the available policy options and the corresponding actions and measures considered for inclusion in the new GSP regulation. Options are bundled and described per cluster on the basis of the problem to address.

5.1. What is the baseline from which options are assessed?

As already mentioned, the current GSP Regulation expires on 31 December 2023. A positive decision of the Commission and of the co-legislators will be necessary to put in place a new Standard GSP and GSP+ arrangement, while the open-ended EBA arrangement will continue irrespectively of the GSP review. Taking into account that the MTE, the public consultation, and the supporting External Study showed that the scheme was overall effective, a continuation of the current GSP approach without any changes was used as the baseline. Baselines are bundled and presented in Table 4 in clusters, based on the various parts of the GSP Regulation they refer to. A detailed description of baseline scenarios is presented in Annex 7.

The main drivers for future development of the impacts of the GSP are annual increases of trade flows as well as countries dropping out of the scheme due to graduations at large or in specific product groups or by joining an FTA with the EU.

The current regulation entered into force in 2014. 2020 has been a very unusual year. It makes thus most sense to determine the growth of trade flows looking at the period of 2014-2019. Over this time horizon, EU 27 imports from current GSP beneficiaries increased by about 4.5% per year. However, over the same period, countries have dropped out of the scheme. Looking at the evolution of trade without correcting for country coverage results in an annual growth rate of only 3.7%.

[54] "Sensitive products" (applicable to the Standard GSP arrangement only) are defined in Annex V of the Regulation. For these products, the Standard GSP provides partial preferences only; see Art. 7(2)-(6) of the Regulation.

In terms of country graduations[55], the most impactful would be Vietnam (accounting for 14% of trade in 2019 under GSP preferences) having signed an FTA with the EU as well as Bangladesh (25%) being scheduled to graduate from LDC status. Recent developments also strongly point towards Indonesia (10%) leaving the scheme due to graduation to upper-middle-income country status in the next years, but raise doubts about the timeline of Bangladesh's transition from EBA to standard GSP (or GSP+).

Table 4: Clusters of baseline scenarios and their descriptions

Clusters	Baseline scenario	Description
Arrangements and beneficiary countries	**Baseline Scenario 1A** (BS 1A)	No change to the GSP three-tier structure (Standard, GSP+ and EBA)
	Baseline Scenario 2A (BS 2A)	No change to the criteria defining eligibility for Standard GSP
	Baseline Scenario 3A (BS 3A)	No change to the vulnerability criteria to be met for enjoying GSP+
Product coverage and graduation mechanism	**Baseline Scenario 4A** (BS 4A)	No change to the product graduation mechanism
	Baseline Scenario 5A (BS 5A)	No change to the product coverage
Conditionality	**Baseline Scenario 6A** (BS 6A)	No change to negative conditionality (Art. 19) i.e., it remains restricted to the core conventions listed in Part A of Annex VIII to the Regulation
	Baseline Scenario 7A (BS 7A)	No change to positive conditionality i.e., it continues to apply only to GSP+ and it is not extended to Standard GSP or EBA
	Baseline Scenario 8A (BS 8A)	No change in the list of international conventions in Annex VIII to the Regulation
	Baseline Scenario 9A (BS 9A)	No change to the mechanism for temporary withdrawal of preferences
Transparency	**Baseline Scenario 10A** (BS 10A)	No change to the GSP+ monitoring mechanism
Safeguards	**Baseline Scenario 11A** (BS 11A)	No change to the automatic safeguard mechanism

5.2. Description of the policy options

The policy options are grouped in clusters: (1) arrangements and beneficiary countries, (2) products coverage and graduation mechanism, (3) conditionality, (4) transparency and (5) safeguards. These clusters correspond to the problems the options aim to address (see Table 5).

The policy options highlighted in **red** are the most important options to be pursued and further analysed. They also correspond to the key drivers that, as described in Chapter 2, would have the most significant negative impact if not properly addressed. The

[55] The accompanying study made certain assumptions about country graduations detailed there.

remaining options would be less effective in addressing the GSP's main problems and objectives.

Table 5: Clusters of policy options and their sub-options, and the problem drivers they address

Clusters	Drivers	Policy Options
Cluster 1 **Arrangements and beneficiary countries**	**Driver 1** (D1) Diminishing number of Standard GSP beneficiary countries	**Option 1B** (O. 1B) Amend the three-tier structure of the GSP ✓ Sub-option **1Ba**: Discontinue all but EBA ✓ Sub-option **1Bb**: Discontinue the Standard GSP only
	Driver 2 (D2) Large and industrialised beneficiary countries with diversified export structure also benefit from GSP	**Option 2B** (O. 2B) Graduation from GSP of large and industrialised developing countries
	Driver 3 (D3) Unprecedented number of EBA beneficiary countries expected to graduate from LDC status and thus exit EBA	**Option 3B** (O. 3B) Ensure all EBA countries expected to graduate from LDC can transition to GSP+ by: ✓ Sub-option **3Ba**: changing the vulnerability criteria*; or ✓ Sub-option **3Bb**: granting a longer transition period for meeting the criteria
Cluster 2 **Product coverage and graduation mechanism**	**Driver 4** (D4) Product graduation mechanism is not targeted enough on competitive products and covers only Standard GSP	**Option 4B** (O. 4B) Expand the application of the product graduation mechanism to GSP+ and EBA ✓ Sub-option **4Ba**: to rice and sugar ✓ Sub-option **4Bb**: to all agricultural products in Annex V and IX of the GSP Regulation
	Driver 5 (D5) GSP product coverage does not adequately reflect the export potential of beneficiary countries	**Option 5B** (O. 5B) Expand the product coverage for standard GSP and GSP+ ✓ Sub-option **5Ba**: to products that can help achieve environmental and climate protection goals ✓ Sub-option **5Bb**: to a number of industrial and agricultural semi-finished and finished products
Cluster 3 **Conditionality**	**Driver 6** (D6) Negative conditionality (Article 19) for all GSP arrangements is restricted to the core international conventions (human and labour rights) listed in Part A of Annex VIII to the GSP Regulation	**Option 6B** (O. 6B) Expand negative conditionality to all conventions listed in Annex VIII to the Regulation*
	Driver No 7 (D7) Positive conditionality (Art. 15) is only provided for GSP+. Standard GSP and EBA beneficiaries are not required to ratify the conventions listed in Part A and B of Annex VIII to the Regulation	**Option 7B** (O. 7B) Expand positive conditionality to the Standard GSP arrangement and EBA beneficiary countries
	Driver No 8 (D8) The list of international conventions in Annex VIII to the Regulation	**Option 8B** (O. 8B) Amend the list of international conventions in

Clusters	Drivers	Policy Options
	is not up to date	Annex VIII to the Regulation ✓ Sub-option **8Ba:** Remove conventions deemed no longer/less relevant ✓ Sub-option **8Bb:** Expand the list of conventions in Annex VIII to the Regulation ✓ Sub-option **8Bc:** Combine 8Ba and 8Bb*
	Driver 9 (D9) Inefficient and insufficient response – through the GSP withdrawal mechanism	**Option 9B** (O. 9B) Amend the mechanism for temporary withdrawal of preferences ✓ Sub-option **9Ba:** Introduce additional steps prior to the formal launch of a withdrawal procedure ✓ Sub-option **9Bb:** Introduce additional steps after the formal launch of a withdrawal procedure* ✓ Sub-option **9Bc:** Introduce withdrawal for specific economic operators, and/or for violation of migration conventions* ✓ Sub-option **9Bd:** Shorter urgency procedure in well qualified circumstances*
Cluster 4 **Transparency**	**Driver 10** (D10) Insufficient information and transparency and lack of indicators for monitoring and evaluation of GSP impact	**Option 10B** (O. 10B) Adopt further practical measures to improve transparency*
		Option 10 C (O. 10C) Extend and align the GSP monitoring cycle*
Cluster 5 **Safeguards**	**Driver 11** (D11) Safeguard mechanism not responsive enough, in particular on sensitive products [and **Driver No 4** (D4) Product graduation mechanism is not targeted enough on competitive products and covers only Standard GSP]	**Option 11 B** (O.11B) Expand the application of the automatic safeguard mechanism (Art. 29) to all agricultural products
		Option 11 C (O. 11C) Expand the application of the automatic safeguard mechanism (Article 29) to EBA beneficiary countries for different lists of products ✓ Sub-option **11Ca**: current list of products (Art.29) ✓ Sub-option **11Cb**: expand list to rice and sugar ✓ Sub-option **11Cc**: expand list to all agricultural products

5.2.1. Options regarding Cluster 1: arrangements and beneficiary countries

This set of options looks at different ways to adjust the structure and country coverage of the scheme, in order to expand exports from developing countries most in need (SO1), and, therefore, contribute to the general objective of poverty eradication (GO1).

The starting point of the External Study was whether to amend to not the **three-tier structure of the GSP (O.1B):** either by discontinuing both the Standard GSP and the GSP+ (1Ba) or discontinuing only Standard GSP (1Bb). To address the concern that some large, industrialised countries continue to benefit from the preferences (D2), the External Study also looked at their possible **graduation from GSP (O.2B)**.

However the most concerning driver is that a significant number of EBA beneficiary countries are expected to graduate from LDC status over the next years and would cease to be eligible for EBA. Options **O.1B** will aggravate even further the status of those LDCs. The total effect current LDCs expected to graduate in the coming years would be the combined effect of losing EBA preferences and then losing Standard GSP preferences.

Under option **O.2B**, large developing countries, defined as all countries that individually account for 0.5% or more of world GDP, are removed from the GSP. In practice, this option would apply in a very narrow manner only to India and Indonesia. Furthermore, if current trend of economic development is confirmed, Indonesia may lose GSP access by 2024.

Option O3.B looks at ways of **ensuring all EBA countries expected to graduate from LDC status can transition to GSP+**, and attempt to mitigate the negative economic, social, human rights and environmental effect of several EBA beneficiaries' graduation from LDC status (D3), In practice, Bangladesh is the only country not meeting the vulnerability criteria required to obtain GSP+ (in particular the export competitiveness criterion).

Two different means to ensure graduating LDCs have access to GSP+ can be suggested:

- ✓ Change the economic vulnerability criteria for GSP+ i.e., by abolishing the '*limited export competitiveness'* and only keeping the '*lack of export diversification'* criterion (Sub-option 3Ba).
- ✓ Extend the current three-year transition period for ex-LDC countries i.e., on a case-by-case basis to up to 5 years, to make it easier for them to meet the criteria for GSP+ (Sub-option 3Bb).

The export competitiveness criterion was inserted in the current GSP Regulation to ensure that very large industrialised middle income countries did not become eligible for GSP+. The additional GSP+ preferences for these large economies would negatively affect the most vulnerable economies, and would bring competitive pressure to EU industry. Furthermore, extending GSP+ to all Standard GSP countries (including at the time China, India, Vietnam, Indonesia, Thailand, etc.) would undermine EU policy of entering into bilateral agreements with major trade partners. The criteria were relaxed in the past to allow less competitive low and lower-middle income countries (Pakistan, Philippines) to join GSP+.

While the reasons for keeping out large industrialised countries are still valid, the export competitiveness criterion is no longer useful as it could prevent LDCs from joining GSP+. The risk of large industrial countries de-diversifying their economy to become eligible for GSP+ is limited.

In the consultations carried out for the supporting Study, some respondents, mostly from beneficiary countries and the public sector, were in favour of granting the graduating LDCs a longer transition period between the point of meeting criteria for graduation and the actual departure from the EBA arrangement. Suggestions varied from five to ten years, to ensure predictability and to take account of a timeline related to investment and sourcing decisions. Additionally, respondents pointed out the adverse impacts of COVID-19 on graduating EBA beneficiaries might warrant longer transition periods to help countries to recover economically after the pandemic.

Other respondents, mostly EU citizens, believed that the current transition period of three years was long enough or that it should even be shortened given that, in the run up to graduation from LDC status, countries would have been aware of that milestone and – at least theoretically – would have had a chance to prepare.

There were also suggestions of a flexible approach under which the Commission would evaluate each case separately, with a possibility to extend the transition period in certain circumstances. Those respondents believed that an excessively long transition period applying for each graduating country, irrespective of its situation, would discourage necessary reforms.

5.2.2. Options regarding Cluster 2: product coverage and graduation

Option O.4B expands the application of the product graduation mechanism to all GSP+ and EBA countries: for two specific products: **rice and sugar**[56] (sub-option 4Ba) or **for all agricultural products** as listed in Annex V and IX of the GSP Regulation[57] (sub-option 4Bb). The supporting study concluded this option has no impact – no countries would reach the required threshold to trigger the graduation rules for rice, sugar or other agricultural products.

Option O.5B expands the product coverage for Standard GSP and GSP+ and attempts to address the limited impact of the GSP on export diversification. **Sub-option 5Ba** looks at expanding product coverage to products that can help achieve **environmental and climate** protection goals. **Sub-option 5Bb** looks at expanding product coverage to a **number of industrial and agricultural semi-finished and finished products** currently excluded from the GSP as "sensitive" products. The supporting study found minor economic impact of both sub-options; the additional export gains would be captured by the large and already well-diversified economies.

The supporting study looks at a list of 34 "environmental goods[58]", that are presently considered as sensitive under the GSP and which, therefore, are still subject to preferential tariffs (as opposed to being tariff-free) in the case of Standard GSP countries.

In the public consultations, respondents from GSP beneficiary countries generally supported the extension of product coverage under the GSP, including to sustainably produced goods; EU respondents, with the exception of civil society, were more sceptical. Some noted also that the extension of product coverage to include sustainably produced or environmental (green) goods would support credibility and consistency of EU policy, including the European Green Deal. However, others raised questions about the feasibility practical application of such an extension.

[56] The analysis in the supporting study is based on the GSP Sections as defined pursuant to Article 2(j) of the GSP Regulation. As rice and sugar are not currently included among the products listed in Annexes V and IX, the study assumed that rice would be part of Section S-2d and sugar part of Section S-4b. In addition, imports in relevant, more finely disaggregated HS codes (HS1006 and HS1701 for rice and sugar respectively) are analysed separately.

[57] The study excluded fish and tobacco products. In terms of HS Chapters, this covers Chapters 01 to 23 excluding 03 (fish) and preparations of meat and fish.

[58] Negotiations have been underway for some time within the WTO towards an Environmental Goods Agreement (EGA), which would make environmental goods tariff-free once agreement has been reached by a critical mass of participating WTO Members: Patricia Goff, June 2015 - The Environmental Good Agreement: a Piece of the Puzzle, Wilfrid Laurier University.

5.2.3. Options regarding Cluster 3: conditionality

Scope of conditionality

Option 6B expands negative conditionality for all GSP arrangements to cover also the conventions on environment and governance (Part B of Annex VIII). **Option 7B** extends to all GSP beneficiaries the obligation to ratify and effectively implement the conventions listed in Annex VIII (including any potential changes in the list - policy Option 8B).

List of international conventions

Option 8B proposes to update of the current list of 27 international conventions (Annex VIII of the Regulation). The supporting Study analysed[59] to what extent these international conventions are still relevant for attaining the objectives of the GSP i.e., supporting sustainable development, good governance and poverty eradication in beneficiary countries while also considering administrative cost issues. The following criteria were used to assess the conventions listed thereafter:

- The level of contribution to and coherence with the objectives of the GSP;
- The extent to which new conventions overlap with the conventions already listed in Annex VIII;
- Legal recognition as a convention;
- The ratification status of conventions globally and among GSP countries (only conventions that are open to ratification by all members of the international community are considered);
- Coherence with EU Member State commitments (ratification by all EU Member States);
- The conventions' decision-making and governance systems and institutional structures;
- The system of regular implementation and/or compliance mechanisms and associated reporting by monitoring bodies under the convention; and
- Reporting obligations on ratifying countries.

In the consultations for the supporting study, respondents across stakeholder groups mostly agreed with the idea of including international conventions on environment and governance into GSP conditionality, thus enabling withdrawal of preferences in the case of serious and systematic violations of these conventions as well. If environmental conventions are enforced, including through a threat to withdraw preferences, this would provide an incentive for beneficiary countries to respect them and would also contribute to attaining the SDGs.

Some respondents, however, noted the challenge that implementation of those conventions represented for GSP beneficiaries. In particular, LDCs needed to make progress in awareness, knowledge and technical capacity to be able to comply with environmental conventions, before the related conditionality could be introduced.

[59] See Annex 8 for a detailed description of the international conventions analysed by the supporting study.

Regarding climate change, respondents generally agreed that the Paris Agreement's principles should be respected by all countries and that addressing climate change should be a common objective for all. Some specific comments opined, however, that withdrawal of preferences was not the right measure to address such a problem in LDCs, as many of them are already confronted with consequences of climate change and losing preferences would further weaken their economic capacity to act.

According to the external study, the attainment of GSP objectives, notably on sustainable development could be advanced by adding the following conventions:

- The Paris Agreement on Climate Change (2015);
- The Convention on the Rights of Persons with Disabilities (CRPD);
- The Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict (OP-CRC-AC);
- ILO Convention No 81 on Labour Inspection;
- ILO Convention No 144 on Tripartite Consultation;
- The UN Convention against Transnational Organized Crime (UNTOC).

Given the above considerations, a combination of removals and additions is needed to ensure that the list remain relevant (Sub-option 8Bc: Combine 8Ba and 8Bb).

Temporary withdrawal mechanism[60]

Sub-option 9Ba introduces additional steps in the so-called *enhanced engagement* undertaken by the Commission prior to the formal launch of a withdrawal procedure. Examples of such steps could be consultations with the beneficiary country and other stakeholders that can support the Commission's considerations on whether there are sufficient grounds justifying the launch of the temporary withdrawal procedure.

Sub-option 9Bb proposes additional steps[61] after the formal launch of a withdrawal procedure. Any decision should also consider the specific situation in the country and potential links between withdrawing the benefits stemming from GSP and the improved living or working conditions or respect for rights of certain groups.

The supporting study analysed some elements which could be considered before taking a decision on the scope of withdrawal, such as **the impact analysis** to ensure that the withdrawal is proportional and well balanced with the key GSP objectives.

Stakeholders consulted for the study, in particular international trade unions and NGOs, suggested that the introduction of a complaint mechanism (now set up to be overseen by the Chief Trade Enforcement Officer[62] and include public hearings) might improve the monitoring of the situation in GSP beneficiary countries going beyond GSP+.

[60] See Annex 8 for an outline of the withdrawal procedure.
[61] See Commission's Delegated Regulation No 1083/2013 establishing specific procedural aspects of the GSP withdrawal procedure, such as access to the constituted file (i.e., evidence and documents gathered during the withdrawal procedure, including documents provided by third parties), the procedural rights of third parties, including their rights to be heard and treatment of confidential information available.
[62] In July 2020, the Commission appointed a Chief Trade Enforcement Officer: https://trade.ec.europa.eu/doclib/press/index.cfm?id=2173%20

Some respondents also emphasised that the enhanced engagement stage should be communicated to the country in an appropriate way, taking into account existing sensitivities, as some beneficiaries may perceive it as a patronising act and choose not to engage.

Sub-option 9Bc introduces a withdrawal of preferences, or exemption from such a withdrawal, for specific economic operators, or for violations of the obligation to readmit own nationals under international customary law, and multilateral international conventions such as the Convention on International Civil Aviation signed in Chicago on 7 December 1944. The current temporary withdrawal mechanism applies to "*all or certain products originating in a beneficiary country*". An alternative approach could be to target or exempt certain economic operators (where violations are especially acute or not a pressing issue, respectively).

Migration constitutes an element of the SDGs. In particular, target 10.7 calls for the facilitation of orderly, safe, regular, and responsible migration and mobility of people. The Commission is, therefore, considering the option of introducing a separate and distinctive legal ground for withdrawing preferences in cases of violations of the obligation of readmission of own nationals within Article 19 of the GSP Regulation. While this was not assessed in the study, it is considered as an option as it raises the visibility of migration issues and promoting key EU policy on sustainable development involving the movement of people globally.

Sub-option 9Bd introduces flexibility in the withdrawal of preferences, by introducing a faster procedure in well-defined exceptional circumstances. While a shorter urgency procedure in well qualified circumstances (Option 9Bd) was not examined by the Study and it has not been raised previously, the Commission is considering options for reacting more quickly to blatant violation of human rights and increasing the pressure on the beneficiary country to respond.

5.2.4. Options regarding Cluster 4: transparency of the GSP+ monitoring process

Option 10B consists of putting into place, beyond existing GSP+ monitoring[63] practices by the Commission and the EEAS, **further practical measures to improve transparency** and involvement of civil society.

Option 10C considers **extending the duration of current GSP+ monitoring cycle and aligning it to those of international monitoring bodies**.

Whereas the authors of the MTE believed that the current shorter two-year cycle introduced by the 2012 reforms is beneficial, as it puts pressure on beneficiary countries to implement the conventions, other studies[64] note that a three- or four-year cycle would allow more time for beneficiaries to make meaningful progress in aligning with the conventions, both at the legislative level and in practice.

The analysis in the supporting Study shows that it is not possible to align a GSP+ reporting cycle with the reporting cycles of the international conventions since there is too much variation. Hence, the study recommends that GSP+ reporting cycle should not

[63] Indicators for monitoring and evaluation of GSP impact are presented in Section 9 of this report.
[64] Richardson, Harrison and Campling 2017, van der Ven 2018.

be determined by the reporting cycles of the international conventions: GSP+ can set its own reporting cycle. Thus, this option is not practical and is not explored in detail.

5.2.5. Options regarding Cluster 5: safeguards

The general safeguard mechanism (Article 22) has functioned well. The policy reform options, therefore, focus on an expansion of the automatic safeguard mechanism established in Article 29 of the GSP Regulation. Two options (O.11B and O.11C) have been identified.

Under Option 11B, the automatic safeguard mechanism in Article 29 is expanded to cover all agricultural products listed in Annex V and Annex IX of the GSP Regulation, while still applying only to Standard GSP and GSP+ beneficiaries (i.e., no extension to EBA beneficiaries). Since the supporting Study found virtually no impact of this option, it is not explored in detail in this impact assessment report.

In option 11C, the application of the safeguard mechanism in Article 29 is expanded to EBA beneficiary countries. The supporting Study shows that this option has no effect. No EBA country would meet the 6% import threshold for any of the products currently covered. Similarly, the extension of automatic safeguards to rice, sugar or to all agricultural goods to EBA beneficiary countries would have limited effects. Therefore, this option is not explored in detail in this impact assessment report.

This issue is one of the topics where stakeholders consulted for the study disagreed most. Although a majority of respondents were in favour of an extension of safeguard mechanism to all GSP countries, views significantly differed between EU and GSP country respondents: among EU respondents 54% considered that LDCs should not be exempted from safeguards, whereas 71% of GSP country respondents believed that they should.

In the EU, public sector and civil society were rather in favour of keeping exemptions for LDCs from measures to protect EU industry (i.e., keep the status quo), whereas a majority of businesses and citizens thought that exemptions should be ended. In GSP countries, the majority for keeping exemptions was found across all respondent types.

5.2.6. Option discarded at an early stage - extension of GSP coverage to trade in services

Trade in services has become increasingly relevant to economic growth of developing countries. There is a recurrent request from stakeholders to explore the possibility of including trade of certain services within the scope of the GSP.

Most services are provided under Mode 1 which covers cross border supply i.e., services supplied from the territory of one WTO Member into the territory of another WTO Member. These types of services do not trigger typical market access barriers that could be removed through preferences. Moreover, service provision is intrinsically linked to supply. The EU already provides preferential treatment to services and service suppliers from LDCs. Thus, the inclusion of services in the context of GSP would only benefit Standard GSP and GSP+ beneficiaries. However, unlike the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS), does not include an Enabling Clause. This means that the EU would have to apply for a waiver at the WTO to include services in its GSP. In addition, it is unclear whether LDCs are actually benefiting from the existing services waiver for LDCs, given supply-side issues in developing countries.

6. WHAT ARE THE IMPACTS OF THE POLICY OPTIONS?

Like in Chapter 5, the analysis of the impact of the policy options will be conducted at the level of clusters, which group options based on the problem to address.

Overall, continuing GSP with the targeted changes proposed will be a key encouraging signal from the EU to developing partners, maintaining a key platform to engage with beneficiary countries to bring about change that is consistent with the EU's values agenda and policy coherence for development.

We expect the choice of continuity of the current GSP architecture to be welcomed by beneficiary countries and by developed WTO partners. This is in line with the long-standing principle of the GATT Enabling Clause, which grants a permanent exemption from the Most Favoured Nation (MFN) principle (non-discrimination) for developed countries to unilaterally grant elimination or reductions of the tariffs paid on imports from developing countries.

The continuation of GSP is in line with EU's Policy Coherence for Development (embedded in Article 208 of the Treaty on the Functioning of the EU) which constitutes a key pillar of EU efforts to enhance the positive impact and increase effectiveness of development cooperation. Moreover, it is part of the EU's political commitment to support sustainable development globally, as reflected in the implementation of the UN Agenda 2030 for Sustainable Development and Sustainable Development Goals (SDGs) – to which all WTO Members have committed.

6.1. Impact of the options under <u>Cluster 1: arrangements and beneficiary countries</u>

6.1.1. Analysis of economic impact

Macroeconomic and sectoral effects, impact on government revenue

The overall **economic and non-economic impact** (social, environmental, human rights) of policy options is limited as the current GSP three-tier structure is proposed to be maintained. This choice has been made to precisely limit the expected decline in GSP Standard and GSP+ countries in real GDP, in welfare, in total exports to the EU, and in governmental revenues compared to the current baseline, should the current structure be modified.

The economic analysis has been made in the supporting Study using Computable General Equilibrium (CGE) model-based simulations. It has showed in all other scenarios than maintaining the current architecture of GSP, the negative impact on GDP and trade for both the EU and the GSP beneficiaries, albeit small one (some of them may be more affected though). Moreover, in the above mentioned scenarios, even if imports to the EU from current GSP countries decrease by 3-5%, the LDCs would not be the main beneficiaries as benefits would be distributed across other countries.

The choice to build a bridge towards GSP+ for LDCs which exit EBA (by amending GSP+ eligibility criteria) strengthens the continuity option and reduces the negative impact which could be felt on LDCs.

Under **Option 1B (amend the current three-tier structure of the GSP)**, the countries expected to graduate from LDC status and moving from EBA to the standard GSP (Bangladesh, Lao PDR, Nepal, Myanmar, Angola, Bhutan, Kiribati, Sao Tomé & Príncipe, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu) **would be hit twice**: first by the loss of EBA preferences resulting from a move to the Standard GSP; and second, by losing even the Standard GSP preferences. As both changes would materialise around the same time, their impacts are considered as a combined effect in this analysis and the countries are treated as standard GSP beneficiaries.

Furthermore, the main economic impact is felt in Standard GSP countries, which would see a decline in real economic activity for all modelled countries, with the strongest negative impact on GDP (decline) for Bangladesh.

Under **Option 1Ba**, total exports of the most affected country, Pakistan, would be 3.8% lower than in the baseline. The only other two countries whose total exports would decrease by more than 1% are Bangladesh (-1.6%) and Tajikistan (-1.1%). Conversely, EBA countries remaining in the scheme as well as third countries would experience small bilateral export gains.

Exports to the EU from those countries that see their preferences revoked (discontinuation of GSP and GSP+) are estimated to drop with the largest fall (25%) in the case of Pakistan. Bilateral exports are also estimated to be substantially lower without the GSP preferences from Indonesia (-8.0%), Bangladesh (-7.4%) and Tajikistan (-7.2%). For all other countries directly affected by the policy, bilateral export losses will be lower than 5%.

Impact on GDP and government revenue: countries that lose GSP benefits will suffer a deterioration in the terms of trade, which will see a fall in GDP: the largest fall is predicted for Pakistan (-3%), followed by Bangladesh (-2.1%) and Indonesia (-0.7%).

EU27 (and Turkey due to the Customs Union with the EU) and UK tariff revenues rise by 0.5% and 0.7% respectively.[65] However, the increase in revenues is offset by trade diversion to countries with tariff-free access to the EU market.

At the sector level, amending the three-tier structure of the GSP by removing Standard GSP and/or GSP+ would significantly reduce total exports, indicating a limited capacity to adjust at sector level in these countries. Total clothing exports are expected to be up to 42% lower in Tajikistan (albeit from a relatively small basis); others with large declines in total exports in this sector are Pakistan (-20%), Mongolia (-18%), and Bolivia (-10%). Other sectors with a total export contraction of around 10% or more are textiles, leather, agri-food, and chemicals, rubber, and plastics.

Total EU imports of textiles and apparel, leather and footwear, and food products are expected to decrease by about 1% compared to the baseline. Imports of other sectors will hardly change.

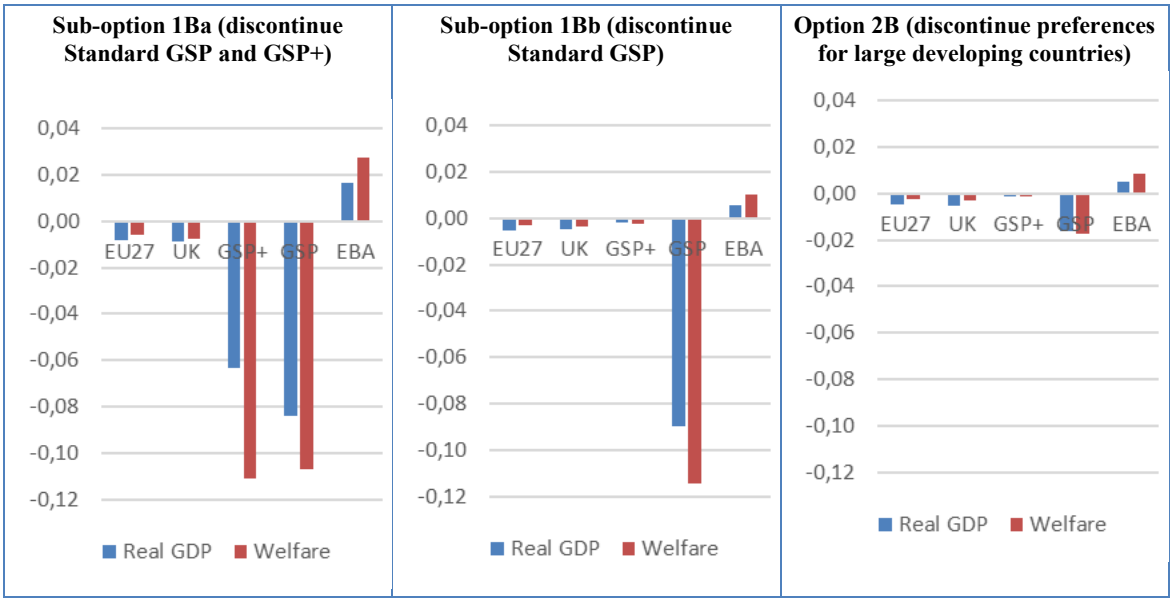
Under Option 2B, which looks at graduating large industrialised developing countries from the scheme, in practice only India and Indonesia lose GSP preferences, as they would be the only countries meeting the threshold of accounting for 0.5% or

[65] These tariff revenues percentage changes are likely to be underestimated.

more of world GSP. Exports to the EU from these two countries fall (-8.2% for Indonesia and -3.3% for India) by about the same as in sub-option 1Ba.

All other countries benefit through slightly higher exports to the EU. Sectoral effects are slightly positive across the board for bilateral exports (except rice in Bangladesh) and negligible for most countries and sectors in terms of total exports and value added, with only some small gains in the leather and garments sectors in most Standard GSP countries, but not exceeding 0.8% (leather in Nigeria).

Following from the limited trade effects, macroeconomic effects would also be marginal in all countries except India and Indonesia, where they would be essentially identical to Sub-option 1Ba. Bangladesh is expected to benefit from small gains of around 0.05% across all macroeconomic indicators.



Source: European Commission modelling results.

Option 3B, ensuring all EBA countries expected to graduate from LDC status can transition to GSP+, attempts to mitigate the negative consequences of EBA graduation for these countries, which are briefly described below.

Of the **12 countries assumed to graduate from the EBA over the next 10 years**, six are predicted to face non-negligible economic impacts: Bangladesh, Lao PDR, Myanmar, Nepal, Sao Tomé and Príncipe, and the Solomon Islands.

Only Bangladesh stands out in terms of facing a significant fall of exports, a consequential large decline in real GDP and economic welfare, and large impacts in sectors such as textiles and apparel and leather/footwear that face a high MFN tariff in the EU and thus potentially disruptive industrial adjustment.

In addition, **Bangladesh does not meet the vulnerability criterion of GSP+ and would therefore automatically enter the Standard GSP** upon graduation from EBA. As a result of this, the country is projected to experience a severe contraction in output of products with a high degree of substitutability across alternative sources: rice, textiles, and apparel and leather/footwear take major hits, driving a decline of 1.66% in real GDP as Bangladeshi producers are driven to cut prices in order to attempt to preserve market

share.

The opportunity to benefit from GSP+ would soften these negative impacts by allowing the country to retain full tariff reductions for a majority of tariff lines, including in sectors key for Bangladesh such as textiles and apparel and leather/ footwear.

6.1.2. Analysis of social impacts: wages, welfare, and sectoral employment changes

Under Option 1B following from the economic impacts, it is to be expected that Standard GSP and GSP+ beneficiaries would also face negative social impacts, in particular under Sub-option 1Ba. Under 1Bb, impact is reduced on GSP+ as they do not lose preferences.

Overall, wages and welfare in Standard GSP and GSP+ countries are predicted to fall, while in EBA countries and third countries they are predicted to increase – although only marginally so – as they benefit from the relatively better market access to the EU.

Under sub-option 1Ba (discontinue all but EBA), the most negatively affected countries would be **Bangladesh** (Standard GSP) and **Pakistan** (GSP+), with welfare losses of 0.4% to 0.5%, and average wage reductions from 0.3% to 0.5%.

Under sub-option 1Bb (discontinue only Standard GSP), the anticipated negative effects for Standard GSP are moderate, with the strongest ones registered in leather where employment declines by 4.1% for unskilled workers and by 3.9% for skilled workers in **Indonesia**; by 3.3% (for both skilled and unskilled workers) in **India**; and by 2.1% for unskilled workers, and by 2.2% for skilled workers in **Bangladesh**.

The results of the economic modelling carried out by the Commission suggest that the **main social impacts related to changes in employment levels for both skilled and low-skilled workers** are to be expected in three sectors (textiles, clothing[66] and leather & footwear). For some countries, changes of a varying magnitude may be recorded also in other sectors. Among the Standard GSP beneficiaries, Bangladesh, Lao PDR, India, and Indonesia each have at least one sector where employment is expected to contract by more than 2%. For EBA beneficiaries, significant sectoral employment effects are only expected in the leather, apparel, and textiles sectors; these are positive but typically small.

Generally, GSP+ countries are more negatively affected than Standard GSP countries. In relative terms, the largest negative impacts under this option are expected in Tajikistan (presumed GSP+), particularly in textiles, apparel, and footwear. Negative impacts are estimated also for Pakistan (GSP+), with job reductions for skilled workers of 3.1% in apparel, 5.3% in textiles,[67] and 0.4% in leather; there are, however, limited job increases in other sectors.

In the EU, effects are marginally negative stemming from the efficiency losses associated with the increased level of protection in this scenario compared to the baseline.

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[66] Note that we use the terms “clothing”, “garments” and “apparel” synonymously.

[67] Due to the large absolute size of the sector in Pakistan (when e.g., compared to Mongolia) percentage changes are more limited.

Under **Option 2B graduating large, industrialised countries from GSP,** social impacts on the two affected countries (India and Indonesia) will mostly be felt in the leather sector. In Indonesia, employment in leather is estimated to decrease by between 3.9% (skilled workers) and 4.1% (unskilled workers); and in apparel to decrease by 0.8%.

In India, employment in leather falls by 3.3% and in apparel by 2.0%. Wages of skilled and low-skilled workers are likely to decrease by 0.1% and overall welfare is also expected to fall by 0.1%. As the leather sector in India provides jobs to 4.4 million people, 30% of which are women,[68] this could mean a significant number of jobs lost, including for women.

Finally, **Option 3B** attempts to mitigate the negative impact of EBA graduation, where the highest impact will be felt on Bangladesh: wages are expected to be lower for both skilled and non-skilled workers; overall welfare is estimated to drop by 2.1%; and employment would relocate away from current exporting industries (garment and textiles) to manufactured goods, chemicals, plant oil, primary resources, and leathers.

Graduation out of the EBA threatens to reverse substantial gains made under the EBA arrangement, with consequential negative impacts for employment, wages, gender equality, and human rights. Considering the size of the garments sector in Bangladesh (between 3.6 million and 4 million, mainly low-skilled workers, 80% of them women), the sectoral employment reallocation could require up to 300,000 persons needing to find new jobs in other sectors.

6.1.3. Analysis of environmental impacts

Globally, the economic modelling predicts hardly any change in aggregate CO_2 emissions for all three options, while the highest impacts would be in the textile, apparel, and leather sectors, in particular under Sub-option 1Ba discontinuing the Standard GSP and GSP+.

At the same time, changes in emissions vary widely across regions, from slight decreases (e.g., in Turkey and the EU), to relatively large increases (e.g., in Tajikistan, Pakistan, and Kyrgyzstan). It is to be noted that changes in CO_2 emissions are not aligned with the macroeconomic effects but are rather influenced by the reallocation of production across sectors taking place within economies in response to the policy measures. One consistent pattern is, however, that the policy change would lead to higher CO_2 emissions in all GSP+ countries considered.

Option 3B mitigating the transition after EBA graduation, aims to protect also against negative environmental impacts of no action: out of the twelve countries (potentially) graduating from LDC status, the impacts in terms of CO_2 emissions would be the highest (in relative terms) in Bangladesh – resulting in a shift of production from garment and textile industry to industries with a higher energy and CO_2 intensity.

The lower levels of GDP resulting from the country's status change (from EBA to Standard GSP) would put further stress on Bangladesh and other LDC's abilities to address climate change. It should be noted that environmental impacts other than CO_2

[68] Council for Leather Exports, Indian leather industry, overview, export performance and prospects: https://leatherindia.org/indian-leather-industry/

emission changes – which are not included in the modelling system – would likely occur as well.

6.1.4. Analysis of impacts on human rights

The loss of preferences by Standard GSP and GSP+ countries under **Option 1B** has negative economic and social effects and from those effects, via a causal chain analysis, it is possible to look at potential human rights effects. These effects take place against an existing human rights situation that matters for how the effects of the GSP shock work out for citizens in the GSP beneficiary countries. The degree to which the modelling results can be used for the detailed human rights analysis is limited, especially when the projected effects are small.

Among Standard GSP beneficiaries, the effect is largest for Bangladesh. This country is impacted at the overall economic level which has implications for the enjoyment of human rights. For most countries, we see that there is a sectoral shift away from sectors like textiles, apparel, and leather towards manufacturing, plant-oil, energy, and (marginally) services (notably transportation).

Among GSP+ beneficiaries, the impact is largest for Pakistan. This country is impacted at the overall economic level, which in turn means there are implications for the enjoyment of human rights. For most GSP+ countries, the impact manifests itself at the sector level: a sectoral shift away from sectors like textiles, apparel, and leather towards manufacturing, services, and transport. Proper labour market adjustments are only possible if skills requirements match and/or if re-education programmes are made available to facilitate this adjustment. The economic simulations do not take into account the informal economy. That means the projected changes in employment apply to the formal sector only.

As regards EBA beneficiary countries, there are two changes that become clear when comparing the two 1B Sub-options: First, for the *right to work* in the textile sector, output and employment for skilled and unskilled workers are expected to grow by 0.3 percentage points less in Sub-option 1Ba versus 1Bb. This is because EBA textiles exports still face competition from GSP+ countries in Sub-option 1Bb. Second, a smaller and positive effect on the *right to work* is expected for the rice sector: output and employment in the rice sector are expected to grow, with positive effects for the *right to work* in that sector.

When looking at the effects for **Option 2B**, there is no significant change for the two countries affected. The supporting study compared the two sets of impact results on human rights for India and Indonesia, when these two economies move from Standard GSP to MFN trade with the EU.

As above, **Option 3B** attempts to mitigate the following negative effects of LDC graduation: the highest impact from the EBA graduation is expected to be on economic, social, and human rights. Economic effects related to changes in employment are expected to have a direct impact on the right to work and the right to an adequate standard of living, especially for sectors directly impacted by a loss in EU market access (textiles and apparel in Bangladesh and Lao PDR). For Bangladesh in particular graduation from EBA to Standard GSP could lead to a major negative impact on a number of human rights. As the number of jobs is expected to decrease in impacted sectors and salaries are expected to decline overall, people will lose their jobs and part of

their income (in particular women, where the labour protection is the weakest). The new sectors, manufactured goods and chemicals are expected to create a positive but smaller impact on these rights.

6.2. Impact of the options under Cluster 2: products coverage and graduation mechanism

6.2.1. Analysis of economic impacts

For **Option 4B**, the supporting Study finds no significant economic impacts. Neither expanding product graduation to all GSP beneficiaries for rice and sugar only (Sub-option 4Ba), nor expanding it for all agricultural products listed in Annex V and IX of the GSP Regulation (Sub-option 4Bb) results in any significant amount of product graduation. Therefore, this option is not examined in detail.

In particular on Sub-option 4Ba, the Study shows that among the examined countries, none exceeds the threshold for GSP products Section S-2d (which includes rice) or Section S-4b (which includes sugar). None of the countries is close to the product graduation threshold of 57%[69]: Pakistan is the closest with an average share in EU imports from all GSP beneficiaries over the past three years amounting to 14.3%; followed by Cambodia, with an average share of 10.3%. For sugar, the Philippines has the highest share in imports from all GSP beneficiaries, averaging 5.3% in 2017-2019, followed by Pakistan (4.9%).

Regarding extension to all agricultural products (Sub-option 4Bb), one section for one country has surpassed the current threshold for product graduation: S-2a, live plants and floricultural products (essentially, cut flowers) from Ethiopia, an EBA country. In practice, this Sub-option would lead to a single product graduation from a single country: cut flowers from Ethiopia. The only other product/country pairs coming close to the threshold values are two sectors in the Philippines: S-3 (fats and oils) with a share of 14.0% in total imports from GSP countries against the 17.5% threshold, and S-4a (preparations of meat and fish) with a share of 40% compared to the 57% threshold.[70]

Regarding **Option 5B expanding the product coverage for Standard GSP and GSP+,** the supporting study finds minor economic impacts of both sub-options, extending product coverage to environmental goods (**Sub-option 5Ba**) and to several industrial and agricultural semi-finished and finished products (**Sub-option 5Bb)**.

The supporting study notes that **diversification is a complex process, underpinned by a tight nexus of trade, technology, and the presence of formally organised firms,**

[69] The product graduation mechanism of Article 8 of the Regulation stipulates that the tariff preferences can be suspended if the average share of EU imports from a given GSP beneficiary of certain product sections (defined in Annexes V and IX of the GSP Regulation) in the value of EU imports of the same sections from all GSP beneficiary countries over three consecutive years exceeds the thresholds of 57% generally, 47.2% for sections S-11a and S-11b (textile), and 17.5% for sections S-2a (live trees and other plants), S-3 (animal or vegetable fats, oils, and waxes) and S-5 (minerals).The thresholds are defined in Commission Delegated Regulation (EU) 2015/1978 of 28 August 2015 amending Regulation (EU) No 978/2012 of the European Parliament and the Council as regards the modalities for the application of Article 8 listed in Annex VI to that Regulation, OJ L 289/1, 5 November 2015.

[70] Note that this analysis has been done at the HS Chapter level i.e., assuming that all products within the HS Chapters covered by a GSP Section are eligible for GSP preferences. The actual list of products benefitting from preferences under the GSP+ is more limited.

which cannot be easily supported through product coverage alone. It concludes it is "*impossible to predict which sector will flower in which economy*". Therefore, product coverage would be a blunt and ineffective instrument to address the goal of supporting diversification.

Given the fairly minor import market share that Standard GSP and GSP+ imports have in the selected environmental goods in EU trade, the import expansion from removing tariffs on these products is predicted to be relatively modest at about EUR 18 million or by 4.3%, based on the partial equilibrium modelling results. The implications for EU27 domestic production are by the same token also very minor[71].

The benefits stemming from the improvement of treatment of environmental goods would flow to the largest and most diversified economies. While this would contribute materially to the environmental objectives, it would likely have minimal impact in terms of advancing the diversification objective for the less-diversified Central Asian and African economies.

6.2.2. Analysis of social, human rights and environmental impacts of Option 5B

The partial equilibrium modelling suggests that the impact on the EU would be minimal in terms of industrial production and the price of domestic production and thus in terms of impact on jobs and wages. Consumer welfare would increase by about EUR 1.5 million in total, which would be negligible on a per capita basis within the EU.

In the GSP economies, given that most of the additional trade would be captured by large and already relatively well-diversified economies, the incremental export gains would not be sufficiently to materially impact labour markets, wages, or consumer welfare. Similarly, the human rights impacts would be negligible – but to the extent there are any, they would tend to be positive. Environmental impacts would be very marginal and likely mixed, with some additional pollution from higher production, offset by likely collateral effects within the countries in terms of availability of environmental goods as domestic producers expand production.

6.3. Impacts of the options under Cluster 3: conditionality

6.3.1. Analysis of economic and administrative impacts

The extension of the scope of conditionality and of the list of conventions potentially translates into additional costs related to a wider use of the temporary withdrawal mechanism. Therefore, under the present section 6.3.1, it is less relevant to distinguish the specific economic impacts.

More active use of conditionality linked to potential (partial or sectoral) withdrawals is expected to positively impact the effectiveness of the GSP scheme: it would further advance the GSP sustainable development objective. It would also be coherent with other EU policies, in particular development cooperation, promotion of human rights and social issues, and the EU contribution to Agenda 2030.

[71] The modelling results suggest a weighted average decline in output of less than -0.02%. Only one product groups (organic chemicals) would experience an impact approaching as much -0.1%.

Option 6B corresponds to the extension of negative conditionality to all conventions listed in Annex VIII to the Regulation would have no impact for GSP+ countries because they are already bound to ratify and effectively implement all conventions under the positive conditionality mechanism. Conversely, Standard GSP and EBA countries would stand more chances to enter into enhanced engagement and face the risk of temporary withdrawal of preferences.

For the EU, the administrative burden for monitoring would increase significantly (the number of conventions would almost double: from currently 15 to 27) – unless no systematic monitoring were to be undertaken, and negative conditionality were to be used only as an instrument of last resort for particularly blatant violations of the conventions.

The administrative cost of **Option 7B** (extending positive conditionality to all three categories, instead of GSP+ only) varies per country and convention, typically depending on domestic ratification procedures, the political will of the country, the state of current legislation, the degree of cooperation with civil society, the level of cooperation with the monitoring bodies and financial resources. Furthermore, each convention establishes a monitoring body made up of independent experts mandated to monitor state parties' compliance with their treaty obligations. The higher the number of conventions not ratified, the higher the effort to meet the requirements of the new conditionality. On average, Standard GSP countries would need to ratify more conventions than EBA beneficiaries.

GSP beneficiary countries for which the costs associated with ratification are higher would face the choice between having to ratify the remaining conventions listed in Annex VIII of the Regulation in order to stay within the GSP – or else not ratify the conventions, exit the scheme, and move to the EU's MFN treatment.

Finally, countries for which both costs and benefits would be limited are the largest group, both among Standard GSP and EBA beneficiaries. It is, therefore, impossible to predict whether these countries would ratify the remaining conventions and remain in the GSP or not ratify and forego preferences.

Under **Option 7B**, the main additional cost factor for the European Commission and the EEAS would be the costs related to monitoring implementation by the beneficiary countries and engaging with them into a sustained dialogue (e.g., similar as is now the case for GSP+ countries).

The general observation is that the process of ratification (including the possible domestic preparation for ratification) and implementation of international conventions may take several years. For those countries with larger gaps in ratification and implementation of human rights treaties, the EU could consider offering technical assistance and sharing of best practices from other GSP countries. Furthermore, technical assistance could be linked to the commitment to ratify the conventions, in order to ensure that in a transition phase these countries can ratify the conventions and comply with the positive conditionality.

The Study assessed (see Table 6) the resource requirements for the Commission, should **Option 7B** apply. As it is impossible to determine how many and which countries would remain in the GSP, a more precise estimate of administrative resource requirements for the Commission's and EEAS' monitoring is not possible.

Table 6: Administrative costs for the EU of expanded monitoring in Option 7B

Scope of the monitoring	No of countries	Professional staff (FTE)	Mission costs per year (EUR)
Current	12	13	80,000
GSP+ and Standard GSP	29	31	193,333
GSP+ and EBA	43	47	286,667
All GSP	64	69	426,667

Source: 2020 Supporting Study

The EU already refers to the ongoing periodic reviews of the UN and the ILO for each relevant convention to monitor implementation. Engaging these monitoring mechanisms allows shifting some of the burden of monitoring from the GSP to these bodies. However, taking into account the long periodicity of UN reporting, other sources could be considered, including:

- Use of human rights indicators that allow to see progress on a yearly basis;
- Use of SDGs and related indicators to report progress on human rights;
- Annual reports by international organisations and NGOs related to country progress on human rights e.g., world reports by the Human Rights Watch or Amnesty International;
- Use of extended cooperation by the EU Delegations in each GSP beneficiary country, who could reach out to local NGOs and work in close cooperation with national human rights institutes;
- Cooperation of the EU with the UN monitoring bodies could also be explored (taking into account limitations within the bodies). The EU already has experience from cooperating closely with the ILO within the project *Sustainable GSP-Plus Status by Strengthened National Capacities to Improve ILO Compliance and Reporting aimed to support the GSP+ beneficiaries in the implementation of the ILO Conventions* (MTE 2017). Similar pilot projects could be launched with the UN monitoring bodies.

Another cost item for the Commission would be the additional technical assistance and support to GSP countries to ratify and implement Annex VIII conventions. While quantification is impossible with the available information, it can be estimated that these costs would also be significant.

Sub-Option **8Bb** (foreseeing the expansion of the list of conventions annexed to the Regulation): The additional EU staff resources required to monitor the implementation of the Convention on the Rights of Persons with Disabilities (CRPD) and of the Optional Protocol to the Convention on the Rights of the Child (OP-CRC-AC) are considered to be limited. As the Optional Protocol can be monitored within the framework of the Convention on the Rights of the Child, the number of conventions to be monitored increases by one; in any case, the administrative resource burden needs to consider all conventions jointly. Likewise, the administrative cost to monitoring the implementation of the ILO Convention No 81 on Labour Inspection appears limited. Finally, given the very high share of ratification of the Paris Agreement on Climate Change among GSP countries and their active reporting of their progress to the UN Framework Convention on Climate Change (UNFCCC), the expected administrative costs appear proportional to the goals of the convention.

6.3.2. Analysis of social impacts: wages, welfare, and sectoral employment changes

Scope of conditionality and list of international conventions

The extension of negative conditionality (Option 6B) in combination with Sub-option 8Bc (removing some conventions and adding others) further attains the sustainable development objective.

Option 7B may not achieve an effective protection of rights, in case of mere ratification of conventions without effective implementation, or may discourage the beneficiary in view of too high ratification costs.

Sub-Option 8Bc is coherent with Agenda 2030, which advocates for a proactive, forward-looking, progressing and constantly improving approach in building a better society, "seeking to realize the human rights of all."

Including Convention No 81 on Labour Inspection promotes better working conditions. Moreover, the Convention on the Rights of Persons with Disabilities is of particular relevance with respect to state obligations that refer to employment, awareness raising in order to promote recognition of the skills, merits, and abilities of persons with disabilities and of their contributions to the workplace and the labour market.

Temporary withdrawal mechanism

Sub-Option 9Bb: an analysis of trade related data (e.g., the volume and structure of GSP-eligible exports from the beneficiary country to the EU) could clarify the potential socio-economic impacts of withdrawal of preferences. The need for a similar impact analysis prior to a decision on withdrawal of preferences (Sub-option 9Ba) was also highlighted by consulted stakeholders. Introducing additional formal steps in the process, would reduce the Commission's margin of discretion and introduce an additional administrative burden, thus affecting the possibilities to engage with the beneficiary country to obtain progress on the issues of concern.

Sub-option 9Bc: There could be cases where a withdrawal targeted to economic operators may be effective in sanctioning a government that violates civil and procedural rights, in particular where specific operators are owned by the State. Moreover, it is possible that certain violations of e.g. labour rights are perpetrated only be certain economic operators. In this respect, a mechanism which allows to target selectively the authors of such violations could ensure a more surgical approach to the problems without affecting the vulnerable population of a country at large. There are, however, some complexities in this approach. For instance, some violations may be driven by the government without the involvement of the private sector. Moreover, targeting or exempting certain economic operators would not always effectively address the obstacles to sustainable development. In any event, even if preferences are withdrawn vis-à-vis specific economic operators, the dialogue would need to continue in parallel with the beneficiary country's government, as under the GSP regulation the EU holds a government- to-government dialogue.

6.3.3. ***Sub-option 9Bc****: Concerning migration, while this option was not considered in the External GSP Study, encouraging beneficiaries to respect the obligation to readmit own nationals and their sustainable reintegration in the country of origin, can contribute to avoiding a drain in active population in the countries of origin, with the ensuing long-term consequences on development.* **Analysis of environmental impacts**

The Study does not provide elements allowing to quantify the environmental impact. In qualitative terms, a positive impact is expected on the following considerations:

Option 6B, by extending the **negative conditionality to the environmental conventions**, achieves the objective of integrating the European Green Deal Agenda into the GSP instrument by bringing environmental (and governance) conventions to the same conditionality level as human rights and ILO conventions. Negative conditionality on environmental conventions can, however, face practical issues especially regarding the identification of violations of the norms established in the Multilateral Environmental Agreements, due to the lack of systematic monitoring, over-reliance on voluntary requirements or limited access to information.

Sub-option 8Bb: Given the proximity of the expiration of the Doha Agreement and therewith of the Kyoto Protocol, the Paris Agreement on Climate Change becomes the relevant international convention.

Many developing countries have high population growth, and a significant part of them are experiencing increasing industrialisation which may lead to a steep increase in GHG (greenhouse gas) emissions. The Paris Agreement on Climate Change is of particular relevance also in terms of impact on the living conditions.

Likewise, the introduction of the UN Convention against Transnational Organized Crime (UNCTOC) is also directly relevant to international trade. For example, the UNCTOC has noted that "*[w]ildlife and forest crime has become a low-risk, high profit transnational organized crime, which is overwhelming countries and communities, affecting biodiversity and development*".

6.3.4. Analysis of impacts on human rights

Scope of conditionality and list of conventions

This policy choice implies a careful balance between the additional burden resulting from extended conditionality and the benefits awarded under the GSP. An effective impact on human right at country level is the result of a balance between the benefits that a beneficiary country retrieves from GSP and its additional compliance costs.

Option 6B, in combination with the insertion of additional conventions under Option 8C, extends the potential positive effects to human rights.

Option 7B could have significant potential for positive effects on human, labour, and environmental rights in those countries with few existing ratifications, if all conventions

currently unratified were to be gradually ratified[72]. However, some of the countries in this group that would benefit most from ratifications are also at the highest risk of dropping out of the GSP.

Temporary withdrawal mechanism

Sub-option 9Ba may create a momentum for change among a wider range of actors involved. However, the Commission should maintain a certain level of discretion. Sub-option 9Bd provides additional flexibility in the withdrawal procedure to respond to human rights violations in well-defined exceptional circumstances.

Sub-option 9Bc migration: Promoting the respect of the beneficiary countries' obligation to readmit own nationals in compliance with international standards has a beneficial effect on migrants as it guarantees that their basic human rights are to be protected.

6.4. Impacts of the options under Cluster 4: transparency

6.4.1. Analysis of economic impacts

Under the options on transparency, the main economic impacts are related to administrative resources and costs related to the different options. Due to the administrative and procedural nature of this set of options, the External Study does not provide a detailed economic impact analysis. Some idea of additional administrative costs can be gathered from the analysis regarding additional administrative costs on extended conditionality (Option 7B).

Under **Option 10B adopting practical measures to improve transparency**, effectiveness and resource impacts arise when considering disclosure of communication between the EU and beneficiary countries, as well as the creation of additional documents or structures for formal stakeholder consultation, both within the Commission and in beneficiary countries' administrations.

Conversely, an **extension of the monitoring cycle (Option 10C)** would alleviate the administrative burden of the monitoring process both for the Commission and the beneficiary countries.

6.4.2. Analysis of social, human rights, environmental impacts

We look at the non-economic impacts of this set of options in terms of their anticipated effect on the application of international conventions and responding to concerns by stakeholders, and by extension, impact on social, human rights, and environmental issues**.**

Under **Option 10B adopting practical measures to improve transparency**, the External Study notes that increased transparency through making available a detailed description of the process may avoid confusion among civil society concerning the stages of the process, the actors involved, and the related decision-making process. It would also enable civil society to use the GSP+ instrument and its monitoring cycle to hold the

[72] In this context, the MTE noted the positive impact of the GSP+ arrangement on states' compliance with the UN human rights conventions – positive conditionality seems to provide sufficient incentives for the beneficiaries to ratify and effectively implement them.

beneficiary governments to account on the implementation of the conventions. Such a description of the process is already partially foreseen under the GSP Hub project.

The disclosure of the documents exchanged as part of the GSP+ monitoring would further open up the monitoring process to stakeholders which could improve their involvement, and eventually could positively impact the implementation of the conventions through increased civil society pressure.

However, these potential benefits are outweighed by the need to consider other factors such as confidentiality and the purpose and use of the developed documents. A certain degree of confidentiality is needed to ensure the effectiveness of the monitoring process. Hence, trust between parties and effectiveness of the monitoring process could be jeopardized in case all information is made public (full transparency). The Commission already provides a summary of the issues discussed in its GSP Report to the European Parliament and the Council, as well as an indication of the priority issues to watch for the next monitoring cycle[73].

A further suggestion concerns improving the content of the list of issues through the creation of roadmaps and expansion of sources, including further involvement of stakeholders in the process. Roadmaps could allow more precise monitoring of progress by including time bound commitments on actions to be taken. Such an approach can be considered in the framework of the current GSP+ monitoring process without significant changes in legislation and practice. The supporting Study does not point to a need to formalise the current practices involving civil society in the monitoring process and the country assessment, due to effectiveness and efficiency concerns. Instead, involvement can be enhanced in current practice through civil society dialogues and preparatory meetings for monitoring visits and Human Rights Dialogues.

Finally, **Option 10C** positively assesses the implications of extending the duration of the **monitoring cycle to three or four years** and aligning it with reporting by international bodies.

The analysis of the **reporting requirements** under the different conventions shows that it **is not possible to align a GSP+ reporting cycle with the reporting cycles of the international conventions** since there is too much variation. Hence, GSP+ can set its own reporting cycle.

In terms of effectiveness, it should be noted that international conventions have longer reporting cycles than 2 years (3 years for ILO, 5 for most UN supervisory bodies). An extension of the reporting cycle to three years would allow beneficiary countries to address problems indicated in the 'list of issues' better.

6.5. Impacts of the options under Cluster 5: safeguards

The supporting Study finds no significant impact of the options extending the product scope (Option 11B)[74] and country scope (Option 11C) of the automatic safeguard

[73] GSP Report 2018-2019, https//:gsphub.eu

[74] In order to estimate the effect of an expansion of the automatic safeguard mechanism to all agricultural products while keeping all other conditions as they are in the current GSP Regulation, the supporting Study applied retroactively the current Article 29 mechanism to the new products for the same Standard GSP beneficiary countries, to see whether automatic safeguards would have been triggered over the past five

mechanism (Article 29 of the GSP Regulation). We are also maintaining the current mechanism (baseline) without further extensions in terms of products or countries, hence the impact will be reduced.

The Study shows that across all GSP Sections covering agricultural goods (**Option 11B**), there would have been only one instance across the years 2015-2019 where all three conditions for automatic safeguards would have been met (assuming the composition of GSP countries as defined in the baseline scenario) i.e., S-3 (animal or plant oils, fats and waxes) imports from Indonesia in 2017. Furthermore, under the current product graduation mechanism (Article 8 of the Regulation), preferences for S-3 imports from Indonesia have already been suspended since 2014. In other words, automatic safeguards would not have been applied in a single instance over the past years. Therefore, the impact of this option is minimal across all indicators.

Similarly, neither of the Sub-options under **Option 11C** appear to be very effective in terms of enhancing protection of competing EU industries. Expanding the application of automatic safeguards to EBA countries would have no effect if restricted to the current scope of products covered by the mechanism, and a limited protective effect in case the product scope was expanded. Under **Sub-option 11Ca**, no EBA country would have met the 6% import threshold for any of the products currently covered. Under **Sub-options 11Cb and 11Cc**, expansion to EBA for rice and sugar, or all agricultural good all conditions for automatic safeguards would have been met only once, for rice from Cambodia in 2015, and only using the narrowest option for determining the product (HS Chapter).

An important observation of the supporting Study is that the breadth of a GSP Section (in terms of products included within the section) and the import concentration – and notably the import share held by individual GSP countries – are inversely related. Thus, the 6% threshold is only ever reached by individual countries in narrowly defined GSP Sections such as S-2a (essentially cut flowers), S-3 (animal or plant oils, fats and waxes), or S-4c (tobacco and tobacco products), but not in the broader GSP Sections such as S-2b (vegetables, fruits and nuts) or S-4b (prepared foodstuffs, beverages, spirits, and vinegar). This would raise some doubts about the equality of treatment by automatic safeguards across product groups: industries in narrowly defined GSP sections would benefit *more* from a more stringent safeguard mechanism (and exporters of such products would face a higher risk of being subjected to preference withdrawal) than industries in more broadly defined GSP sections.

As none of the options on extending the product or geographical scope of the safeguarding mechanism would have any significant effect in terms of actual application, their impacts are not reviewed here in detail. The supporting Study looks instead at several conceptual and administrative improvements to address weaknesses in the current system and to connect it better with the objective of averting harm to EU industry:

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years with respect to their exports to the EU. One simplification in the analysis is that the Study assumes that all products within a GSP Section are eligible for preferences – this in actual practice is not the case, as Annexes V and IX of the GSP Regulation list only selected products within the HS Chapters covered by the respective GSP Sections; and only these benefit from preferences.

- Adjust the current framing of the import increase in quantity terms to calculate import surges at GSP Section level based on import values rather than import volumes due to the heterogeneity of products within Sections.

- Increase transparency by explaining the Commission's practice regarding the issues not clearly specified as outlined in the study (product listings granularity, timeframes) in the future regulation or a delegated regulation under it, or in a public manual of procedures.

- Introduce more granularity to the product listings to deal with the issue of heterogeneity of GSP Sections. Some Sections are very broad, covering many types of products, while others are very narrow. This can lead to unequal treatment across sections[75].

- Abolish the *de minimis* threshold (condition 3) established in Article 29.1(b) of the GSP Regulation as it provides no added value in terms of protecting the import-competing EU industries but adds administrative burden and complicates the application of the automatic safeguards.

- Align the rules and thresholds for automatic safeguards and product graduation to ensure consistency between these complementary measures.

6.6. Impact of the preferred options on small and medium sized enterprises

The GSP Regulation does not have specific provisions targeting SMEs in the EU or in beneficiary countries, but the preferences apply to goods produced by SMEs as they do to goods produced by larger companies. As the GSP Regulation provides for a unilateral tariff preferences granted to beneficiary countries, the benefit of the preferences affects SME exporters in beneficiary countries, and SME importers in the EU.

As regards EU SMEs, research conducted for the European Parliament in the context of Free Trade Agreements76 shows that when analysing preference utilisation rates, the benefit is higher for importing SMEs who benefit from the reduction in trade costs when procuring intermediate products than for exporting SMEs whose preference utilisation is lower. Aside from lower costs, EU SMEs may also face greater competition from imports from beneficiary countries as a result of GSP preferences, although this depends on the extent to which EU SMEs and SMEs in beneficiary countries compete on similar products. In case of serious difficulties to EU producers, the GSP Regulation foresees the application of safeguards.

As regards SMEs in beneficiary countries, given the number and diversity of GSP beneficiary countries, it has not been possible to collect SME specific data. On the other hand, research conducted on tariff reduction in the context of Free Trade Agreements shows that in general SMEs, having limited resources, find themselves in a position that prevents them from taking full advantage of FTAs. This may be because of lack of awareness of available preferences or difficultly in adapting to the procedures (for

[75] It is relatively easy for a country to surpass the thresholds in the Regulation for a narrow sector (e.g., Kenya and Ethiopia for S-2a), but much harder in a broader sector.
[76] https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/653628/EXPO_BRI(2021)653628_EN.pdf

example on rules of origin, or to meet the standards necessary to import into the EU). Similar dynamics can also be observed in the case of SMEs in GSP beneficiary countries.

The preferred option addresses this to a degree, by increasing the transparency of the GSP process, which will increase awareness of the process in the beneficiary countries. On the other hand, actions beyond the GSP Regulation, including awareness-raising activities through the GSP Hub, will be necessary to reach out to SMEs, with the cooperation of the authorities of the beneficiary countries, in order to exploit the full potential of the GSP preferences.

7. HOW DO THE OPTIONS COMPARE?

This chapter presents the comparison between the options described in Chapter 5.2 across the five clusters of drivers: (1) GSP arrangements and beneficiary countries; (2) products coverage and graduation mechanism; (3) conditionality (negative, positive, international conventions and withdrawal mechanism); (4) transparency; and (5) safeguards. It ranks the policy options in achieving the five Specific Objectives (see Chapter 4).

7.1. A comparison among the options proposed to address problems related to Cluster 1: arrangements and beneficiary countries

The supporting Study confirms that the current GSP three-tier structure is broadly suitable to achieve the GSP objectives. The purpose of supporting the economic development and diversification of exports of countries most in need is already built into the GSP through the graduation of upper-middle income countries and the product graduation mechanism (see Chapter 7.2). Action is nevertheless needed to address the unpreceded high number of countries graduating from LDCs status (Driver 3), in order to mitigate potential significant negative impacts from full duty elimination under EBA.

Maintaining the baseline would not be effective in achieving the overall objective of poverty eradication (GO1), as of the 12 countries assumed to graduate from the EBA, six are predicted to face non-negligible economic impact[77] with Bangladesh standing out in terms of significant fall of exports, a consequential large decline in real GDP and economic welfare, and large impacts in sectors such as textile, apparel and leather/footwear that would face high MFN tariff in EU. For Bangladesh, the negative impact will also be felt on employment, wages, gender, and human rights (described under Chapter 6.1) reversing substantial gains made under EBA.

The overall objective (GO1) is unlikely to be achieved by **Option 1B and 2B**. In terms of **effectiveness,** the economic and non-economic impact shows that exports, GDP, welfare, and other economic indicators of countries that will cease to benefit from preferences will decline, and this will not be at the benefit of the LDCs. The costs of changes will be concentrated on few developing countries and sectors, while the benefits will be diluted and not targeted on the intended beneficiaries. In addition, the impact of both options on LDCs that are expected to graduate from LDC status add to the negative impact they will experience as a result from their exit from EBA (see Table 7).

[77] Bangladesh, Lao PDR, Myanmar, Nepal, Sao Tome and Principle, and Solomon Islands.

Table 7. Comparison of options related to Cluster 1: arrangements and beneficiary countries (Baseline = no change)

Criterion (*vis-à-vis* the objective of poverty reduction)	Option 1B: Discontinue one or two GSP arrangements	Option 2B: Graduation from GSP of large and industrialised developing countries	Option 3B: Provide transitional accommodations for graduating LDCs	
			3Ba: Change vulnerability criterion	***3Bb: Extend transition period***
Efficiency	0	0	++ /Reduces administrative burden	- /Increases administrative burden
Effectiveness: Does it benefit those most in need?	- - /Compounds negative effects for graduating LDCs; no benefits for remaining LDCs	-/No benefits for remaining LDCs; negative externalities (reduced cumulation opportunities)	+ /Ensures all are eligible for GSP+ on economic criteria	+ /Addresses needs of LDCs
Coherence with overall GSP objectives or other EU policy	- /Reduces scope, appeal, and leverage of Standard GSP/GSP+ ; not coherent with the EU's sustainability objectives	- /Reduces scope of Standard GSP; not coherent with the EU's sustainability objectives	+ /Supports development goal	+ /Supports development goal
Legend (against the baseline): 0 = neutral; +/- = limited positive/negative impact; ++/- - = significant positive/negative impact				

Options 1B and 2B would not be **coherent** with the EU development cooperation policy, as a fundamental part of the EU's contribution to achieving the Agenda 2030 and the Sustainable Development Goals, given the strong negative impact on GSP beneficiaries (low and lower-middle-income countries[78]) that lose preferential access to the EU. In particular, the suppression of the GSP+ arrangement and the resulting decline in real economic terms will have a negative impact on beneficiaries' sustainability agenda, and the commitments they have taken to effectively implement the relevant GSP international conventions.

Sub-option 3Ba scores the highest in achieving in particular specific objective (SO1) of expanding exports from developing countries most in need, in terms of **efficiency** (reduction in administrative burden), **effectiveness** (addressing the LDCs vulnerability

[78] World Bank Country and Lending Groups, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

resulting from loss of EBA preferences) and **coherence with the EU development policy** (EU support to the UN's 2030 Agenda for Sustainable Development[79]).

7.2. Comparison among the options proposed to address problems related to Cluster 2: products coverage and graduation mechanism

Table 8 compares all options under the cluster on products. The baseline scores null across all areas as there are no costs or benefits for maintaining the current framework.
Both the Study and the MTE found no compelling evidence to justify changing the baseline. The study made no explicit recommendations either. Given the complexity of the economic diversification process, **the link between the GSP instrument (coverage and graduation) and diversification is difficult to establish**.

The GSP preferential tariffs are assumed to promote trade diversification, even if the data fails to confirm a clear-cut effect. Diversification depends on a variety of factors, including resource allocation, productive capacities, domestic policy choices that goes beyond GSP. One cannot automatically expect a country's export to diversify merely because of availability of trade preferences.

In terms of **efficiency**, **Options 4B and 5B** will add complexity to the product graduation mechanism and will increase the administrative burden.

In terms of **effectiveness,** the case studies (analysed by the External Study) show that introducing Option 4B will not lead to any suspension of benefits: none of the new sectors rice and sugar will exceed the graduation thresholds for any of the countries and would **therefore have no effects**. As for the agricultural products, only one section for one country (cut flowers from Ethiopia, an EBA country) will surpass the current thresholds. This might lead to significant effects on the sector in Ethiopia.

Table 8. Comparison of options related to Cluster 2: product coverage and graduation (Baseline = no change in product graduation mechanism or product coverage)

Criterion (*vi- à-vis* the objective of poverty reduction)	**Option 4B: Expand the product graduation mechanism to all GSP+ and EBA beneficiaries**		**Option 5B: Expand the product coverage for Standard GSP and GSP+**	
	4Ba: Rice and sugar	**4Bb: All agricultural products**	**5Ba: Products that promote environmental and climate protection goals**	**5Bb: Industrial and agricultural products**
Efficiency	- /Increase in administrative burden	- /Increase in administrative burden	- /Complexity and lack of clarity on 'green goods'; increase in administrative burden	- /Increase in administrative burden
Effectiveness	0 Analysis shows	- /Only one product graduation (cut	0 Minor impact,	0 Marginal if any

[79]https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf

	neither product would meet criteria for graduation.	flowers Ethiopia) with possible significant negative effects for the sector in the country	small gains expected, but for largest and most diversified economies	impacts, small gains expected, but for largest and most diversified economies
Coherence with GSP objectives or other EU policy	- /Decrease in generosity of system for those most in need; reputational damage	- /Decrease in generosity of system for those most in need; reputational damage	+ / Minor contribution to environmental goals	+ /Increase generosity of the system
Legend (against the baseline): 0 = neutral; +/- = limited positive/negative impact; ++/- - = significant positive/negative impact Legend (against the baseline): 0 = neutral; +/- = limited positive/negative impact; ++/- - = significant positive/negative impact				

Overall, extending product graduation to EBA beneficiaries would lead to serious **reputational damage,** for the EU which made firm commitments in this regard when the EBA initiative was adopted in 2001. Extending product graduation to GSP+ beneficiaries would imply reducing the incentives currently attached to this arrangement to pursue implementation of the relevant human rights and labour rights conventions, making it less attractive for developing countries to apply for (such arrangement is not granted automatically, eligible countries have to apply for and accept stringent monitoring requirements).

Under **Option 5B, the effects would be marginal** given the very minor import market share GSP beneficiaries have in environmental goods or industrial products. Secondly, benefits stemming from the extension to the new products categories would be concentrated in the largest and most diversified GSP economies. The top two GSP Standard exporters, India and Indonesia, account for virtually all of the GSP exports of top environmental goods, followed by Pakistan and the Philippines.

Options 4B and 5B would not be **coherent** with the EU development policy, given that most of the additional trade would be captured by large and already well-diversified economies (India, Indonesia) and would have minimal effect on advancing the diversification objective in the majority of GSP beneficiaries.

7.3. Comparison among the options proposed to address problems related to Cluster 3: conditionality (positive, negative, international conventions, withdrawal procedure)

The GSP Regulation established two types of conditionality for GSP beneficiary countries: (i) **positive conditionality** applies only to GSP+ beneficiaries which are required to ratify and effectively implement a series of relevant international conventions and (ii) **negative conditionality** across all arrangements to respect human rights and labour rights.

Table 9. A comparison of options under Cluster 3: conditionality (Baseline - no change)

Criterion (*vis-à-vis* the objective of sustainable development)	Negative conditionality (expand to all conventions)	Positive conditionality (expand to Standard GSP and EBA)	International conventions

	Option 6B Expand to all conventions	Option 7B: Ratify and effectively implement	Sub-option 8Bc: Amend list of conventions (combine 8Ba and 8Bb)
Efficiency	- / Limited administrative burden - / Difficult to monitor implementation of environmental conventions	- / Increased administrative burden and compliance costs	- / Increased administrative burden, technical assistance
Effectiveness	+ /It could lead to improvements on attaining sustainable development goals	- / High ratification costs. Beneficiary may decide not to transit to new GSP. +/ Could lead to improvements on attaining sustainable development goals	++ /advance GSP contribution to sustainable development
Coherence	++ /EU Green Deal Agenda	+ /development policy, human rights, and social policy	++ /development policy, EU Green Deal Agenda, social policy (tackling labour rights, discrimination, and child labour)
Legend (against the baseline): 0 = neutral; +/- = limited positive/negative impact; ++/- - = significant positive/negative impact			

In the comparison presented in Table 9, **Option 6B** scores the highest in terms of **efficiency, effectiveness, and coherence**. It achieves the objective of integrating the European Green Deal Agenda into the GSP instrument, by bringing environmental (and governance) conventions to the same level as human rights and ILO conventions (and thus would be more **coherent** with the current EU policies).

Moreover, the additional administrative resource burden for the Commission related to monitoring compliance and dialogue with the beneficiary countries is considered limited **(efficiency**), in particular if negative conditionality were to be used only as an instrument of last resort for particularly blatant violations of the conventions. On the other hand, the negative conditionality on environmental conventions can also face **practical** difficulties especially regarding the identification of violations of the norms established in the Multilateral Environmental Agreements, due to the lack of systematic monitoring, over-reliance on voluntary requirements or limited access to information.

Thanks to monitoring and systematic scrutiny from EU bodies, widening the scope of conditionality could also lead to improvements on the ground in terms of implementation (**effectiveness**), as GSP beneficiaries will face increased risk of temporary withdrawal of preferences.

Option 7B scores less in terms of **effectiveness**. Ratification does not immediately translate into effective implementation. It only lays down the foundations for work towards future implementation of the UN/ILO conventions. It is a necessary condition but not sufficient to ensure promotion of human rights, labour standards or good governance on the ground, in particular in GSP countries with weak governance, lacking strong civil society mechanism and the rule of law.

However, pressure of the international human rights or labour standards bodies as a result of ratification may slowly work towards the alignment of national legislation and practice with the international human and labour rights standards and contribute to gradual implementation process in the long run.

In addition to the time needed for ratification, Standard GSP and EBA countries may face capacity constraints in the ratification and implementation of additional conventions (**efficiency**). The administrative costs can be high if they would have to ratify many conventions. The time needed from the moment of starting the domestic process towards ratification to actually ratifying the conventions varies per country and typically depends on political will, the country current legislation, the degree of cooperation with civil society, the level of cooperation with the monitoring bodies and financial resources.

Furthermore, expanding positive conditionality (**Option 7B**) to Standard GSP and EBA beneficiaries may lead to denying duty-free quota-free market access for potentially a large group of least developed countries that do not have sufficient resources for ratifying or implementing the international conventions.

Sub-option 8Bc, which proposes to add the following conventions to the list of relevant GSP conventions currently in Annex VIII of GSP Regulation, would further advance the attainment of GSP objectives, notably the sustainable development objective **(effectiveness**):

- The Paris Agreement on Climate Change
- The Convention on the Rights of Persons with Disabilities (CRPD);
- The Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict (OP-CRC-AC);
- ILO Convention No 81 on Labour Inspection;
- ILO Convention No 144 on Tripartite Consultation;
- The UN Convention against Transnational Organized Crime (UNTOC).

All of these conventions have been ratified by all EU Member States as well as a large majority of GSP countries (as well as globally). They directly contribute to the attainment of the GSP overarching objectives, are relevant for international trade, and have been recommended for inclusion by a number of stakeholders.

Sub-option 8Bc is also **coherent** with what the Agenda 2030 advocates for: a proactive, forward-looking, progressing and constantly improving approach in building a better society, "seeking to realize the human rights of all." Thus, maintaining the current list of conventions, incomplete from the point of view of international human rights standards, represents a static approach to the protection of human rights, not aligned in spirit with the SDGs.

Taking into account the limitations connected to the inclusion of all the core conventions and their optional protocols, it is recommended to update and review the list of conventions in Annex VIII to increase the promotion of human rights standards within the scheme.

In terms of **efficiency,** it will nevertheless imply an increase in the administrative costs for both the GSP countries (ratification, implementation, and reporting obligations costs) and the European Commission (administrative costs and additional technical assistance and support GSP countries would need to ratify the relevant Conventions).

Table 10. A comparison of options related to Cluster 3: the withdrawal mechanism (Baseline = no change)

Criterion (*vis-à-vis* the objective of sustainable development)	Sub-option 9Ba New steps before formal procedure	Sub-option 9Bb New steps during formal procedure	Sub-option 9Bc Withdrawal for (i) Specific economic operators (ii) Migration conventions	Sub-option 9Bd Shorter urgency procedure in well qualified circumstances
Efficiency	- /administrative burden	- /administrative burden	(i) - risks transferring burden to private sector whilst the focus on GSP scheme is on governments (ii) ++ promotion of international migration conventions with low compliance costs	+ / deals with urgent, blatant violations
Effectiveness	- / reduces country-specific analysis, reduces Commission discretion, each country is a unique case	+ / analysis of economic impact	(i) – / no direct or immediate impact on business who operate only in the domestic market - / Questions on process (difficulties running a comprehensive audit) (ii) ++ could lead to improvements on attaining sustainable development goals	+ / increases pressure on beneficiaries
Coherence	0	0	(i) + / promotes due diligence (ii) ++ supports EU migration and multilateral policy	+ /
Legend (against the baseline): 0 = neutral; +/- = limited positive/negative impact; ++/- - = significant positive/negative impact				

The analysis of the withdrawal procedure (baseline) under the study shows that the process is generally **effective and coherent** with other EU policies, in particular on development cooperation, promotion of human rights and social issues across all EU instruments. As part of the GSP engagement (prior to withdrawal procedure), the European Commission has used a wide range of instruments (political and technical dialogues, development support, written communication), and consistent with international practice, their selection is adapted to the specific circumstances of each GSP country.

This also includes a systematic involvement of business and other local actors from the beneficiary country (e.g., the parliament, employer and worker organisations, other civil society actors, enforcement agencies, etc.) and international ones to win their support for the recommended changes, to facilitate their adoption and implementation in the longer-term.

The Study also acknowledges that the Commission should maintain a certain level of discretion in the withdrawal decision making process, including on the start and progress of the pre-withdrawal enhanced engagement stage.

Sub-option 9Ba would bring no significant value-added and it will reduce the Commission level of discretion in the decision-making process and the choice of the methodological approach (**effectiveness**) with possible negative effects on the governmental discussions to address the underlying shortcomings. Each country is a unique case, with specific political, economic, and social needs, and specific engagement mechanisms with the EU. Considerable leverage is exercised through engagement and the threat of GSP withdrawal rather that the withdrawal itself. The amount of leverage depends, however, on the nature and scale of the problem, and the willingness of the Government to engage and to resolve the problem. It will also add substantive administrative costs (**efficiency**).

Sub-option 9Bb scores high on **effectiveness**. It will allow the Commission to include an analysis of trade-related data (volume, structure of GSP eligible exports), and the potential impacts resulting from the withdrawal of preferences, including for workers and vulnerable groups of the society. Commission will take into account:

- ✓ The economic development needs of the beneficiary country in view of the objective of the GSP Regulation, including its need to diversify its export base; and

- ✓ The socio-economic impact of withdrawal, including the impact on workers (such as number of workers, gender equality, skills, support of dependent family members) and industries (such as added value of the products, mobility of the industry, existence of alternative export markets, contribution to the diversification of the economy).

It will target in a more efficient manner the withdrawal measures to address the violations and remedy the situation in the GSP country.

With regard to targeting selected economic operators, Sub-option 9Bc(i) raises concerns as to its **effectiveness and efficiency**. Violations in most cases are driven by the government (e.g., through domestic legislation) rather than by individual businesses.

Targeting individual operators also carries the risk of passing the burden of ensuring compliance with rights enshrined in international conventions from the beneficiary country government to the private sector, which would be against the GSP effort of overall promoting sustainable development in that beneficiary.

With regards to migration, **Sub-option 9Bc (ii)** Migrants are among the most vulnerable people in the world. Migration constitutes an element of the SDGs - in particular, target 10.7 calls for the facilitation of orderly, safe, regular, and responsible migration and mobility of people. Trade policy can and should help achieve this goal.

In light of the above, it is considered important to require that beneficiaries respect the obligation to readmit their own nationals through the addition of an additional clause to Article 19 setting out the possibility of withdrawal of benefits in case of non-respect of such an obligation.

Among all identified options, **Sub-option 9Bd** scores high on **efficiency and effectiveness** to address some of the concerns expressed by stakeholders linked to lack of flexibility of the mechanism to address urgent blatant violations. The current withdrawal procedure (takes up to 18 months from initiation to the moment the withdrawal will take effect) can be shortened to respond faster to well-defined, exceptional cases of blatant human rights and labour rights violations.

7.4. Comparison among the options proposed to address the problems related to the Cluster 4: transparency

A robust monitoring system is crucial to ensure effective dialogue and implementation of conventions in beneficiary countries, as well as to guarantee that the possibility of withdrawal is seen as a likely outcome for failing to meet the GSP requirements. Enhancing the transparency of the GSP monitoring system is important to ensure the visibility of monitoring actions, to increase oversight of GSP beneficiaries by civil society organisations with positive implications for the respect of human rights and sustainable development.

The supporting Study and MTE find that the monitoring procedure as reformed in 2012 is successful (baseline). Beneficiary countries continued to improve in effectively implementing the relevant conventions, which is evidence for GSP success. Reports prepared by third parties have also shown the GSP monitoring procedure to have been at least partly successful, despite some shortcomings. However, based on the analysis and consultations, there is a demand for some improvements in the monitoring process.

Table 11. A comparison of options proposed related to Cluster 4: transparency

Criterion (*vi- à-vis* the objective of sustainable development)	Option 10B: Implement practical transparency measures	Option 10C: Amend GSP+ monitoring cycle
Efficiency	- /Additional resource demands	+ /Reduces pressure on resources
Effectiveness	+ /Opportunities for involvement and impact of civil society	+ /Provides flexibility and additional time for improvement
Coherence	0	+ /Align with monitoring bodies
Legend (against the baseline): 0 = neutral; +/- = limited positive/negative impact; ++/- - = significant positive/negative impact		

Option 10B scores high on **effectiveness,** while it implies additional administrative costs (impacts **efficiency**). Implementing additional steps to engage with the civil society would improve the transparency of the monitoring process and ensure an effective dialogue with civil society to avoid receiving biased or inaccurate information from the government. Specific actions are linked to an on-going GSP Hub project that provides a context for the NGO community to raise awareness and signal progress on issues.

An additional concrete step is linked to the creation of the Chief Trade Enforcement Officer and the introduction of a dedicated mechanism for complaints on GSP matters. Such a mechanism gives a formal role to civil society organisations to monitor GSP implementation work and impact and strengthen the legitimacy of monitoring.

In terms of **efficiency, effectiveness and coherence**, **Option 10C** (extend monitoring cycles from the current two-year cycle to a three-year cycle) has positive effects on Commission internal resources, collection of information or submission of intermediate progress reports in cases where there are reasons for concern (e.g., a reported aggravating situation or lack of will by the partner country to improve its implementation record) or when the beneficiary country is supposed to take additional steps further to the enhanced engagement.

Secondly, it also allows the beneficiary countries to better plan their actions to comply with identified shortcomings.

Thirdly, the current biennial GSP reporting cycle is too short compared to the reporting cycles of international conventions; they usually have longer reporting cycles to allow beneficiary countries to address problems raised in their monitoring reports.

Finally, an extension of the monitoring cycle would alleviate the administrative burden of the monitoring process both for the Commission and the beneficiary countries.

7.5. Comparison among the options proposed to address the problem related to Cluster 5: safeguards

The main conclusion regarding automatic safeguards is that the two types of expansions considered – in terms of the products covered and in terms of the GSP beneficiaries covered – would not lead to an actual application of the mechanism, if the conditions for triggering it are left unchanged. The question of moving from the baseline to an alternative scope of automatic safeguards is, therefore, moot.

The effect of expanding the product coverage of the automatic safeguard mechanism to agricultural goods (**Option 11B**) –when applied on the basis of GSP Sections – is considered to be negligible (hence **no effectiveness gains**) when compared to the current rules. Accordingly, no economic or non-economic impacts are expected in this scenario when compared to the baseline. In addition, the desirability of expanding automatic safeguards to agricultural products based on the current definition of GSP Sections is doubtful given concerns of equitable treatment highlighted in the supporting study.

Option 11C would also have limited effectiveness gains. In sum, the expansion of automatic safeguards to EBA countries and also expanding the product scope to rice and sugar could only have any effect if applied using a narrow product definition i.e., not at the GSP Section level. Even then, considering recent import trends, the likelihood of its application remains minimal: For sugar, no EBA country comes close to meeting the conditions for triggering the mechanism, and for rice, the general safeguards mechanism has already been used, so the added value of automatic safeguards would be limited.

Table 12. A comparison of options to address Cluster 5: safeguards (Baseline scenario: no change to the automatic safeguard mechanism)

Criterion (*vis-à-vis* the objective of protecting EU economic industry)	Option 11B: Expand the range of products covered by the automatic safeguard mechanism (Art. 29) to cover all agricultural products listed in Annex V and Annex IX to the Regulation	Impact of Option 11C: Expand the application of the automatic safeguard mechanism (Art. 29) to EBA beneficiary countries		
		Sub-option 11Ca: The list of products covered by the mechanism of automatic safeguards (Art. 29) does not change	***Sub-option 11Cb: Expand the list of products covered by automatic safeguards to rice and sugar***	***Sub-option 11Cc: Expand the list of products covered by automatic safeguards to all agricultural products***
Efficiency	0	0	- Increase in product section to be monitored	- Increase in product section to be monitored
Effectiveness	0	0	0	+
Coherence	0 - /with development goal	- /with development goal	- /with development goal	- /with development goal
Legend (against the baseline): 0 = neutral; +/- = limited positive/negative impact; ++/- - = significant positive/negative impact				

Options **11B and 11C would not be coherent** with the overall GSP objective of supporting export diversification.

8. PREFERRED OPTIONS

8.1. Preferred option related to Cluster 1: arrangements and beneficiary countries

We propose to:

- Amend the existing vulnerability criteria to ensure that all countries graduating from EBA could become eligible for GSP+ (**Sub-option 3Ba**)

The analysis above shows that there is no compelling reason to change the existing structure of GSP.

The option which contributes most to the general objective of contributing to poverty eradication and the specific objective of expanding exports from developing countries is the **amendment of the vulnerability criteria**. This option attempts to mitigate the significant negative consequences of losing EBA preferences following LDC graduation.

Under the current vulnerability criteria, **all the countries expected to graduate from LDC status over the next 10 years could accede to GSP+** to maintain duty free access[80] to the EU market except Bangladesh[81].

Softening the effects of LDC graduation is an objective of the GSP as witnessed by the generous transitional period before losing EBA benefits. Moreover, it cannot be excluded that other LDC countries might in the future face the same obstacle as Bangladesh. Ensuring that graduation from LDC status can open the path to another generous preferential arrangement – especially one supporting sustainable development such as GSP+ – is in line with the spirit of EU's GSP.

In view of the above, the **existing vulnerability criteria can be amended** to ensure that all LDCs beneficiaries graduating from EBA could become eligible for GSP+. In this respect, it is proposed to abolish the criterion of the 'limited export competitiveness' and only keep the 'lack of export diversification' criterion to measure the vulnerability of beneficiaries. It goes without saying that future access to GSP+ for graduating LDCs will not be automatic[82]; interested beneficiaries will still need to comply fully with the GSP+ entry criteria.

8.2. Preferred option related to Cluster 2: products coverage and graduation mechanism

- None of the analysed policy options is retained.

The External Study concluded that, unless the thresholds were set at a lower level, extending the current product graduation to all GSP beneficiary countries would only affect one EBA beneficiary, namely Ethiopia and its export of "cut flowers" to the EU (and, in addition, might lead to significant impact on this sector locally). Product graduation thresholds would, therefore, need to be substantially revised downwards for the product graduation extension to have a significant impact.

Additionally, extension of the current product graduation to new sectors and products would not lead to any product graduations for any GSP countries. Such an extension would, therefore, also have no effects unless the thresholds were set at a lower level.

The product graduation mechanism should, therefore, be maintained as it is today, only for Standard GSP.

Nevertheless, we propose to put forward technical adjustments in particular to review product graduation thresholds[83].

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[80] The product scope of GSP+ is by definition smaller than EBA; however, for the products covered under GSP+ the duties are zero. Former LDCs would still face stricter rules of origin under GSP+ than under EBA.

81 In particular, Bangladesh is the only country not meeting the export competitiveness criterion. The External Study finds that Bangladesh will thus face a considerable increase in customs tariffs to MFN level (especially for textiles which represent over 90% of their exports), with significant negative impact on GSP and social and economic welfare.

82 Unlike with EBA status which was automatically determined on the basis of LDC status.

83 See additional administrative elements listed at the end of Section 6.5.

Product graduation thresholds are calculated as the share of product imports from a specific beneficiary of the total EU imports from all GSP beneficiaries. At the same time, large beneficiaries such as Ukraine and Vietnam, and potentially Indonesia are exiting the scheme, leaving GSP imports dominated by a few remaining large users (India, Bangladesh) [84].This suggest the product graduation thresholds need to be reviewed to reflect the change in the composition of beneficiaries and to continue focusing the GSP benefits on the countries most in need. Furthermore, the analysis of the policy options above suggests that the product graduation mechanism would be more frequently applied if the thresholds were reduced. **Consideration should, therefore, be given to reducing the product graduation thresholds.** For example, reducing all product graduation thresholds by 10% would impact only India, meaning 44% of its GSP-eligible export to the EU would be graduated versus around 40% under the current thresholds[85].

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8.3. Preferred options related to Cluster 3: conditionality

We propose to:

- Extend negative conditionality to the conventions on climate/environment and good governance **(Option 6B)**
- Add the following to the list in Annex VIII **(Sub-option 8Bc):**
    - The **Paris Agreement on Climate Change** (2015);
    - The **Convention on the Rights of Persons with Disabilities** (CRPD), as it plays an important role in the protection human rights of such a vulnerable group;
    - The **Optional Protocol to the Convention on the Rights of the Child** on the Involvement of Children in Armed Conflict (OP-CRC-AC) because it is an important instrument to ensure the protection of children in the situation of armed conflicts.
    - ILO **Convention No 81 on Labour Inspection**, is an important component in the protection of labour rights as without proper inspection systems, there is no sure way to ascertain the respect of labour rights;
    - ILO **Convention No 144 on Tripartite Consultation** is an important instrument given the key role played by the tripartite dialogue in social development and respect for labour rights, including in the work of the ILO**,**
    - The **UN Convention against Transnational Organized Crime** (UNTOC).
- Include an assessment of the impact of a withdrawal on workers and vulnerable groups of the society **(Sub-option 9Bb)**

84 See discussion on the reduced number of GSP beneficiaries in Section 2.1.1.

85 This calculation assumes same product groups and product graduation mechanism, but that Vietnam and Indonesia graduate out of the GSP; and Bangladesh graduates from EBA to Standard GSP (see Annex 10 for the calculation tables). The impact on Bangladesh is modulated by the changes to the vulnerability criteria for GSP+ that would allow Bangladesh to apply for GSP+ status, thus maintaining current market access preferences.

- Reduce the period for the withdrawal procedure for well-defined, exceptional cases of blatant human rights and labour rights violations **(Sub-option 9Bd)**
- Introduce a specific ground for withdrawal for violations of the principles of international migration conventions (**Sub-option 9Bc**);

Extending negative conditionality (**Option 6B**) would put environmental conventions (including the Paris Agreement on Climate Change) and good governance conventions on a par with human rights and labour rights conventions for the purposes of the scheme's withdrawal procedure. This would effectively create a single list of conventions/agreements, abolishing the difference between Part A (core human and labour rights UN/ILO conventions) and Part B (conventions related to the environment and to governance principles) of Annex VIII. This is in line with the current political orientation of the Commission to promote the protection of the environment (European Green Deal) and is requested by the European Parliament and civil society.

The current list of environmental conventions included in Annex VIII of the GSP Regulation includes both the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. In 2015 these conventions were "updated" by the Paris Agreement adopted by the Conference of the Parties to the UNFCCC at its 21st session, which constitutes the single most important international agreement on the fight against climate change.

It is, therefore, proposed to replace the Kyoto Protocol in Annex VIII with the Paris Agreement.

Sub-option 9Bc on withdrawal for violations of the obligation to readmit own nationals is consistent with the EU migration policy. Withdrawal of preferences in case of important policy areas (e.g. anti-terrorism, money laundering) is a tool already used in the GSP regulation. Migration is an area at least as important as the abovementioned ones which would, therefore, also deserve a special place under Article 19. In this respect, the obligation to respect the obligation to readmit own nationals is to be added as an additional independent ground justifying the withdrawal of preferences.

Sub-option 9Bb includes an obligatory step in the withdrawal process linked to socio-economic impact of measures to adapt its decision to the circumstances of the beneficiary countries.

The shorter urgent procedure to address blatant human rights violations (**Sub-option 9Bd**)[86] would allow the EU to be more reactive to change of circumstances on the ground in beneficiary countries. However, it will also have to take into account the need for predictability on the side of business operators, both in the EU and GSP beneficiaries[87].

Efficiency and effectiveness considerations as regards the preferred options on conditionality can be summarised as follows: **For the EU**, the administrative burden of monitoring GSP+ beneficiaries under positive conditionality will increase as the number of conventions will grow from currently 27 to 32. The burden will also increase **for GSP+ beneficiaries** who will be expected to ratify and effectively implement the additional conventions. GSP+ beneficiary countries will face the choice between having to ratify the additional conventions in Annex VIII of the new regulation in order to stay

[86] This option was not examined by the study and it has not been raised before.

[87] The recent military coup in Myanmar (EBA beneficiary), followed by severe curbs to fundamental rights and political freedoms, suggests the need for the EU to have more flexible and adaptable mechanisms to react promptly to particularly grave situations.

within the GSP+ or, not ratify the conventions, hence exit the scheme and move to Standard GSP.

We consider that the **GSP+ benefits far outweigh any additional administrative costs** for GSP+ beneficiaries so this risk is limited. With respect to the **standard GSP and EBA beneficiaries**, the increase in administrative burden for the EU and the beneficiary countries will be more limited, since as outlined above negative conditionality does not involve ratification or systematic monitoring requirements.

8.4. Preferred options regarding Cluster 4: transparency

We propose to:

- Adopt practical measures to improve the monitoring: provide a detailed description of the monitoring process and clarify involvement of civil society **(Option 10B)**.

- Expand the monitoring cycle to three years with the option to perform prioritised (out of cycle) monitoring for specific issues and/or countries **(Option 10C).**

It should be noted that the Commission has already been addressing the demands for increased transparency and coherence in enforcement. In this respect, following feedback from stakeholders carried out for the MTE, the Commission has already put in place tools to improve knowledge and awareness about the role played by GSP in supporting sustainable development in beneficiary countries.

The most important of these are the establishment of the Chief Trade Enforcement Officer and of a Single Entry Point for complaints and a dedicated project (2020-2022) – the *Action on GSP Trade Preferences (GSP Hub)* – which offers a newly established platform providing GSP related information to the public.

The Commission can publish guidance which would explain to the public the various processes as developed through administrative practice. In this respect, it is proposed to publish[88] a detailed description of the monitoring process, the actors involved and instances of civil society's involvement. Such a description would ensure more transparency in the process by providing more clarity on interaction with civil society, with beneficiaries and on the factors involved in decision-making, thus making the Commission's actions and decisions more predictable and enhancing the enforcement role of the Commission.

Lastly, the longer 3-years monitoring cycle will be complemented with an additional "out-of-cycle" monitoring exercise or the submission of intermediate progress reports, where there are reasons for concern or when the beneficiary country is supposed to take additional steps further to the enhanced engagement.

8.5. Preferred option regarding Cluster 5: safeguards

- None of the analysed policy options is retained.

[88] In the GSP Hub and/or the Commission GSP website.

The 2020 External Study's recommendations called for the automatic safeguard to be better connected to its purpose – averting harm to EU industry including Small and Medium-sized enterprises. **In this respect, we propose to proceed with a number of technical adjustments and improvements to the mechanism as follows**:

- Base the calculation of import surges at GSP Section level on import values rather than import volumes due to the heterogeneity of products within Sections; this will better reflect instances of increased imports which could harm EU industry;

- Abolish the *de minimis* threshold established in Article 29.1(b) of the GSP Regulation as it provides no added value in terms of protecting import-competing EU industries – on the contrary, it adds administrative burden and complicates the application of the automatic safeguards;

- Align the thresholds for automatic safeguards and product graduation so as to complement each other.

8.6. REFIT (simplification and improved efficiency)

The preferred set of options as outlined in Chapter 8 aims at achieving the policy objectives with the most effective and efficient tools, with targeted adjustments to the GSP instrument, ensuring that intended benefits are achieved without unnecessary burdens for developing countries and other stakeholders including industry and in particular SMEs.

Table 13: REFIT cost savings – preferred option(s); (estimates are with respect to the baseline of the unchanged legislation)

Description	Amount	Comments
Abolish the export competitiveness vulnerability criterion for GSP+ (**Sub-option 3Ba**)	A simplification of the system and a reduction of administrative burden for calculating and monitoring this threshold	EU
Sub-option 8Bc: replace Kyoto Protocol with the Paris Agreement	simplification and updating of the list of conventions	Global benefit
Option 10Cc: extend the GSP+ monitoring cycle to 3 years	reduction on administrative burden of the monitoring process for both the EU and beneficiary countries	EU and beneficiary countries
Abolish the *de minimis* threshold for safeguards	Simplification of the application of automatic safeguards and reduction on administrative burden	EU, business, and beneficiary countries

In terms of **efficiency**, the preferred set of options avoids overcomplicating and drastically changing the system. Where baseline scenarios serve the objectives of the GSP well, those are retained to ensure continuity and predictability. A number of technical improvements and simplifications are suggested, to improve coherence, legal clarity, and transparency. Excessive administrative burden is avoided where no substantive positive impact is expected from it. Some additional obligations and costs arise from the preferred set of options, for example on expanding negative conditionality and improving the withdrawal procedure. These are, however, limited and justified by the contribution to the general objectives of GSP. For details on costs and benefits, please see Annex 3: Who is affected and how?

9. HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED?

As noted by the MTE and as confirmed by the supporting Study, defining a causal link between the GSP and its overall objectives – and isolating effects and impacts specifically attributable to GSP from other influencing factors when assessing the economic, social, environmental, and human rights impacts of the scheme – provides a significant challenge. The lack of timely data and indicators have been also part of the problem.

This section provides some indicators that can be used as a measurement framework for the preferred option.

Comprehensive performance measurement would require measurement of the validity of causal relations, for example to what extent an increase in exports from developing countries actually reduces poverty in the exporting countries. However, given typical resource and time constraints for monitoring, assumptions about the validity of certain causal links, especially at the higher levels of the logical chain have to be made.[89] The validity of these assumptions, along with the measurement of progress towards the highest-level objectives would be addressed as part of future evaluations.

9.1. Measuring performance with regard to GSP overarching objectives (at the mid-term review and/or at the end of the Regulations' application)

The following indicators are proposed to be used for measuring the GSP's performance with respect to the general objectives of reducing poverty in developing countries, of promoting sustainable development and good governance, and of safeguarding EU financial and economic interests.

9.1.1. Reducing poverty in developing countries

The preferred option will contribute to this objective in particular by (i) maintaining the GSP architecture and thus providing stability; (ii) adjusting the vulnerability criteria for countries to join the GSP+ scheme; (iii) adjusting the product graduation mechanism.

Monitoring must take into account the difficulty to establish causal links, described above, and the resources intensiveness of using economic models singling out the effect of trade preferences on trade, such as computable general equilibrium models, partial equilibrium models or gravity models. With this in mind, the following indicators can be used for monitoring:

- **Poverty rate (over time):** Increased exports due to GSP preferences and the induced job creation, complemented by increased wages driven by collective bargaining agreements or legislation regarding wage levels, including minimum wages, may contribute over time to reduction of poverty, including the rate of workers living in poverty.
- **Employment in sectors benefitting from GSP preferences**: Available evidence suggests that international demand and favourable export conditions encourage growth of export-oriented competitive sectors and support job creation therein. This

[89] This is also justified by the fact that a large body of literature on the relationship between trade and development exists without however having achieved to put this issue to rest.

may trigger a move of workers between sectors in the exporting country (e.g. from agriculture to industry) and create new job opportunities for those who were not present in the labour market, e.g., women (as in the case of the garment industry in a number of GSP beneficiary countries). Therefore, sectoral employment trends could be measured to capture whether the performance of sectors covered by preferences is better than in other sectors. Where possible, women and youth employment should be disaggregated. Alternatively (or complementary), sectoral wages and/or unemployment could also be used as an indicator, but employment statistics are more generally available.

- **Value of EU imports of goods from GSP countries** (individually, and aggregated by GSP arrangement) compared to

  (1) Total EU imports of goods from MFN countries; and

  (2) EU goods imports from all developing countries with which the EU has FTAs in place.

Subsidiary indicators as outlined below could help to show if the underlying assumptions for the GSP's role in increasing exports hold. These indicators are straightforward to measure; they would be recorded annually, using EU import statistics or UN COMTRADE statistics.

- Value of total world exports by GSP beneficiaries: helps to monitor whether the GSP does not merely divert beneficiary country exports from other markets to the EU.
- Share of GSP eligible exports in a beneficiary country's total exports to the EU: helps to establish whether the observed export performance is due to GSP preferences or other factors. In the former case, the share of GSP eligible exports should at least remain constant.
- Preference utilisation rates.

Furthermore, **diversification** can be monitored by observing: (1) Development of GSP country exports of manufactured goods (HS chapters 84 to 96) to the EU; and
(2) Concentration of GSP country exports to the EU across products.

9.1.2. Promoting sustainable development and good governance

The preferred option will contribute to this objective in particular by (i) extending negative conditionality for GSP arrangements from the core human rights and labour conventions, to include also environment and governance, (ii) extending and updating the list of conventions, (iii) amending the preference withdrawal process and (iv) improving monitoring. The following indicators can be taken into account:

- **Ratification of international conventions**: The reasons for countries to ratify (or not) international conventions are diverse and are often linked to domestic policy. However, there are indications that for both Standard GSP beneficiaries and countries graduating from EBA, additional preferences offered by the GSP+ arrangement act as an encouragement to ratify international conventions.

- **Implementation of international conventions**: The reports of the conventions' monitoring bodies would be the main source for this indicator, along with additional relevant high-quality information.

- **Informal economy and informal employment**[90]: GSP preferences in combination with the conditionality regarding international conventions and corresponding government measures are aimed at enhancing conditions in the informal sector as well as professionalization and hence supporting the move from informal to formal business operations and employment[91]. The main related indicator is the development of the overall rate of informal employment in the economy over time.

- **Participation of men and women in the labour force**: New job opportunities created by growing exporting sectors may encourage employment of women and their enhanced presence on the labour market among paid workers (some of them might have previously worked as unpaid family members e.g., in agriculture).

- **Composite indices** such as (1) the Gender Inequality Index (GII)[92] regarding rights of women (2) the Global Freedom Index[93] regarding civil and political rights, and (3) Yale's Environmental Performance Index[94], possibly coupled with the number of reports on environmental disasters in beneficiary countries.

9.1.3. Safeguarding EU financial and economic interests

The preferred option foresees maintaining the safeguards mechanism. The success can be monitored, for example, by considering **output and employment in EU sectors competing with major GSP imports**: GSP preferences increase the level of competition for EU producers. Nevertheless, if GSP instruments to safeguard EU financial and economic interests function well, there should be no cases where increasing preferential imports lead to major reductions in output or employment of competing EU industries.

[90] Research on the impact of international trade on informal economy and informal jobs is not conclusive, and the size of the informal sector depends on a number of domestic factors (including rigidity of the labour market, social protection coverage, regulations related to enterprise registration, etc.).
[91] Corresponding GSP country policy measures are in line with ILO Recommendation No 204 (2015) *Transition from the Informal to the Formal Economy* which suggests initiatives in areas, such as trade, taxes, business environment, employment, education and skills development, business and financial services, access to markets, infrastructure and technology, governance and targeted actions facilitating operation of MSMEs.
[92] For some GSP countries, data is not available for this index, and it can be substituted by the Global Gender Gap Index, http://www3.weforum.org/docs/WEF_GGGR_2020.pdf
[93] https://freedomhouse.org/
[94] https://epi.yale.edu/

Annex 1: Procedural information

Lead DG, Decide Planning/CWP references

The Directorate-General (DG) for Trade is the lead service for this Impact Assessment Report.

Decide reference number: PLAN/2019/4979.

The initiative is included in the Commission Work Programme 2021 (Annex 1, No 19).

Organisation and timing

An Inter-service Steering Group (ISG) was established on 23 April 2019 for the purpose of preparatory work, including this Impact Assessment, for a possible future Proposal for a Regulation of the European Parliament and Council applying a scheme of generalised tariff preferences. The ISG included all other relevant services of the Commission: Secretariat-General, Legal Service, DG Economic and Financial Affairs, DG Employment, Social Affairs and Inclusion, DG Agriculture and Rural Development, DG Climate Action, DG Environment, DG Maritime Affairs and Fisheries, DG Financial Stability, Financial Services and Capital Markets Union, DG Taxation and Customs Union, DG Migration and Home Affairs, DG Justice and Consumers, DG Trade, DG International Partnerships, and the European External Action Service (EEAS).

The ISG met four times: on 21 May 2019, 12 December 2019, 31 March 2020, and 01 March 2021.

Consultation of the RSB

An upstream meeting with the Regulatory Scrutiny Board (RSB) on GSP Impact Assessment was held on17 February 2020.

The draft Impact Assessment Report was submitted to the RSB on 08 March 2021 and was examined during the RSB meeting of 7 April 2021.

The RSB issued a positive opinion on the draft Impact Assessment Report on 9 April 2021. Below are recommendations of the RSB:

Recommendations of the Regulatory Scrutiny Board	Modifications to the Impact Assessment Report
(1) The report should more clearly distinguish between the overall success of the GSP and the more detailed issues where there is room for improvement. In this context, it should clarify whether graduation of countries is seen as a measure of success and to what extent supporting a smooth graduation process is an objective of the initiative.	The revised report aims to better separate the positive assessment of the current GSP vis a vis its key objectives in the Introduction (1.1 The EU GSP) and the possible issues for improvement in the Problem Definition section (2.1.1 Main Problem #1). The Introduction and Problem Definition section also now better reflect the fact that the graduation of a country is a positive development as it means the country has achieved some economic growth, to which the GSP has arguably contributed, or a better

	preferential arrangement with the EU. In the case of the graduation of LDC countries and their consequent exit from EBA, the issue may rather be the smooth transition to a different tariff arrangement to access the EU market at favourable conditions.
(2) The report should explain upfront core concepts, such as positive and negative conditionality. It should include an assessment of the effectiveness and efficiency of conditionality. It should also better explain the issues around vulnerability criteria and why a change might be considered justified.	Key concepts including around conditionality are now explained in the Introduction of the report (1.1 The EU GSP). Lessons learned and assessment of the effectiveness and efficiency of the current withdrawal process are now included in the Problem Definition section (2.2.3 Drivers regarding conditionality, Drivers 6 and 9) and the Comparison of options (7.3 Comparison among the options on conditionality, paragraphs following Table 10). The issues around vulnerability criteria have been further explored in the Policy Options section, Options regarding Cluster 1: arrangements and beneficiary countries, policy option O3.B.
(3)The report should better explain and justify the safeguards for the EU's economic interest, including competitiveness of EU economic actors. This discussion should be backed by clearer examples on losses of EU competitiveness. It should also elaborate on the SME dimension and impacts.	The revised report reflects the various aspects of EU economic interest, and the role GSP safeguards play in protecting it, in particular regarding competitive pressure on EU industry (see Problem Definition section, Main Problem #3). The report also reflects the Commission's position that the current safeguard mechanism is effective and presents examples of when the mechanism has been triggered in the Introduction and Problem Definition sections. SME dimensions and impacts have been further addressed in the Impact section (see point 6.6).
(4) The options could be better presented. Certain options could be put into annex (on transparency and monitoring), while other measures presented as technical adjustments could be designed and analysed as policy options.	The policy options presentation has been simplified (see Table 5). Options on Transparency and monitoring were maintained in the main text due to their importance for key stakeholders. Proposed technical adjustments have been retained and elaborated on in section 8.2 (Preferred options regarding Cluster 2: products coverage and graduation mechanism), in particular on product graduation thresholds.
(5) The report should be presented in a more consistent, succinct and reader friendly way, avoiding repetitions. It could also simplify the objectives tree and the presentation of the baseline.	The report has been revised in its entirety for consistency and clarity. The baseline, objectives and problem trees have been revised to be SMARTer and to more clearly identify the key considerations taken on in the Impact Assessment Report (IAR) and where new specific policy measures were deemed ineffective or inefficient.
(6) The report should take proper ownership	The report has been revised to more clearly

of its approach and the analysis made. When referring to the underlying study, it should make clear whether it accepts or deviates from this. The report should be self-contained and not leave responsibility for the approach to external consultants.	present the Commission's position in relation to the findings in the external study.

Evidence, sources and quality

The evidence for the impact assessment report was gathered through various activities and from different sources:

- Input by stakeholders to the public consultation (see Annex 2)
- A quantitative econometric modelling simulation (see Annex 4)
- External expertise via the study commissioned to support this impact assessment (see Annex 6, in separate document)
- The Mid-Term Evaluation[95] (MTE) of the implementation of the GSP Regulation (see Annex 7, in separate document)

[95] http://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156085.pdf

Annex 2: Stakeholder consultation

1. Background on the online public consultation

The open public consultation on the GSP and the defined reform options was open from 11 March 2020 to 15 July 2020. This Annex reports on the results of the online public consultation. Other stakeholder contributions were obtained during the preparation of the Impact Assessment Report. In particular, during the External Study, the consultant conducted interviews with key stakeholders, although these were heavily affected by the covid-19 pandemic. The number of stakeholders consulted by the consultant (excluding EU institutions, EU Member State governments, individuals and stakeholders requesting anonymity) was about 150. Results from the interviews and position papers that have been examined are heterogeneous and therefore they are referred to in the Report where necessary, but not summarised here.

2. Overview of respondents of the online public consultation

In total, 512 responses were submitted. Cleaning of the data involved the removal of a few duplicates as well as campaign contributions characterised by virtually identical responses made by different respondents. All contributions to one campaign were counted as one single contribution. The following campaigns were identified: Italian rice farmers (136 responses), Bangladesh footwear sector representatives (25), Myanmar's government (33), and EU plastics sector stakeholders (9).

After data cleaning, 309 different contributions remained. Even among these, however, there is a strong overrepresentation of contributions provided by individual Italian citizens (40 responses) which are similar in nature and highly critical of the GSP in general (along the lines of the rice farmer campaign responses). However, since these could not conclusively be identified as campaign responses, they were kept as individual contributions. When interpreting the survey responses, one should however keep in mind a possible bias. It goes without saying that the survey has no claim to representativeness – neither among EU nor GSP country stakeholders. Rather, it provides anecdotal information about views by stakeholders on the GSP and the different options being considered for the future EU GSP scheme.

Among the respondents, 54% are EU stakeholders, 41% from GSP countries, and the remaining 5% from other countries (including the UK). Among the EU respondents, 67 are based in Italy, 35 in Belgium, 12 each in Germany and Spain, 8 in France, 7 in the Netherlands, 6 in Sweden, 5 in Portugal, 2 each in Poland and Slovakia, and 1 each in Austria, Bulgaria, Czech Republic, Denmark, Finland, Greece, Hungary, Ireland, Latvia, Malta, and Slovenia. Among the GSP countries, most respondents are based in EBA countries expected to graduate from LDC status ("EBA-Grad"; 71 – mostly from Bangladesh and Myanmar), followed by Standard GSP (mostly from India) and GSP+ countries (mostly from Pakistan). Relatively few responses were provided by stakeholders in countries exiting the GSP (such as Sri Lanka or Armenia), as well as in EBA countries.

In terms of the type of respondent, the questionnaire provided for a fairly detailed disaggregation. According to this, "companies/business organisations" account for the largest share of responses (28%), followed by business associations (24%) and EU citizens (17%). For the purposes of further analyses of contributions, stakeholders were

grouped into broader types (Figure 2b), i.e., business interests (comprised of companies and business associations, 52%), citizens (EU and non-EU citizens, 21%), public sector (12%), civil society (NGOs, environmental and consumer organisations, and academia; 8%), and others (including trade unions; 7%).

3. Summary of responses

3.1. Views on the potential of international trade, and of the GSP, to contribute to poverty eradication

A majority of about 70% of respondents considers that international trade can make an important contribution to poverty eradication in developing countries (question C.1), and another 10% think that it can make a minor contribution; 17% think that it cannot contribute to poverty alleviation. Views in GSP countries are clearly more positive regarding the poverty alleviating role of trade: here, 92% of respondents state that trade can make an important contribution, compared to 52% of EU respondents; conversely, 19% of EU respondents do not believe that trade can help eradicate poverty, compared to 2% in GSP countries.

Disaggregated by type of respondent, citizens in the EU are more sceptical about international trade than organisations (roughly divided 50/50 about the role of trade for poverty alleviation), with the exception of "other" respondents including trade unions. Among the other organisations (business interests, civil society, and public sector), no notable differences in views exist. In GSP countries, a large majority (more than 90%) of any type of respondents views the role of international trade for poverty alleviation favourably.

Asked about how trade contributed to poverty alleviation (question C.2), most respondents pointed to the generation of employment and, in the long-term, skills development through exporting.

Conversely, respondents who do not believe in the poverty alleviating role of trade pointed to weak domestic structures in developing countries that would prevent effective poverty alleviation. Others also urged that trade can only play a positive role if "more emphasis [is] put on diversification and on value addition in beneficiary countries; and on avoiding perverse incentives of trade preferences that may cause harm to the attainment of the SDGs."

3.2. Views on the use of the GSP to promote sustainable development and respect for human rights

To summarise the views held by stakeholders on the different impacts of the GSP on sustainable development and respect for human rights (questions D.1 and D.2), a simple indicator was constructed, whereby each response of a "strong positive impact" was assigned a value of 2, "somewhat positive impact" a value of 1, "somewhat negative impact" a value of -1, and "strong negative impact" a value of -2. All other responses ("no impact"; "I don't know") were assigned a value of zero. The indicator thus ranges from -2 (all respondents finding a strong negative impact) to +2 (all respondents finding a strong positive impact).

- On average, the GSP is viewed to have positive impacts across all areas asked about (indicated by positive indicator values);

- On average, no major differences in impact are seen across the various impact areas (all indicator values being close to 1), with the exception of the GSP's impact on combating corruption, where it is seen as substantially less successful (an indicator value of 0.48);
- Views held by respondents from GSP countries are markedly more positive than views held by EU respondents, across all impact areas. Particularly strong differences in views are observed with regard to the GSP's contribution to combating corruption, labour rights, human rights, combating money laundering and terrorism financing, and combating drug trafficking. The relatively strongest alignment of views is on effects of the GSP on migration, climate change resilience, protecting the environment and promoting low carbon development;
- EU respondents on average see only a marginal positive effect of the GSP on combating money laundering, labour rights, and human rights, and a negative effect of the GSP on combating corruption.

3.3. Views on the monitoring of compliance with the GSP

86% of all respondents consider it important for the EU to continue monitoring the level of implementation of the 27 international conventions by GSP+ beneficiary countries (questions E.1 and E.2), compared to 8% who consider it unimportant. There is no major variation across regions or types of respondents, with the exception that the share of respondents from GSP countries who consider monitoring "very" important is substantially smaller than in the EU (45% vs. 75%).

Respondents consider that a wide range of information sources (questions E.3 and E.4) provide useful information for the Commission's monitoring of the implementation of international conventions. The most relevant source, with some distance, are reports by the conventions' monitoring bodies, i.e., the UN, ILO, and other international organisations, followed by information provided by business and social partners in the beneficiary countries, and by NGOs. EU respondents place substantially more weight on NGOs, whereby GSP country respondents more heavily rely on information provided by the beneficiary country government, either published or provided directly to the EU in the monitoring process. While this is an interesting finding, it is partly explained by the fact that public sector respondents from beneficiary countries would be expected to put faith in themselves.

3.4. Views on the withdrawal of GSP benefits

Respondents are divided over the impact that the withdrawal of GSP preferences can have on the human rights or labour rights situation in beneficiary countries (questions F.1 and F.2): 37% of all respondents think it can have an important positive effect, whereas 31% think that it further worsens the situation on the ground. EU respondents hold positive views (49% state that withdrawal can make an important contribution, and another 15% that it can make a minor contribution), whereas a majority of 57% of respondents from GSP countries thinks that withdrawal has negative effects on the human/labour rights situation. Across types of respondents, public sector and business respondents are particularly sceptical. In addition, a large majority of civil society respondents from GSP beneficiary countries (70%; although based on a limited number of 10 responses) considers that withdrawal of preferences is damaging rather than helpful.

3.5. Views on beneficiary countries

54% of all respondents think that the GSP should have a tighter focus on countries "most in need" (questions G.1 and G.2), while 28% do not think this is the case. Majorities for stronger targeting are found both among EU respondents (65% vs. 21%) and respondents from GSP countries, although in the latter case it is only a small majority (40% vs. 34%). While in GSP countries there are no significant differences in responses across stakeholder groups, among EU respondents more targeting is particularly supported by citizens (76%) and businesses (67%), whereas a majority of civil society respondents (43% vs. 29%) is opposed to stronger targeting, and public sector respondents are evenly split (43% for and 43% against).

Proponents of stronger targeting noted that advanced or large developing countries already have competitive export industries and achieved some level of export diversification and should therefore continue to benefit from preferential access to the EU only on a reciprocal basis (i.e., under FTAs, nut the GSP). It was also mentioned that the current list failed to duly take into account the level of vulnerability of some developing countries.

3.6. Views on product coverage for Standard GSP and GSP+ arrangements

A clear majority of respondents (67% compared to 22% who hold the opposite view) thinks that sustainable production can make an important contribution to poverty eradication and sustainable development (Figure 19). Respondents in the EU are more sceptical (58%) than those from GSP countries (77%). The only group across all regions and respondents where a majority does not believe in the positive contribution of sustainable production, are EU citizens; among the 50 respondents, 28 (56%) hold this view, compared to 18 (36%) agreeing with the overall majority; the caveat made in the introduction on the potential bias among individual EU respondents is recalled.

When asked whether the GSP product coverage should be expanded (questions H.3-5), an overall majority of 52% (vs. 35% who oppose) favoured this idea, but responses vary significantly across regions: among EU respondents, 59% oppose the expansion of product coverage (28% are in favour). Among respondents from GSP countries, the opposite view is held (across all stakeholder groups): 81% are in favour and 8% against. Among EU respondents, the only group that overall favours the extension is civil society, but even among this group support is relatively limited, with 3 out of 8 respondents remaining neutral.

3.6. Views on product graduation

51% of all respondents support the continuation of product graduation in the future GSP (questions I.1 and I.2), compared to 24% who would abolish it (25% have no opinion). Support for the continuation is stronger among EU respondents (55%) than among respondents from GSP countries (45%); also, a larger share of EU respondents is undecided (32%, compared to 18% in GSP countries).

Some opponents of product graduation comment that some developing countries' exports are highly concentrated, and that if these products graduate the negative impact affects the whole economy. Another comment was that the three-year period is not sufficient to establish that a sector has really become competitive and should be extended to five

years. EU respondents expressing views against product graduation pointed to the need for predictability of the system and argued that graduation is detrimental to it.

Respondents in favour of maintaining product graduation commented that it is necessary to maintain a fair trading environment. Globally competitive exporters should therefore not benefit from unilateral preferences – especially industries which have been set up in countries with the primary objective of benefitting from preferences. Some respondents also argued that graduation is in the interest of developing countries as it helps diversify exports and thereby avoid getting too reliant on few export products.

3.7 Views on country graduation

Questions in this section focussed on the transition period (of currently 3 years) during which countries that are graduating from LDC status continue to export under EBA preferences from the date of LDC graduation (questions J.1 and J.2).

Respondents' views on this issue are split: about one third (32%) thinks the period should be extended, another third (32%) suggests keeping it at the current three years, and almost another third (27%) favours reducing it. Views of EU respondents widely differ from those of respondents from GSP countries: among the former, 45% are in favour of shortening the transition period and only 10% want to extend it, whereas in GSP countries 58% are in favour of an extension and only 6% in favour of a reduction.

3.8. Views on GSP safeguard mechanisms

67% of respondents agree that safeguards should be provided in the GSP regime, even if they may have negative effects for exporters (questions K.1 and K.2). As is to be expected, this view is held more widely among EU respondents (80%). This figures clearly show that from EU perspective the correct definition and implementation of safeguards measures are very important to avoid negative effects in EU businesses competitiveness (These safeguard mechanisms are particularly relevant for middle income countries like India and Indonesia) with 56% strongly agreeing to this view) – but even among a majority of respondents from GSP countries (53%, with 10% strongly agreeing). Across types of respondents, EU citizens but also public sector and business respondents strongly advocate for safeguards, whereas civil society respondents are least convinced – although a simple majority of those who expressed a view favour safeguards.

Among stakeholders in GSP countries, opposition to safeguards is strongest among citizens and civil society representatives, whereas a majority of businesses support safeguards.

Opponents of GSP safeguards highlighted the potential negative impacts of safeguards in exporting countries, while proponents referred to the need of safeguards for the GSP to attain the third objective of the GSP reform, i.e., avoid detrimental effects for EU producers.

Annex 3: Who is affected and how?

Practical implications of the initiative

The potential benefits of the proposed set of objectives are difficult to quantify, as they involve often technical improvements to the existing structure and provisions of the GSP scheme – in order to maximise its efficiency and effectiveness and increase the potential for sustainable economic development of the beneficiary countries. Under the preferred set of options, the initiative has the following practical implications, benefits, and associated costs, relative to the baseline, per cluster:

Summary of costs and benefits

Table I. Overview of benefits (total for all provisions) – preferred option

Description	Amount	Comments
Direct benefits		
Arrangements and country coverage		
Abolish the export competitiveness vulnerability criterion for GSP+ (Sub-option 3Ba)	All graduating EBA countries would be a priori eligible for GSP+, in case their authorities wish to apply for the arrangement. This is a *mitigation* measure: no gains are expected, but it aims to avoid losses and serious negative economic impact for graduating LDCs which would lose EBA preferences. It further supports the development goal of GSP, by ensuring continued access to the scheme for the countries most in need.	**Main beneficiary: graduating LDCs** In particular, **Bangladesh** stands out in terms of facing a significant fall of exports, a consequential large decline in real GDP and economic welfare, and large impacts in sectors such as textiles and apparel and leather/footwear that face a high MFN tariff in the EU and thus potentially disruptive industrial adjustment.
Product coverage and graduation		
Introduce technical adjustments: an adjustment of product graduation thresholds	Increase effectiveness of the product graduation in targeting specific competitive products. More granular product graduation deals with the issue of the heterogeneity of GSP Sections (some very broad, some very narrow).	**Main beneficiary: EU industry** Also relevant under Safeguards below
Conditionality and conventions		
Extend negative conditionality (Option 6B)	Contribute to the fight against climate change by encouraging GSP beneficiary countries to improve the implementation of climate and environment conventions. Similarly, contribute to improvements in good governance in all beneficiary countries.	**Main beneficiary: citizens of developing countries**, **global community** (benefits of common fight against climate change) The role played by GSP can be significant as environmental degradation tends to hit developing countries hardest due to extensive manufacturing of products dependent on natural resources (such as textiles), as well as the lack of environmental protection laws and programs in those countries.
Update the list of conventions (Sub-option 8Bc)	Increased leverage and attention on key human rights (i.e., the rights of people of disabilities, rights of children) and	**Main beneficiary: citizens of developing countries** On climate: Many developing

	standards (i.e., on labour inspection). Support on actions combating climate change through the inclusion of the Paris Agreement.	countries have high population growth, and a significant part of them are experiencing increasing industrialisation which may lead to a steep increase in GHG emissions.
Introduce new steps during the formal withdrawal procedure (Sub-option 9Bb)	The introduction of an impact assessment of the potential withdrawal will make it possible to weigh all three GSP general objectives: contribution to poverty reduction, sustainable development, and safeguarding EU industry. In particular, it ensures that possible withdrawal is adapted to the circumstances in the country, its economic development needs, and the socio-economic impact of withdrawal.	**Main beneficiary: citizens of developing countries**
Introduce shorter (urgent) withdrawal procedure for egregious cases (Sub-option 9Bd)	Allows flexibility to address grave violations of human and labour rights and standards. Increases effectiveness by increasing pressure on beneficiaries to respond to requests.	**Main beneficiary: Commission, citizens of developing countries**
Transparency		
Introduce practical steps to improve monitoring and transparency (Option 10B)	Increase transparency, enhance the Commission's enforcement role, and contribute towards civil society's use of the GSP+ instrument to hold beneficiary countries' authorities accountable, and therefore, improve implementation of the international conventions.	**Main beneficiary: civil society**
Extend the GSP+ monitoring cycle to three years (Option 10C)	Approximate the length of the GSP+ monitoring cycle to the monitoring cycle for the international conventions by the treaty monitoring bodies; allow beneficiary countries more time to address issues on implementation of the conventions	**Main beneficiary: Commission, beneficiary countries**
Safeguards		
Align automatic safeguards and product graduation thresholds	Ensure consistency between measures aimed at protecting EU industry	**Main beneficiary: EU industry**
Change the calculation of import surges so as to be based on import values rather than volumes	Improve the effectiveness of safeguards in protecting EU industry, by addressing better the heterogeneity of products within Sections	**Main beneficiary: EU industry**
Indirect benefits		
Abolish the export competitiveness vulnerability criterion for GSP+ (Option 3Bb)	Simplification of the system and a reduction of administrative burden for calculating and monitoring this threshold	**Commission**
Option 8Bc: replace	Simplification and updating of the list of	**Global benefits**

Kyoto Protocol with the Paris Agreement	conventions	
Option 10C: extend the GSP+ monitoring cycle to 3 years	Reduction of administrative burden of the monitoring process for both the EU and beneficiary countries	**Commission and beneficiary countries' administrations**
Abolish the de minims threshold for safeguards	Simplification of the application of automatic safeguards and reduction on administrative burden	**Commission**

Table II – overview of benefits by stakeholder

Stakeholder	Policy choice	Comments
Developing countries	Abolish the export competitiveness vulnerability criterion for GSP+ (Sub-option 3Ba) Extend the GSP+ monitoring cycle to three years (Option 10C)	Different countries benefit in different ways, with graduating LDCs a particular focus.
EU industry	Introduce technical adjustments: adjustment of product graduation thresholds Align automatic safeguards and product graduation thresholds Change the calculation of import surges so as to be based on import values rather than volumes	
Citizens of developing countries and civil society at large	Extend negative conditionality (Option 6B) Update the list of conventions (Sub-option 8Bc) Introduce new steps during the formal withdrawal procedure (Sub-option 9Bb) Introduce shorter (urgent) withdrawal procedure for egregious cases (Sub-option 9Bd) Introduce practical steps to improve monitoring and transparency (Option 10B)	These benefits can also be considered global benefits for society at large.
Commission	Introduce shorter (urgent) withdrawal procedure for egregious cases (Sub-option 9Bd) Extend the GSP+ monitoring cycle to three years (Option 10C)	Commission benefits are in terms of administrative efficiency.

Table III. Overview of costs – preferred option

			Citizens/Consumers		Businesses		Administrations	
			One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Ar ra	Retain the structure of the scheme	Direct costs			None	No change	None	No change

	(Baseline 1A)	Indirect costs						
	Retain the criteria for standard GSP beneficiaries (Baseline 2a)	Direct costs			None	No change	None	No change
		Indirect costs						
	Abolish the export competitiveness vulnerability criterion for GSP+ (Option 3Ba)	Direct costs			None		None	None
		Indirect costs						Some cost savings due to reduced administrative burden
Product coverage and graduation	Retain the product graduation scope (Baseline 4A)	Direct costs			None	No change	None	No change
		Indirect costs						
	Retain the product coverage (Baseline 5A)	Direct costs			None	No change	None	No change
		Indirect costs						
	Introduce technical adjustments: more granularity in product graduation (at CN Chapter instead of Section level) and an adjustment of product graduation thresholds	Direct costs				Some resources to understand the change and contribute to consultation	Resources for reviewing the list, consulting with business etc.	Resources for applying increased number of product graduations at the CN Chapter level
		Indirect costs						
Conditionality and conventions	**Expand negative conditionality (Option 6B)**	Direct costs						Additional administrative costs can be foreseen should there be new withdrawal requests related to the principles of the conventions on climate and good governance for standard GSP and EBA beneficiaries.
		Indirect costs						Increased pressure on beneficiary countries to implement conventions, potential increase in withdrawal requests
	Update the list of conventions (Option 8Bc)	Direct costs						Limited monitoring costs for EU for four conventions;

								Additional implementation obligations and related costs beneficiary countries' implementation
		Indirect costs					Some ratification costs for beneficiary countries for 4 additional conventions	Increase in beneficiary countries' budget support costs for the EU
	Introduce new steps during the formal withdrawal procedure (Option 9Bb)	Direct costs						Increase in administrative costs for the EU
		Indirect costs						
	Introduce shorter (urgent) withdrawal procedure in well qualified circumstances (Option 9Bd)	Direct costs						Increase in administrative costs for the EU
		Indirect costs						
Transparency	Introduce practical steps to improve monitoring and transparency (Option 10B)	Direct costs					No additional costs as finds have already	
		Indirect costs						
	Extend the GSP+ monitoring cycle to three years (Option 10C)	Direct costs						Reduction in administrative burden for both EU and beneficiary countries
		Indirect costs						
Safeguards	Align automatic safeguards and product graduation thresholds	Direct costs					Small one off administrative cost	
		Indirect costs						
	Change the basis of calculation of import surges						Small one off administrative cost regarding change in methodology of the calculation	

TOTAL	Preferred option					Small adjustment costs	Small adjustment costs	Additional administrative costs difficult to predict and counterbalanced by savings.

Annex 4: Analytical methods

DG Trade in-house modelling results of the economic impact of options for a new GSP regulation

The impact analysis provided for in the external study served as the basis for this Impact Assessment. The following info summarises the modelling results of various scenarios for a new GSP regulation to enter into force on 1 January 2024. The simulations have been carried out by DG TRADE.

The simulations were carried out with the Computable General Equilibrium (CGE) model MIRAGE developed by the Centre d'Études Prospectives et d'Informations Internationales (CEPII) in Paris.

CGE Analysis with MIRAGE

The model is based on the GTAP database and uses its version 9.2 with the base year 2011. The simulations assume perfect competition and employ a neoclassical closure, essentially keeping unemployment in the economy fixed. The EU is modelled in its future configuration i.e. with 27 members. The UK is modelled as an individual country, however copying EU trade policy.

The model makes projections of the development of key economic parameters such as population and economic growth until the end of the projection horizon. As this horizon, the year 2029 is chosen as it would provide a view halfway through the anticipated validity of the regulation which will enter into force in 2024. Furthermore, important baseline developments, in particular graduation of various countries from Least Developed Country (LDC) status or from developing country status altogether, which will have an implication for their status in the GSP can be assumed to be completed by that point in time.

In order to identify the necessary tariff shocks, ad valorem equivalents of applied MFN GSP+ and GSP tariffs have been retrieved from WITS/TRAINS as well as TAXUD-CDC. The resulting preferential margin by CN8 have been aggregated to the model sector level.

The model aggregation for regions is chosen such that all GSP beneficiaries for which preferences would change and for which individual data exists in the GTAP database are modelled individually. Furthermore, Turkey (due to an obligation stemming from the customs union) and China as the largest competitor of the GSP beneficiaries on the EU market are modelled as individual countries.

In terms of sectors, all of the 43 goods sectors present in the GTAP database that account for more than 1% of the cumulative preferential margin (tariff preference times value of trade) from the baseline and the most far-reaching scenario are simulated individually.

Other sectors and regions are grouped together in relevant aggregates.

Baseline

During the baseline (i.e. independent of the policy choices in the upcoming regulation), 10 LDCs[96] are simulated to graduate from LDC status to GSP. Most of these countries would be eligible for GSP+ provided they ratify and commit to implementing the necessary international conventions. However, we decided not to speculate on their political will to do so. Another 5 countries will graduate from various schemes to MFN status[97], Tajikistan and Uzbekistan will advance from standard GSP to GSP+ and finally, Vietnam will drop out of the GSP on account of the FTA that supersedes the GSP status.

Scenarios

Four scenarios are simulated:

1. Status Quo (the baseline)
2. Abolition of GSP and GSP+, continuation of EBA
3. Abolition of GSP, continuation of EBA and GSP+
4. Abolition of GSP for larger beneficiaries (India and Indonesia)

In the simulations for both baseline and scenarios, the preferential margins by sector are added to the tariff in the model database. Compared to calculating final GSP and, respectively, MFN values and imposing these instead of those in the baseline, this has the advantage of being immune to bias from errors in the model database.

Results

The main results of the CGE analysis are displayed in Tables 1 (for GDP) and 2 (for bilateral trade). The rows are for the EU and for the GSP countries combined. The latter is the entire set of current GSP beneficiaries[98].

In comparison to scenario 1 i.e. essentially maintaining the current Regulation, all other scenarios exhibit losses of GDP and trade for both the EU and the GSP countries, albeit small ones. EU GDP would fall by up to 0.01% if one of the options deviating from the status quo were enacted. GSP countries losses would be larger than that in relative terms, between 0.04% and 0.07%. This relatively moderate average does not change the fact, though, that some individual countries are more adversely affected by some of the options. Detailed results reveal that this is true in particular for Pakistan and Bangladesh, losing up to 0.3% and 0.36% of GDP, respectively. Some other GSP beneficiaries e.g. those still remaining in GSP by 2029, would even see slight gains.

[96] Bangladesh, Bhutan, Kiribati, Lao, Myanmar, Nepal, São Tome & Principe, Solomon Islands, Timor Leste and Togo.
[97] Armenia, Equatorial Guinee, Samoa, Sri Lanka and Tonga.
[98] Due to aggregations in the model database, it is not possible to clearly distinguish in terms of results between presumed future beneficiaries and dropouts.

Table 1: GDP effects compared to status quo (scenario 1); in %

	Scenario 2	Scenario 3	Scenario 4
EU27	-0.01	-0.01	-0.00
Current GSP countries combined[99]	-0.07	-0.05	-0.04

Source: DG Trade's simulations with MIRAGE

EU imports from current GSP beneficiaries decrease by 3-5% under the scenarios deviating from the status quo. Total goods imports of the EU from these countries (including those not entering under GSP) might decline by up to almost 18 billion USD, as can be seen in the annex tables. However, part of the void will be filled by other exporters, in particular China, imports from which are projected to increase by up to 5 billion USD.

Table 2: Effects on EU goods imports from GSP countries compared to *status quo* (scenario 1), in %

	Scenario 2	Scenario 3	Scenario 4
Current GSP countries combined	-5%	-4%	-3%

Source: DG Trade's simulations with MIRAGE

The contractor relied upon these results to assess the economic impacts of the most important policy options.

[99] Including countries that under the hypothesis of the different scenarios would no longer benefit from any GSP arrangement.

Annex 5: Mid-Term Evaluation of the EU's Generalised Scheme of Preferences

In 2018, the Commission carried out a midterm evaluation (MTE) of the current GSP Regulation (Regulation (EU) 978/2012), which has been in effect from 01 January 2014 and expires on 31 December 2023.

The main objective of the evaluation was to assess whether the GSP Regulation is on its way to achieving its objectives:

- To contribute to poverty eradication by expanding export from countries most in need;
- To promote sustainable development and good governance; and
- To ensure better safeguards for the EU's financial and economic interests.

The evaluation was supported by an external study contracted with an independent consultant (Development Solutions). The study of the external consultant can be found here:

Executive summary:
https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc_157435.pdf

Full Report:
https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc_157434.pdf

The adopted Commission documents are as follows:

Final Report from the Commission to the European Parliament and the Council on the application of the GSP Regulation:
https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc_157438.PDF

Commission Staff Working Document on the MTE:
https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc_157439.PDF

Annex 6: Final Report of the supporting Study

This Impact Assessment Report was supported by an external study contracted with independent consultant (BKP Economics). The study of the external consultant can be found here:

Executive Summary of the Final Report:
https://op.europa.eu/en/publication-detail/-/publication/f7031da3-f0dc-11eb-a71c-01aa75ed71a1/language-en

Final Report (Main Report):
https://op.europa.eu/en/publication-detail/-/publication/706f539c-f0db-11eb-a71c-01aa75ed71a1/language-en/format-PDF/source-221478841

Final Report (Annexes):
https://op.europa.eu/en/publication-detail/-/publication/be174994-f337-11eb-aeb9-01aa75ed71a1/language-en

Annex 7: Detailed description of baseline scenarios

1) Baseline scenarios regarding the three-tier structure (i.e., the three arrangements) and beneficiary countries

✓ Baseline Scenario 1A (BS 1A): no change to the GSP three-tier structure (Standard GSP, GSP+ and EBA)

Under baseline scenario 1A, the current three-tier structure remains in place.

Changes in the status of beneficiary countries that are expected to take place in the near future (unrelated to any potential GSP reform) are considered part of this baseline scenario. Specifically, this refers to:

- A number of countries reaching (at least) Upper Middle-Income Status for three years in a row and hence no longer being GSP beneficiaries and moving to most-favoured nation (MFN) treatment by the EU. This applies to Armenia, Equatorial Guinea, Nauru, Samoa and Tonga;
- Graduations of countries from LDC status which are expected over the next 10 years (Angola, Bangladesh, Bhutan, Kiribati, Lao PDR, Myanmar, Nepal, Sao Tomé and Principe, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu). For these countries, it is assumed that they enter the Standard GSP arrangement;
- Product graduations (suspensions) that have already taken place and are currently applied. This notably applies to selected products of India, Indonesia, and Kenya;[100] and
- Tajikistan and Uzbekistan joining the GSP+ (based on the application submitted by the latter and the expected application by the former).

✓ Baseline Scenario 2A (BS 2A): no change to the criteria defining eligible countries

Any country will benefit from **General GSP**, unless (i) it has another type of special trade arrangement with the EU, granting the same tariff preferences, or (ii) it has achieved high or upper-middle income status during three consecutive years on the basis of World Bank classification.

Provided they meet the criteria for GSP eligibility, **large and industrialised** developing countries (e.g., India and Indonesia) will continue to enjoy GSP preferences, independently from the size of their economy (e.g., as a certain % of total world GDP).

[100] For the period 2017-2019, see Commission Implementing Regulation (EU) No 2016/330 of 8 March 2016 suspending the tariff preferences for certain GSP beneficiary countries in respect of certain GSP sections in accordance with Regulation (EU) No 978/2012 applying a scheme of generalised tariff preferences for the period of 2017-2019, OJ L 62, 9.3.2016, p. 9; for the period 2020-2022, see Commission Implementing Regulation (EU) No 2019/249 of 12 February 2019 suspending the tariff preferences for certain GSP beneficiary countries in respect of certain GSP sections in accordance with Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences for the period of 2020-2022, OJ L 42, 13.2.2019, p. 6.

To be eligible to receive the **GSP+ status**, a country must submit an application and fulfil Standard GSP conditions, in addition to meeting two further criteria: i) one related to vulnerability and one ii) related to sustainable development.

> i) A country's level of **vulnerability** is, in turn, assessed on the basis of two criteria:

- Diversification criterion: how concentrated a country's main EU export industries are and is met if a country's seven largest sections of its GSP-covered EU imports represent 75% or more of total GSP imports from that country over a three-year period.

- Import share criterion: the share of import value from a country compared to the total GSP imports into the EU. This criterion is met where the three-year average share of GSP-covered imports from a country compared to the total imports from all GSP countries is lower than 7.4%.

> ii) To comply with the **sustainable development criteria**, a country must ratify the 27 international conventions on human rights, labour rights, environmental protection, and good governance, as listed in Annex VIII to the Regulation. Moreover, the applicant cannot have formulated reservations which are prohibited by these conventions, and the monitoring bodies must not identify serious failures to effectively implement them.

As already indicated, the open ended **EBA arrangement** will continue to exist independently from the new GSP Regulation. Any country that is listed as an LDC by the UN Committee for Development Policy (CDP) is automatically included in the EBA arrangement; countries do not need to apply for it.

- ✓ **Baseline Scenario 3A (BS 3A): no change to the vulnerability criteria to be met for enjoying GSP+ preferences**

The vulnerability criteria, as described above, remain unchanged under baseline scenario 3A.

Twelve LDCs[101] currently benefitting from the EBA arrangement are expected to graduate from LDC status over the next ten years.[102] Accordingly, in line with Art. 17(1) of the Regulation, these would be removed from the list of EBA beneficiary countries "following a transitional period of three years." Delegated regulations taken by the Commission remove graduating countries at the beginning of the calendar year following the end of the three-year period.

In this context, it should be noted that, although the standard transition period between the UN General Assembly decision on LDC graduation and LDC graduation itself is

[101] Some graduations from LDC status are already set by the UN General Assembly in 2023 for Bhutan, and in 2024 for Angola, Sao Tomé and Príncipe, and the Solomon Islands. A decision is expected in 2021 on the earliest possible graduation years for others (Bangladesh, Kiribati, Lao PDR, Myanmar, Nepal, Timor-Leste and Tuvalu).

[102] Any other countries that might graduate from LDC status in the future could not leave the EBA earlier than 2031 (based on current transition periods): the earliest decision on LDC graduation could take place at the UN CDP triennial review meeting in 2024, so that graduation from LDC status could at the earliest be during 2027, and graduation from the EBA in 2031.

three years, recent practice has been to grant longer preparatory periods. Considering the economic **impact of Covid-19**, it can be expected that the scheduled decisions for 2021 will either be deferred or longer transition periods will be provided.

Following graduation from LDC status and exit from the EBA arrangement, these countries could **move to other preference arrangements,** notably to Standard GSP or, pending application and depending on meeting vulnerability conditions and ratification and implementation of international conventions listed in Annex VIII of the Regulation, to GSP+. Under the current vulnerability criteria, all LDC graduating countries except **Bangladesh** would be considered as vulnerable and hence be eligible for GSP+ (provided the other GSP+ criteria are fulfilled as well).

2) Baseline scenarios regarding the products

- ✓ **Baseline Scenario 4A (BS 4A): no change to the product graduation mechanism**

In order to ensure that the GSP preferences accrue to those countries most in need, internationally competitive producers of certain products cease to benefit from the preferences (**product graduation**). This mechanism currently applies only to the Standard GSP, but not to the GSP+ or EBA arrangements.

Under the product graduation mechanism, tariff **preferences can be suspended if** the average share of EU imports from a given GSP beneficiary of certain product sections (defined in Annexes V and IX) in the value of EU imports of the same sections from all GSP beneficiary countries over three consecutive years exceeds the thresholds of 57% generally, 47.2% for sections S-11a and S-11b (textiles and clothing), and 17.5% for sections S-2a, S-3 and S-5 (live plants, animal fats, minerals).

Product graduation is applied **at the level of GSP product sections**. This is a relatively aggregated level and, despite the reform in 2012, which increased the number of GSP sections in an attempt to create less heterogeneous sections, still combines fairly different products within sections. EU industry representatives maintain that product graduation might therefore not be applied even though some products within a section might be highly competitive.[103] Conversely, product graduation might take place although certain products within a section are far from reaching international competitiveness

At present, the list of graduated products is revised every three years. Moreover, **the threshold levels are adjusted regularly** to account for GSP beneficiaries exiting the scheme.

- ✓ **Baseline Scenario 5A (BS 5A): no change to the product coverage**

Standard **GSP and GSP+** beneficiaries are entitled to receive preferential tariff rates on 66% of all products. Of the remainder of products that are not eligible for GSP

[103] In this respect, the Commission Staff Working Document (SWD) reports that "stakeholders from the EU tyre industry argue that the graduation mechanism does not sufficiently protect their interests because the graduation mechanism is only applied at the product section level and, as such, does not target product-specific graduation. Business representatives therefore propose a review of the graduation mechanism whereby graduation should be carried out at a more disaggregated product level, rather than at the much more aggregated level of product sections."

preferences, roughly three quarters (i.e., 25% of all products) already benefit from zero MFN tariff rates. The final quarter (i.e., just 9% of all products) have an MFN tariff larger than zero and are not covered under the Standard GSP and GSP+ schemes. **EBA beneficiaries,** by contrast, enjoy preferential access on all products, except arms and ammunitions.

In **2012**, no major reforms were made in the area of product coverage. However, a handful of products were added to Standard GSP and GSP+, and various products were moved from the "sensitive" category to "non-sensitive". As a result of this reform, the Standard GSP and GSP+ product coverage now includes a number of agricultural and fishery products listed in HS chapters 1-24, and almost all processed and semi-processed industrial products, including ferroalloys, that are listed in HS chapters 25-97, except for chapter 93 on arms and ammunition.

3) Baseline scenarios regarding conditionality

The GSP Regulation establishes two types of conditionality related to the 27 international conventions: **positive** conditionality (requirement of ratifying and effectively implementing all conventions on human and labour rights, environment and climate, and good governance listed in Part A and B of Annex VIII) and **negative** conditionality (non-violation of the principles of core human and labour rights conventions listed in Part B of Annex VIII).

- ✓ **Baseline Scenario 6A (BS 6A): no change to negative conditionality.**

For all GSP arrangements, the existing negative conditionality mechanism (Article 19) continues to be restricted to the international core conventions on human and labour rights (Part A of Annex VIII) and does not extend to environmental and governance conventions (Part B of Annex VIII).

- ✓ **Baseline Scenario 7A (BS 7A): No change to positive conditionality.**

For GSP+ only, the existing positive conditionality mechanism (Article 15) continues to apply. It continues not to apply to Standard GSP or EBA.

- ✓ **Baseline Scenario 8A (BS 8A): no change in the list of international conventions in Annex VIII to the Regulation**

The list of GSP-relevant international conventions remains the same, namely**:**

- the eight fundamental ILO conventions on labour rights;
- six core UN human rights instruments
- the Convention on the Prevention and Punishment of the Crime of Genocide;
- eight conventions on environmental protection and climate; and
- Four good governance conventions – the three main international drug control conventions and the Convention against Corruption.

- ✓ **Baseline Scenario 9A (BS 9A): no change to the mechanism for temporary withdrawal of preferences**

Under baseline scenario 9A, **the current withdrawal mechanism** is left unchanged and allows for the withdrawal of preferences either for all or only for certain products.

4) Baseline Scenario regarding transparency

- ✓ **Baseline Scenario 10A (BS 10A): no change to the GSP+ monitoring mechanism**

Under baseline scenario 10A, the existing **GSP+ monitoring process** as outlined in Art. 13 and Art. 14 of the Regulation is maintained without change. The baseline scenario also involves maintaining the publication of **GSP reports** to the EP and the Council at intervals of two years.

To assess a country's implementation of an international convention, the Commission examines the conclusions and recommendations of the relevant international monitoring bodies established by the relevant conventions. The beneficiary country must cooperate in this process by providing necessary information on the effective implementation of the conventions and the fulfilment of requirements.

The Commission may also seek out other sources of reliable information from "civil society, social partners, the European Parliament and the Council" (Preamble to the Regulation, recital 15). The Commission actively engages with these and other stakeholders, including trade unions, employers, human rights defenders, local bodies of international organizations and businesses to widely gather input on a beneficiary country's progress, in particular in preparation of, and during monitoring missions. The Commission also organises special Civil Society Dialogue sessions on the GSP.[104]

The monitoring mechanism consists of **two primary tools:** written communication exchanges and an ongoing "GSP+ dialogue" with each country.

i) Written communications with beneficiaries include letters, follow up questions, technical exchanges, and a list of issues[105] prepared by the Commission and the EEAS, containing an overview of the progress made by the country, as well the most significant shortcomings in the country's effective implementation of the 27 conventions. Communications with beneficiaries are not public and are meant to facilitate the dialogue tool and build a relationship of trust with beneficiary country authorities given the sensitive (often political) nature of the issues involved (European Commission 2018a). Beneficiary countries are expected to make improvements on the issues identified in these communications – the country's progress on these issues is evaluated in the next round of communications and in the **biennial GSP report**.

The confidentiality of list of issues has been criticized as preventing other relevant stakeholders to participate in the process (Richardson, Harrison, and Campling 2017; van der Ven 2018).

ii) The **GSP+ dialogue** tool is anchored by the **GSP+ monitoring missions**, which consist of meetings, field visits, workshops and dialogues by the Commission and EEAS officials with a variety of stakeholders in the beneficiary country. The missions are designed for direct contacts with authorities at both national and local levels, business and civil society representatives, and local offices of international organisations. **GSP+ preferences can be temporarily withdrawn** the Commission determines that a country is no longer meeting the GSP+ requirements, as described above (BS 9A).

[104] See the CSD meetings related to the GSP at https://trade.ec.europa.eu/civilsoc/meetlist.cfm.
[105] The list of issues was formerly referred to as "scorecard."

5) Baseline Scenario regarding safeguard mechanism

- ✓ **Baseline Scenario 11A (BS 11A): no change to the automatic safeguard mechanism**

In baseline scenario 11A, **the safeguard mechanisms** under the Regulation are kept without change. They continue to respond to serious difficulties for EU producers, or the threat of such difficulties resulting from the GSP preferences, by allowing for the re-introduction of normal Common Customs Tariff MFN duties. Both the general mechanism and the automatic safeguard mechanisms remain available.

The **general safeguard mechanism** (Articles 22-28 of the Regulation) applies to all beneficiaries and products covered by any of the GSP arrangements. It can be initiated by the Commission or after a request by an EU Member State, any legal person, or any association. A decision on whether to apply measures is then taken after an investigation by the Commission. The general safeguard mechanism was first used in March 2018, when the Commission, upon the request from Italy, initiated a GSP-related safeguard investigation on imports of Indica rice from Cambodia and Myanmar.

The **automatic safeguard mechanism** (Article 29 of the Regulation) applies only to specific product groups which are considered sensitive, primarily textiles and garments (GSP section S-11a and S-11b) as well as a few selected other products. These specific safeguard measures do not apply to EBA beneficiary countries; and, among the Standard GSP and GSP+ countries, only to those that meet certain minimum thresholds in EU imports. The Commission has never activated this mechanism because the conditions have not been met to date.

Annex 8: The current temporary withdrawal procedure

When the Commission considers that there are sufficient grounds for a temporary withdrawal of preferences,[106] it adopts an implementing act to launch the temporary withdrawal procedure in accordance with the advisory procedure and informs the Council and the Parliament of the act (Articles 19(3) and 15(3)). It also publishes a note in the Official Journal on the initiation of the withdrawal procedure and notifies the beneficiary country thereof (Articles 19(4) and 15(4)). These steps constitute the **formal launch of a withdrawal procedure**.

Once a withdrawal procedure has been formally launched, the Commission will "monitor and evaluate the situation in the beneficiary country" (Art. 19(4)(b) of the GSP Regulation) during a period of six months.[107]

Over that period, the Commission shall give the beneficiary country every opportunity to cooperate and shall seek every relevant information which may support its decision-making process, including conclusions and recommendations of the relevant international monitoring bodies. Then, within another six-month period (three months for GSP+), **the Commission takes a decision** to either close the withdrawal procedure or to temporarily withdraw the preferences.

If the Commission considers there are grounds justifying the temporary withdrawal, it shall adopt a delegated act to amend the Annexes to the GSP Regulation to note the country and the scope of withdrawn preferences. That act shall take effect six months after its adoption.

In addition, the **Commission's Delegated Regulation No 1083/2013** regulates specific procedural aspects of the withdrawal procedure, such as access to the constituted file (i.e., evidence and documents gathered during the withdrawal procedure, including documents provided by third parties), the procedural rights of third parties, including their rights to be heard.

The GSP Regulation and Delegated Regulation No. 1083/2013 establish the procedural steps leading from the initiation of the withdrawal procedure to a decision about whether to withdraw the preferences.

Both Regulations are silent on the steps to be taken that precede a decision whether to launch such a procedure. Moreover, both documents leave for the Commission's

[106] Article 19(1) of the GSP Regulation provides that preferences may be withdrawn temporarily in case of the following situation: a) serious and systematic violation of principles laid down in the conventions listed in Part A of Annex VIII; b) export of goods made by prison labour; c) serious shortcomings in customs controls on the export or transit of drugs (illicit substances or precursors), or failure to comply with international conventions on anti-terrorism and money laundering; d) serious and systematic unfair trading practices including those affecting the supply of raw materials, which have an adverse effect on the Union industry and which have not been addressed by the beneficiary country. For those unfair trading practices, which are prohibited or actionable under the WTO Agreements, the application of this Article shall be based on a previous determination to that effect by the competent WTO body; e) serious and systematic infringement of the objectives adopted by Regional Fishery Organisations or any international arrangements to which the Union is a party concerning the conservation and management of fishery resources. For the situations that may lead to the temporary withdrawal of preferences for GSP+ countries, see Article 15(1) and (2) of the GSP Regulation.

[107] Article 15(4)(b) of the GSP Regulation has the corresponding provision for the GSP+ arrangement. Here, the six-month period is an upper limit for the GSP+ country to submit its observations.

discretion the methodological approach to the analysis of evidence and the choice of scope of withdrawal (partial or full) and (in case of a partial withdrawal) the choice of the tariff lines for which preferences will be withdrawn.

Annex 9: Detailed description of International Conventions analysed by the supporting study

Human rights conventions

The Study considered **core international human rights treaties** and optional protocols that are not currently listed in the Annex, as well as conventions that are relevant for GSP countries and that have repeatedly been recommended for inclusion by the European Parliament and other relevant stakeholders. These suggestions are the Indigenous and Tribal Peoples Convention (ILO Convention No. 169) and the Rome Statute of the International Criminal Court.[108] All the conventions proposed for addition are legally recognised as conventions and are open to ratification by all members of the international community.

Many of the human rights instruments not presently included in Annex VIII are the **optional protocols to the conventions in Annex VIII** (ICCPR, ICESCR, CEDAW, CAT, CRC)[109]. Almost all of these protocols entail establishing some level of oversight over the implementation of the core human rights instruments.

Inclusion of these instruments into the list of Annex VIII could be of particular relevance from the perspective of shifting the burden of monitoring from the EU to the international monitoring bodies. However, the ratification gap of these conventions by the EU members as well as GSP beneficiaries is rather high.

Of the 14 conventions considered, **only five have been ratified by all EU Member States**:

- Convention on the Rights of Persons with Disabilities (CRPD);
- Optional Protocol to the International Covenant on Civil and Political Rights (ICCPR-OP1);
- Second Optional Protocol to the International Convention on Civil and Political Rights on abolishing the death penalty (ICCPR-OP2);
- Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict (OP-CRC-AC);
- Rome Statute of the International Criminal Court.

The Optional Protocol to the Convention on the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography (**OP-CRC-SC**) is ratified by all EU Member States except Ireland, which has however signed the Protocol. According to the

[108] European Parliament (2019). *Report on the implementation of the GSP Regulation (EU) No 978/2012 (2018/2017(INI))*, 26 February 2019, A8-0090/2019.

[109] The First Optional Protocol to the International Covenant on Civil and Political Rights (ICCPR-OP1), the Optional Protocol to the International Covenant on Economic, Social and Cultural Rights (ICESCR-OP), the Optional Protocol to the Convention on the Elimination of Discrimination against Women (OP-CEDAW), the Optional Protocol to the Convention on the Rights of the Child on a communications procedure (OP-CRC-IC) all establish mechanisms through which individuals can bring complaints on alleged violations at the international level when domestic remedies have been exhausted. The Optional Protocol to the Convention against Torture, although not entailing an individual complaints mechanism, establishes an international inspection system through which states allow oversight over their implementation of the Convention.

Vienna Convention on the Law of Treaties (VCLT), a state that has signed but not ratified a treaty "is obliged to refrain from acts which would defeat the object and purpose of the treaty" (Art. 18). Thus, by signing a treaty, a state expresses the intention to comply with it, but this expression of intent in itself is not binding. Based on the clear requirement of ratification by all EU Member States, this convention is not included into the list, however, there is a high degree of ratification of the OP-CRC-SC internationally and among the GSP countries (55 countries out of 64, which is even higher than for OP-CRC-AC). All the other human rights instruments considered are not ratified by at least two EU Member States.

Convention on the Protection of the Rights of Persons with Disabilities (CRPD)

This Convention is an international human rights treaty adopted by the UN General Assembly. It is intended to protect the rights of people with disabilities, to ensure their full enjoyment of human rights.[110]

The CRPD specifically **prohibits discrimination against persons with disabilities** in all areas of life. The Convention underlines the greater risk of poverty for persons with disabilities and emphasises multiple discrimination faced by minorities, Indigenous people, women, and children with disabilities. Moreover, this is the only core human rights convention that makes a direct reference to sustainable development, one of the primary objectives of the GSP Regulation and contains explicit provisions aimed at strengthening civil society participation in national implementation and monitoring of the convention (Art. 33(3), CRPD) which is of relevance for the EU Agenda.

The Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict (OP-CRC-AC)

The Optional Protocol to the CRC **on the involvement of children in armed conflict** is aimed at the protection of children from recruitment and use in hostilities. The Optional Protocol is relevant for the EU commitment to integrate children's rights into EU external policies.[111]

The OP-CRC-AC has been ratified by all GSP+ countries as per the baseline for the study and its inclusion in Annex VIII would therefore create no addition administrative burden for these. In case positive conditionality (including its more effective monitoring system) of the GSP+ was expanded to all GSP beneficiaries in the new GSP Regulation, a limited number of GSP countries would need to ratify the Protocol and would likely welcome assistance from the EU in their implementation progress. These additional costs need to be compared to the potential for stronger EU leverage that may contribute to preventing more effectively children under 18 from participating in armed hostilities.

<u>ILO Conventions</u>

For the potential inclusion of additional ILO conventions in Annex VIII, the supporting study considered protocols to the fundamental conventions, the ILO governance (priority conventions), as well as selected ILO technical conventions (i.e., ILO conventions other

[110] GA resolution A/RES/61/106.

[111] E.g., European Parliament Resolution of 27 November 2014 on the 25th anniversary of the UN Convention on the Rights of the Child (2014/2919(RSP)), OJ C 289, 9.8.2016, p. 57-64.

than fundamental and priority ones).[112] Only two of the considered instruments have been ratified by all (Convention No 81) or respectively all but one (Convention No 144) EU Member States. They also have the highest ratification shares among the reviewed ones globally and among GSP countries – 73% (47 out of 64 GSP countries analysed in baseline) for No 144 and 69% (44 GSP countries) for No. 81.

ILO Labour Inspection Convention No 81

Convention No 81[113] plays an important role in the operation of the international labour standards system.[114] It lays down principles regarding the structures and operation of labour inspection in industrial and commercial workplaces, including duties of labour inspectors, ways of carrying out inspections and the related decision making and action taking powers of labour inspectors, their code of conduct within the service and after leaving it and reporting about activities of labour inspections.

Promoting ratification and effective implementation of this convention **could help in the enforcement of other conventions**, including the fundamental ILO conventions and in raising awareness related to their requirements. It is also to note that improved enforcement and operation of labour inspection ranks 4th among the nine ILO overarching goals and priority areas for action[115] and is subject to policy dialogue and assistance projects led by the EU or the ILO in relations with several former and current GSP beneficiaries.

Convention No. 81 is open for ratification by all ILO members and has enjoyed a high ratification rate (148 out of 187 ILO members by early July 2020[116]), including all EU Member States, six out of eight GSP+ beneficiaries (the exceptions being Mongolia and Philippines), ten out of 21 Standard GSP beneficiaries, and 28 out of 35 EBA beneficiaries (in total, 44 out of 64 countries[117]). The inclusion of the convention in Annex VIII would therefore imply that Mongolia and the Philippines have to ratify and implement it to remain part of the GSP+ arrangement[118]. For Mongolia, the EU is supporting the ratification of C 81 through the Technical Assistance for Budget Support.

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[112] The full list of ILO conventions, with links to the convention texts, ratification status and other information, is available at https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12000:0::NO:::

[113] https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO:12100:P12100_INSTRUMENT_ID:312226

[114] The ILO 2008 Declaration provides a list of measures facilitating implementation of the Declaration, and this includes identification and promotion of the governance conventions, among others Convention No 81 on Labour Inspection.

[115] The first three goals relate to pursued ratification of the ILO fundamental conventions and the 2014 Protocol to Convention No 29 on Forced Labour, as well as to effective implementation of the ILO fundamental conventions. See the ILO Integrated Strategy on Fundamental Principles and Rights at Work 2017-2023: https://www.ilo.org/wcmsp5/groups/public/@ed_norm/@ipec/documents/publication/wcms_648801.pdf

[116] For details regarding countries which have ratified this convention, please, see: https://www.ilo.org/dyn/normlex/en/f?p=1000:11300:0::NO:11300:P11300_INSTRUMENT_ID:312226

[117] Based on the breakdown of GSP countries as per the baseline (scenario 2a).

[118] If positive conditionality was expanded beyond GSP+ countries, up to 18 additional countries would have to ratify it (see the analysis in section 2.5).

ILO priority (governance) Convention No 144 on tripartite consultations

ILO priority (governance) Convention No 144 has been suggested for further consideration due to its relevance for GSP objectives, as well as the overall high number of ratifications globally and among GSP beneficiary countries (47 out of 64 as per the baseline). This includes 13 of the 21 Standard GSP beneficiaries, all GSP+ countries except Bolivia and 27 of the 35 EBA beneficiaries. Among EU Member States, it has been ratified by all[119].

Convention No 144 provides for the Parties to consult employer and worker organisations on matters being subject to ILO work, including analysis of non-ratified conventions and measures to take towards their ratification and implementation, the Government's replies to questionnaires concerning items on the agenda of the ILO Conference (the supreme ILO decision making body).

The Convention clearly contributes to the objectives of the GSP Regulation and complements the other two conventions relating to social partners, No 87 and No 98.

The administrative cost burden for the Commission services to ensure monitoring of the implementation of Convention No 144 would be identical as for Convention No 81

Environmental conventions

The identification of potential new environmental agreements for inclusion among in Annex VIII has been guided by the understanding that increased international trade **should not come at the expense of the environment:** For some environmental conventions (and possibly for other conventions, too) a large difference exists between ratification and effective implementation of the convention. Effective implementation of existing and additional conventions may require significant efforts, both for the GSP country and the EU. The expected added value of including additional environmental conventions into Annex VIII should be weighed against the expected added value to support improved implementation of existing environmental conventions and total efforts should be balanced against expected impacts. In some cases, alternatives to such expansions could be preferred.

The study suggested to give **priority to the following environmental aspects**:

1. Climate change, most comprehensively covered by the **Paris Agreement**, needs to be adequately represented due to its overriding global importance. An update of Annex VIII to this end seems opportune;

2. Increased trade should not lead to an increase in air pollution, which is one of the most pressing environmental challenges in GSP beneficiary countries. With a high share of ratification of the **Montreal Protocol**, efforts could be put on support to more effective implementation, for example in adopting and meeting air quality standards. In addition, due consideration is given to the **Kigali Agreement** to reduce hydrofluorocarbon (HFC) emissions;

[119] Luxembourg most recently ratified the convention on 18 March 2021. The Convention will enter into force for Luxembourg on 18 Mar 2022.

3. Increased international trade should not lead to an increase in production of waste. Due consideration is given to limiting production of hazardous waste as well as the importance of monitoring international movements of hazardous waste as addressed in the **Ban Amendment to the Basel Convention**. In addition, attention is given to information sharing and adoption of informed consent procedures for certain hazardous chemicals and pesticides in international trade, as addressed in the **Rotterdam Convention**;

4. Due consideration is given to recognising **the importance of water access and water quality**, and the options to support to cleaner production technologies with lower levels of wastewater or higher levels of wastewater treatment, improved knowledge exchange on wastewater treatment or providing capacity building to improve the quality of monitoring and inspection. Water quality and availability have been raised in numerous instances as negative consequences from increased trade and production in response to trade agreements and trade preferences.

The remainder of this section discusses in more detail which environmental agreements could be considered for expanding the list of conventions in Annex VIII of the GSP Regulation, ordered by environmental area.

Environmental quality. Most international environmental conventions address specific environmental aspects and therewith do not fall in the category of overall environmental quality. The Convention that could be considered part of this category is the Espoo Convention: the 1991 Convention on Environmental Impact Assessment in a Transboundary Context. However, as the Espoo Convention currently has only 45 parties (among which only one GSP country), it is not considered for inclusion in Annex VIII of the GSP.

Climate Change. The current list of environmental conventions included in Annex VIII of the GSP includes both the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. Further agreement is the Doha amendment that extended the agreements included in the Kyoto Protocol to 2020. In 2015 these conventions were "updated" by the Paris Agreement, which sets targets for the year 2030 with a view towards 2050.

Further arguments to support this change are the following:

- Many developing countries are highly vulnerable to the effects of climate change and have actively asked for international support to address these effects. Many of these countries have included international support as conditional to achieving their (I)NDC target;
- The Paris Agreement is legally recognised as a convention, is open to ratification by all members of the international community and has a high degree of ratification by members of the international community;
- The Paris Agreement is ratified by all EU MS, has a high political priority within the EU, and recent statements from the EC, the EP and other EU bodies show a firm commitment and broad support to this convention;
- The Paris Agreement has a high relevance for international policy in general, and the GSP specifically. It has a high coherence with and potentially high contribution to the objectives of the GSP;
- There is a high coherence with EU Member States' commitments;

- There is a high coherence with SDG 13 – climate action;
- The vast majority of civil society organisations (CSOs) is positive towards implementation of the Paris Agreement.

Air pollution. Air pollution is one of the most pressing environmental challenges in many of the GSP beneficiary countries. Addressing air pollution clearly has a strong link to SDG 11 – sustainable cities and communities, but also to SDG 3 – good health and well-being. The leading environmental convention in this matter that has global coverage is the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer – which is listed in Annex VIII of the GSP Regulation – and the several amendments to this Protocol, including the 2016 Kigali Agreement that aims to reduce HFC emissions by 80-85% by 2045. Nearly all countries in the world have ratified the Montreal Protocol and most of its amendments, but the level of ratification for Kigali Agreement is much lower; among the 64 GSP countries, 29 ratified it (none of the GSP+ countries did), and among the EU Member States, 24 did so (all but Italy, Malta, and Spain).

A key question however is whether addressing this potential increase is best done by means of adding the Kigali Agreement to the list of conventions in Annex VIII of the GSP or by using other channels. Given the lower level of ratification, including non-ratification by three EU Member States, the latter seems the better option.

Waste. The list of environmental conventions addressing waste includes the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, one amendment to this Convention and a Protocol to this convention. Together with the Rotterdam Convention and the Stockholm Convention, this forms the set of international conventions to protect human health and the environment from hazardous chemicals and wastes.

The Basel Convention, already included in the list of GSP conventions, is a very comprehensive and prominent convention: with 197 Parties is it almost universal and it has had significant impact on waste reduction world-wide. The Ban Amendment to this convention was adopted in 1995. This amendment prohibits parties listed in its Annex VII – members of the EU, OECD, and Liechtenstein – of transboundary movements of hazardous wastes to parties not included in Annex VII. The Ban Amendment aims to ensure that countries with the capacity to manage their hazardous wastes in an environmentally sound manner take responsibility for them, while still allowing Parties wishing to receive wastes required as raw materials for recycling or recovery industries. The Ban Amendment entered into force in December 2019. Many of the Annex VII Parties already banned or limited the export of hazardous wastes, while many non-Annex VII Parties banned the import of hazardous wastes.[120]

The Rotterdam Convention aims to promote shared responsibility and cooperative efforts in the international trade of certain hazardous chemicals in order to protect human health and the environment from potential harm. In addition, it aims to contribute to the environmentally sound use of those hazardous chemicals, by facilitating information exchange about their characteristics, by providing for a national decision-making process on their import and export and by disseminating these decisions to Parties. The

[120] Website Basel Convention, "Entry into force of amendment to UN treaty boosts efforts to prevent waste dumping". Available at http://www.basel.int/Default.aspx?tabid=8120

Convention creates legally binding obligations for the implementation of the Prior Informed Consent (PIC) procedure.[121]

The Stockholm Convention, already included in the GSP conventions, aims to protect human health and the environment from persistent organic pollutants (POPs). It requires its parties to take measures to eliminate or reduce the release of POPs into the environment, among others by agreements to restrict production and use, as well as import and export of POPs. Further details on this convention are included in the section below on water quality and access.

Addressing increasing amounts of waste, and especially hazardous waste is a key problem in many developing countries.

A key question is whether the inclusion of the Ban Amendment or the Rotterdam Convention to the list of environmental conventions in Annex VIII of the GSP is opportune. The strong influence of the Ban Amendment prior to its entry into force and the high number of Parties to the Rotterdam Convention (161) may suggest a positive answer to this question. On the other hand, the current number of Parties to the Ban Amendment may suggest that it is too early to include it. Currently 99 Parties ratified this Amendment to the Basel Convention, of which 18 of the 64 GSP countries, and one GSP+ country (Bolivia). The non-signatories are mainly non-Annex VII Parties to the Basel Convention.

Weighing all pros and cons, it is concluded that **specific mentioning of the Ban Amendment to the Basel Convention and the Rotterdam Convention** is recommended. This could be done by means of inclusion in Annex VIII, but especially for the Ban Amendment this seems not to be the preferred route, given the high amount of GSP and GSP+ countries that have currently not ratified this Ban Amendment and therewith such option would add a combined high burden to the group of GSP beneficiaries. An alternative way worth considering is to indicate possible inclusion of the Ban Amendment and the Rotterdam Convention in the future or by recognising the importance of these conventions and their relations with international trade, by means of including a provision in the preamble to the GSP regulation.

Water quality and access. Quality of and access to water have a direct relation with SDG 6 – clean water and sanitation and SDG 14 – life below water, as well as an indirect relation with several other SDGs, including SDG 3 – good health and well-being. The list of current environmental conventions included in Annex VIII includes one convention that indirectly addresses water quality or water access, the Stockholm convention on persistent organic pollutants, as these chemical substances that persist in the environment could contaminate surface water.

The conclusion of the assessment is that, other than the Stockholm Convention on Persistent Organic Pollutants that is currently already included in Annex VIII of the GSP, there are no relevant environmental conventions that are recommended for inclusion in Annex VIII.

[121] Website Rotterdam Convention. "Overview" Available at http://www.pic.int/TheConvention/Overview/tabid/1044/language/en-US/Default.aspx

Biodiversity. With biodiversity being addressed in three out of the current eight environmental conventions included in Annex VIII, (CITES, CBD, and its Cartagena Protocol on Biosafety) the theme receives relatively high attention within the framework of the GSP. Biodiversity has a clear, direct relation with SDG 14 – Life below water and SDG 15 – Life on land, but also an indirect relation with several other SDGs, including SDG 1 – no poverty, SDG 2 – zero hunger, SDG 3 – good health and well-being and SDG 12 – responsible consumption and production.

In addition to the three conventions currently included in Annex VIII, other important international environmental conventions on biodiversity do exist, for example the second protocol to the CBD - Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization – and the Nagoya-Kuala Lumpur Supplementary Protocol on Liability and Redress to the Cartagena Protocol on Biosafety. Both protocols concluded in 2010 deal with the fair and equitable sharing of benefits arising from the utilization of genetic resources.

Whereas the importance of these protocols is not disputed, the international appreciation and level of ratification is high, and the urgency to actively protect biodiversity in GSP beneficiary countries is high, the study concluded that many developing countries are making good progress in terms of biodiversity and the ratification and active implementation of the CBD and its Cartagena Protocol, together with the active protection of species under the CITES Convention is addressing most of the biodiversity concerns in GSP beneficiary countries. There is certainly a relation between international trade and the utilisation of genetic resources, and it is important to ensure that larger international trade does not lead to increased bio-piracy. However, the inequality of this bio-piracy is largely addressed by the ratification of these protocols by developed countries as it ensures that the users of generic resources – that mostly stem from developed countries – share the benefits with provider countries and communities in the developing countries. Adding the protocols to the list of Annex VIII countries would put an unequal burden on the developing countries compared to the additional benefit of ratification.

Land use. The matter of land use is not proposed to be addressed by means of changes in Annex VIII, although countries are facing many challenges such as rapid desertification, or loss of natural forest coverage or other natural areas because of increased agricultural production or urbanisation. These challenges, however, are mostly country-specific and often interlinked with other environmental challenges. For example, the loss of forest coverage reduces the role of sinks to meet GHG emission targets and is therefore addressed in GHG mitigation policies, and the share of desertification is directly related to issues on water availability.

<u>Governance conventions</u>

The starting point for identifying candidates among governance conventions to be included in Annex VIII was to consider those multilateral conventions (treaties) that are open to ratification by all states that are relevant for GSP countries and have repeatedly been recommended for inclusion by the European Parliament or relevant stakeholders, including in the consultations undertaken in the context of this study. As a result of this, the following conventions were initially identified:

- The 1951 Geneva Convention on the Status of Refugees;

- The International Convention for the Suppression of the Financing of Terrorism (1999); and
- The United Nations Convention against Transnational Organized Crime (UNTOC, 2000) and its Protocols, i.e.,
  - The Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children (Palermo Protocol);
  - The Protocol against the Smuggling of Migrants by Land, Sea and Air, supplementing the United Nations Convention against Transnational Organized Crime (Smuggling Protocol); and
  - The Protocol against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition (Firearms Protocol).

For these, then, the selection criteria for proposed inclusion in Annex VIII were that they have been ratified by all EU Member States as well as a high share of countries globally and among GSP countries, and that ratification and implementation of these conventions contributes to the development of GSP countries.

The **Geneva Convention on the Status of Refugees** has been ratified by all EU Member States as well as 45 of the 64 GSP countries in the baseline (70%), and 146 countries globally. However, although migration constitutes an element of the SDGs (target 10.7 calls for the facilitation of orderly, safe, regular, and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies), a direct positive link between ratification of the Convention and the development of a GSP country is not evident. In addition, monitoring of the implementation of the Convention might be complicated (and require a comparatively higher level of resources both by GSP countries and the European Commission) due to the fact that the Convention lacks a periodic reporting mechanism. Inclusion of the Convention in Annex VIII is therefore not recommended.

None of the **protocols to UNTOC** is proposed for inclusion in Annex VIII, for the following reasons:

- The Firearms Protocol has not been ratified by all EU Member States – Ireland and Malta have not signed it, and Germany and Luxembourg have signed but not ratified it – and therefore has not been further considered.
- The Smuggling Protocol fails the criterion of ratification by all EU Member States (Ireland has only signed but not ratified it).
- The Palermo Protocol has been ratified by all EU Member States, but provides limited added value compared to other, related conventions that are already listed in Annex VIII: Provisions related to trafficking in persons are also included in CEDAW and CRC, as well as ILO Conventions No. 29 and No. 182.

The **Terrorism Financing Convention** has been ratified by all EU Member States and also has a high ratification score globally, with 189 Parties (as of early July 2020). It has been ratified by 58 of the 64 GSP countries (as per the baseline, scenario 2a), including all GSP+ beneficiaries. Nevertheless, an inclusion in Annex VIII does not seem to be recommendable because there is no evident direct link between the scope of the convention and development of GSP countries. It would also seem that compliance with the Convention is already contained among the GSP conditionality, as Article 19(1)(c) mentions the "failure to comply with international conventions on anti-terrorism and money laundering" as one of the reasons for temporary preference withdrawal, applicable

to all GSP beneficiaries. Finally, the added value of including the Convention in Annex VIII over and above the already included UN Convention against Corruption and the UN Convention against Transnational Organised Crime, which is proposed for inclusion in Annex VIII (see next paragraph) seems to be limited.[122]

The **UN Convention against Transnational Organized Crime** has also been ratified by all EU Member States and has 190 Parties globally. Among the GSP countries, it has been ratified by 58 of the 64 GSP countries (as per the baseline, scenario 2a), including all GSP+ beneficiaries (see Tables B6-2.7-8 in Annex B6-2). The Convention contributes to the attainment of the SDGs – most explicitly, Target 16.4 aimed at combating all forms of organised crime; it is also directly relevant to international trade. As organised crime works against progress towards the overall sustainable development objective of the GSP, it appears justified to add the Convention to the list of international convention in Annex VIII of the GSP Regulation.

[122] For the European Commission's view on this, see the Staff Working Document in response to the MTE (European Commission 2018c).

Annex 10: Calculations on product graduation and thresholds

Current model[123]

Amount of trade which loses preferences, 1000 EUR, average 2017-2020

	Nigeria[124]	Congo	India	Bangladesh
Total	**2,710**	**13,382**	**5,797,185**	**13,022,822**
GDP (2019), million EUR	400,286	11,203	2,562,689	270,232
	0.001%	0.119%	0.226%	4.819%
Total exports to EU including MFN	13,966,251	817,951	35,257,569	14,554,049
	0.02%	1.64%	16.44%	89.48%
of which GSP eligible	1.96%	67.79%	39.58%	90.71%

Lower the thresholds by 10 percentage points

	Nigeria	Congo	India	Bangladesh
Total	**2,710**	**13,382**	**6,413,708**	**13,022,822**
GDP (2019), million EUR	400,286	11,203	2,562,689	270,232
	0.001%	0.119%	0.250%	4.819%
Total exports to EU including MFN	13,966,251	817,951	35,257,569	14,554,049
	0.02%	1.64%	18.19%	89.48%
of which GSP eligible	1.96%	67.79%	43.79%	90.71%

[123] Graduation at section level. The product graduation mechanism of Article 8 of the GSP Regulation stipulates that the tariff preferences can be suspended if the average share of EU imports from a given GSP beneficiary of certain product sections (defined in Annexes V and IX) in the value of EU imports of the same sections from all GSP beneficiary countries over three consecutive years exceeds the thresholds of 57% generally, 47.2% for sections S-11a and S-11b, and 17.5% for sections S-2a, S-3 and S-5. Assumptions are made, as with the rest of the economic modelling, that Vietnam and Indonesia graduate out of GSP and Bangladesh graduates from EBA to standard GSP.

[124] These four GSP beneficiaries were selected for these calculations according to the following considerations: • Bangladesh will potentially be graduating from EBA to GSP and the vast majority of its exports to the EU are concentrated in textiles; India is the largest user of the instrument; Nigeria and Congo present also significant concentration of their exports to a handful of products and could be vulnerable to such threshold reductions.