

Study in support of an impact assessment to prepare the review of GSP Regulation No 978/2012

Inception Report, 18 May 2020

Executive Summary

1. The European Commission has commissioned a study in support of an impact assessment to prepare the review of Regulation (EU) No 978/2012 applying a scheme of generalised tariff preferences (the Generalised Scheme of Preferences, GSP). The study is implemented by a consortium led by BKP Economic Advisors GmbH over the period December 2019 to December 2020, with an interim report scheduled for June 2020 and a draft final report expected for August 2020.

Study purpose and context

2. The **purpose of the study** is to support an impact assessment to be undertaken by the Commission with respect to different policy options for a Generalised Scheme of Preferences in the form of a GSP regulation to apply after the current GSP Regulation expires at the end of 2023. To this effect, the study focusses on a number of distinct policy options defined by the Commission, and assesses their potential economic, social, human rights and environmental impacts both in GSP beneficiary countries and the EU, while also considering legal, institutional and procedural issues. The study builds on a mid-term evaluation of the current GSP Regulation, published in 2018, and is prepared in line with the procedure laid out in the Commission's Inception Impact Assessment, which in May 2019 launched the preparations for the new GSP Regulation.

3. The **inception report presents the methodology and approach for the study**, including the plan for stakeholder consultations and the proposed selection of 15 case studies which will complement the overall quantitative and qualitative analysis, with more in-depth assessments of some of the identified policy options.

Issues to be studied

4. The policy options and corresponding **research tasks** of the study cover the following issues:

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- **Options for streamlining the current GSP arrangements and beneficiaries (Task B2):** The GSP Regulation sets up three distinct arrangements, i.e. (1) the Standard GSP for low and lower-middle income countries, (2) the special incentive arrangement for sustainable development and good governance for “vulnerable” low and lower-middle income countries that have ratified and implement 27 international conventions related to human rights, labour rights, protection of the environment and good governance (GSP+), and (3) Everything But Arms (EBA), the special arrangement for least developed countries (LDCs). The study will assess the impact of discontinuing the Standard GSP, discontinuing the Standard GSP and GSP+, and of further focussing on the beneficiary countries that are most in need.
- **Adjustments of the current GSP product coverage and product graduation (Task B3):** While EBA beneficiaries benefit from duty-free access to the EU for all their exported products except arms and ammunition, the range of products enjoying preferential access for Standard GSP and GSP+ countries is more limited, which may hamper export diversification. Accordingly, the study will assess the impact of expanding the GSP product coverage to a number of industrial and agricultural products, with a focus on goods that can help achieve environmental and climate protection goals. Another issue to be addressed is product graduation: currently, to ensure that GSP preferences accrue to those countries most in need, Standard GSP beneficiaries that become internationally competitive producers of certain products cease to benefit from the preferences for these products. The study will assess the impact of expanding this graduation mechanism to all GSP+ and EBA beneficiaries, at least for certain products.
- **Options for handling the graduation of EBA beneficiaries from LDC status (Task B4):** Irrespective of potential changes to the GSP as analysed under Task B2, a number of LDCs currently benefitting from the EBA arrangement are expected to graduate from LDC status in the coming years. Following graduation, these countries could move to Standard GSP or GSP+. The study will analyse the consequences for such EBA countries, not only due to the changes in access to the EU market but also in response to changes in the rules of origin applicable. It will also assess the impact of potential modifications to the transition period (currently 3 years) for moving from EBA to Standard GSP or to GSP+ upon graduation from LDC status.
- **Issues with regard to conditionalities related to international conventions (Task B5):** Under the current GSP Regulation, an obligation to ratify and effectively implement the 27 conventions listed in Annex VIII (positive conditionality) only applies to GSP+ beneficiaries. However, GSP preferences can be withdrawn from any beneficiary, regardless of the arrangement, in cases of serious and systematic violation of the principles of the human rights and labour rights conventions listed in the Regulation. The study will assess the impacts of expanding conditionality in various ways: by extending negative conditionality (for all GSP beneficiaries) also to the violation of the principles laid down in conventions related to protection of the environment and good governance, and by extending positive conditionality to Standard GSP and EBA beneficiaries.
- **Potential amendments to the list of international conventions (Task B6):** As regards the 27 conventions currently listed in Annex VIII of the GSP Regulation, the mid-term evaluation considered that the list was outdated and incomplete. The study will therefore undertake a detailed review to update the list.
- **Issues regarding the GSP+ monitoring process, including transparency and inclusiveness (Task B7):** The purpose of the GSP+ arrangement is to entice developing countries to uphold a set of international values that the EU has committed to promoting both at home and abroad. To ensure effectiveness, the EU monitors if and how the international conventions are implemented by GSP+

beneficiaries. The study will explore options to further strengthen procedural aspects related to monitoring, specifically with regard to enhancing transparency of the monitoring process by providing more information and by allowing for more structured input from civil society. The study will also assess the impact of changing the monitoring cycle (currently 2 years).

- **Issues related to the process for withdrawing GSP preferences (Task B8):** GSP preferences can be suspended from beneficiary countries if these countries fail to comply with the positive or negative conditionalities established in the GSP Regulation. The study will assess various options proposed for increasing the effectiveness and efficiency of the procedure for temporary withdrawal, both prior to the decision to initiate the procedure and after that step, as well as changes to the scope of preference withdrawal.
- **Options regarding the GSP safeguard mechanisms (Task B9):** The aim of the two GSP safeguard mechanisms is to prevent serious difficulties for EU producers as a result of the GSP by allowing for the re-introduction of normal Common Customs Tariff duties. The study will assess various possible amendments to the automatic safeguard mechanism (Article 29 of the GSP Regulation), which currently applies to selected products only, and only to the Standard GSP and GSP+. Accordingly, the impact of expanding the scope to all agricultural goods, as well as extending the application to EBA countries (in varying degrees) will be assessed.
- **Development of a framework to measure the success of the GSP Regulation in achieving its policy objectives (Task B10) and refinement of the GSP problem tree (Task B11):** Based on the findings of the assessments undertaken in the study, a revised problem and objectives tree will be prepared, as well as a performance measurement framework, providing performance indicators, measurement tools and sources.

Methodologies

5. The methodologies to be applied in the study vary across the research tasks listed above and have accordingly been developed for each task separately. In general, economic impact, in particular for Tasks B2 to B4, will be analysed based on computable general equilibrium (CGE) modelling undertaken by the European Commission. This simulates the effects of the alternative policy scenarios on a number of economic indicators including macroeconomic ones (such as GDP, welfare, wages, prices and terms of trade), and sectoral ones (changes in trade flows, value-added and labour inputs). This will be complemented with additional descriptive statistical and partial equilibrium analysis. Social, human rights, and environmental impacts will be derived, where appropriate, from the economic effects. The legal analysis will take into consideration compliance with WTO law, in particular the Enabling Clause. All analyses will follow the established guidelines by the European Commission and other institutions, in particular the Better Regulation Toolbox.

6. A total of 15 **case studies** will complement the horizontal analysis to illustrate the more general findings by zooming into specific issues and analyse these in more detail. Case study topics are related to selected horizontal research tasks as listed above and have been identified applying clear selection principles and criteria. The selected case studies are:

- Country and sector case studies in relation to potential changes in scope of the GSP (Task B2): Bangladesh, Pakistan, India, Ethiopia, Myanmar, Lao PDR, and the garment sector;
- Thematic case studies in relation to GSP product coverage and graduation (Task B3): Effects of expanding the GSP product coverage to goods that can help achieve

environmental and climate protection goals, and the potential impact of expanding product graduation to rice;

- Thematic case study regarding the graduation of EBA beneficiaries from LDC status (Task B4): The impact of changes in EU rules of origin for textiles and garments upon graduation of EBA beneficiary countries;
- Country case studies in relation to positive conditionality related to international conventions (Task B5): The impact of a ratification requirement for Bhutan, and the impact of a ratification and implementation requirement for Uzbekistan;
- Country case study of the effects of amending the list of international conventions to be ratified (Task B6): Compliance with international environmental conventions in Bangladesh, with special attention to the textile sector and hazardous waste;
- Case studies in relation to changes in the GSP safeguard mechanism (Task B9): Comparing general and automatic safeguards for rice – the cases of Cambodia and Myanmar, and the effect for the EU industry of expanding the product scope of automatic safeguards (Article 29) to a product yet to be identified in the interim report (possibly leather and footwear).

Consultations

7. A separate consultation strategy has been prepared, taking into account the related outline included in the Commission's Inception Impact Assessment. The consultations will comprise four components or "pillars":

- Pillar 1: Digital engagement with stakeholders and interested persons in general, through a website (<http://www.gsp-study.eu>) and electronic communication channels (Twitter and email newsletters);
- Pillar 2: Interviews and roundtables/workshops with key stakeholders in the EU and 10 selected GSP beneficiary countries. It is envisaged to consult at least 200 stakeholders (face-to-face on site and through VC, in focus group meetings, and written contributions). Meetings with members of the European Economic and Social Committee (EESC) and of the European Parliament are also planned;*
- Pillar 3: Contribution to the Commission's online public consultation through support in formulating the questionnaire, disseminating the survey link, and evaluating the responses received;
- Pillar 4: Meetings in Brussels with EU civil society (Civil Society Dialogue meetings), EU Member States experts (Commission Group of Experts) and European Commission and EEAS officials (Inter-Service Group meetings) to discuss the draft inception report, the interim report, and the draft final report.*

8. An initial database of stakeholders has been prepared during the inception phase and comprises some 750 organisations (excluding EU and Member State representatives, as well as GSP beneficiary country governments) from the public and private sectors, civil society and academia in the EU and GSP beneficiary countries, and international organisations. These stakeholders will be invited to contribute views and kept informed through email newsletters during the course of the study.

* The feasibility of direct (personal) consultations with stakeholders will be assessed based on developments regarding the coronavirus pandemic, and if needed alternative means of consultations (webinars, conference calls and/or written consultations) may have to be used. The situation is being monitored, and decisions will be taken in consultation with the Commission.