



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

Interim Report

November 2020

Volume 1: Main report

Prepared by BKP Economic Advisors
[November 2020]

The views expressed in the report are those of the consultant,
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EUROPEAN COMMISSION

Directorate-General for Trade

Directorate C —Africa-Caribbean and Pacific, Asia (II), Trade and Sustainable Development, Green Deal

Unit C.3 — Bilateral Relations in Trade and Sustainable Development, Generalised Scheme of Preferences

European Commission

B-1049 Brussels

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

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ABSTRACT

The European Commission has commissioned a study in support of an impact assessment to prepare the review of GSP Regulation No 978/2012 applying a scheme of generalised tariff preferences (the generalised scheme of preferences, GSP). The study will analyse a number of policy options for the European Union's GSP after the expiry of the current scheme at the end of 2023. These policy options have been defined by the Commission regarding the scope, coverage and implementation modalities of the future scheme. The study will assess the potential economic, social, human rights and environmental impacts both in GSP beneficiary countries and the EU, while also considering legal, institutional and procedural issues. This interim report presents preliminary findings and recommendations based on the research undertaken so far; they will be further developed and refined in the final report.

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ACRONYMS

ATPSM	Agricultural Trade Policy Simulation Model	ICERD	International Convention on the Elimination of All Forms of Racial Discrimination
CAT	Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment	ICESCR	International Covenant on Economic Social and Cultural Rights
CBD	Convention on Biological Diversity	ICMW	International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families
CCT	Common Customs Tariff	ILO	International Labour Organisation
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women	ITC	International Trade Centre
CERD	Committee on the Elimination of Racial Discrimination	LDC	Least Developed Country
CESCR	Committee on Economic, Social and Cultural Rights	MFN	Most-Favoured Nation
CGE	Computable General Equilibrium	MIRAGE	Modelling International Relationships in Applied General Equilibrium
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora	MTE	Mid-Term Evaluation
CPI	Consumer Price Index	NGO	Non-Governmental Organisation
CPPCG	Convention on the Prevention and Punishment of the Crime of Genocide	OECD	Organisation for Economic Cooperation and Development
CRC	Convention on the Rights of the Child	OHCHR	Office of the United Nations High Commissioner for Human Rights
CRP	Chemicals, rubber and plastics	OLDC	Other Least Developed Countries
CSD	Civil Society Dialogue	OPC	Online Public Consultation
CSR	Corporate Social Responsibility	OP	Optional Protocol
DAG	Domestic Advisory Group	OP-CRC-	Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict
DG	Directorate-General	AC	
EBA	Everything But Arms	OP-CRC-	Optional Protocol to the Convention on the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography
EC	European Commission	SC	
EGA	Environmental Goods Agreement	PDR	People's Democratic Republic
EIDHR	European Instrument for Democracy and Human Rights	PE	Partial Equilibrium
EP	European Parliament	POPs	Persistent Organic Pollutants
EPA	Economic Partnership Agreement	PM	Particulate Matter
EU	European Union	RoO	Rules of Origin
EVI	Environmental Vulnerability Index	ROW	Rest of the World
FDI	Foreign Direct Investment	SDGs	Sustainable Development Goals
FRA	EU Agency for Fundamental Rights	SSA	Sub-Saharan Africa
FTA	Free Trade Agreement	SWD	Staff Working Document
FTEs	Full-time equivalents	ToR	Terms of Reference
GATT	General Agreement on Tariffs and Trade	TRIST	Tariff Reform Impact Simulation Tool
GDP	Gross Domestic Product	TSD	Trade and Sustainable Development
GHG	Greenhouse Gas	UN	United Nations
GSIM	Global Simulation Analysis of Industry-Level Trade Policy	UNCTAD	United Nations Conference on Trade and Development
GSP	Generalised Scheme of Preferences	UNFCCC	United Nations Framework Convention on Climate Change
GTAP	Global Trade Analysis Project	UNTOC	United Nations Convention against Transnational Organized Crime
HFC	Hydrofluorocarbon	VCLT	Vienna Convention on the Law of Treaties
HR	Human rights	VSS	Voluntary Sustainability Schemes
HS	Harmonised System	WHO	World Health Organisation
ICCPR	International Covenant on Civil and Political Rights	WTO	World Trade Organisation

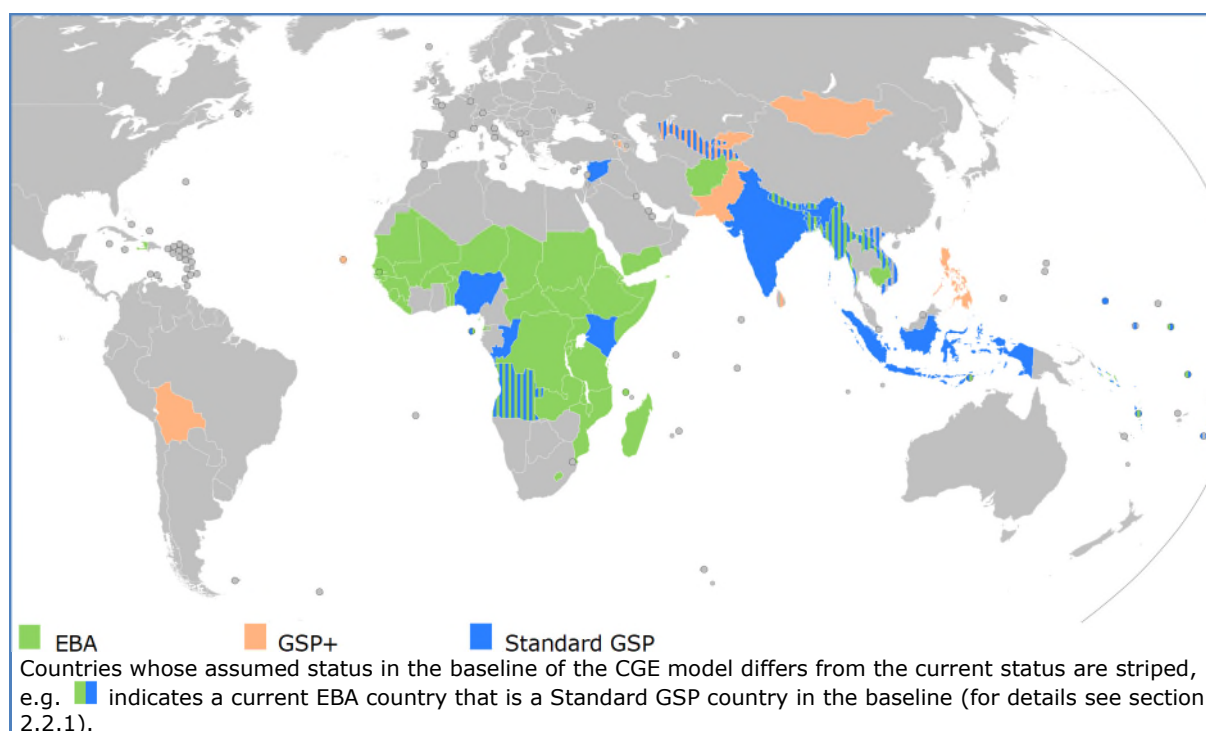
1 INTRODUCTION - STUDY BACKGROUND AND OBJECTIVES

Since 1971, the European Union (EU) Generalised Scheme of Preferences (GSP) 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). The rationale of the GSP is to make it easier for developing countries – in particular, the poorest and most vulnerable ones – to export to the EU market in order to promote their sustainable economic, social and environmental development, with the primary objective of reducing poverty.

The GSP consists of three distinct arrangements with different beneficiary countries (Figure 1) and levels of preferences:

- The **Standard GSP**¹ for low and lower-middle income countries provides partial or full removal of customs duties on about two-thirds of the EU's tariff lines. This arrangement as of 2020 has 15 beneficiary countries.
- The special incentive arrangement for sustainable development and good governance (**GSP+**) reduces the same tariffs to 0% 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. The GSP+ has 8 beneficiary countries in 2020.
- The **Everything But Arms (EBA)** arrangement, which currently has 48 beneficiary countries, provides least developed countries (LDCs) with duty-free, quota-free market access for all their products except arms and ammunition.

Figure 1: Location of GSP beneficiary countries



¹ Throughout this report, we use the term "Standard GSP" when referring to the General Arrangement as defined in the GSP Regulation's Chapter II. The term "GSP" refers to the whole GSP scheme comprising all three arrangements.

The current legal basis for the GSP, the 2012 GSP Regulation² (which entered into force in January 2014), will expire at the end of 2023. If no new GSP regulation is adopted, the Standard GSP and the GSP+ will be discontinued, and imports from the current beneficiary countries would be subject to the “normal” EU MFN tariffs; only the EBA would continue to be applied because it has no expiry date. Depending on how much a beneficiary country exports to the EU, the expiry of the Standard GSP and the GSP+ could negatively affect growth, employment and investment in beneficiary countries.

The European Commission is therefore considering different options for a regulation that will establish the legal basis for the GSP after 2023. To examine the economic, social, environmental, and human rights impacts of possible policy options for various elements of this new EU GSP regulation, in line with established practice in the Better Regulation framework, the Commission is preparing an impact assessment.

Taking into account that the current GSP is the result of a major reform undertaken in 2012, the Commission does not intend to change the scheme’s main features and objectives. This also follows from the recent Mid-Term Evaluation of the GSP Regulation (Development Solutions 2018, hereafter MTE), which concluded that the current framework is largely effective and delivering on its objectives. The European Parliament in a non-legislative resolution of March 2019³ also acknowledged the positive impact of the GSP Regulation and made a number of recommendations both on the current Regulation and for its review. These recommendations focus on encouraging export diversification, placing more emphasis on improving environmental standards, stakeholder engagement and better monitoring of GSP implementation.

The purpose of the present study, which has been commissioned to a consortium led by BKP Economic Advisors GmbH, is to support and feed into the Commission’s impact assessment. To this effect, the study focusses on a number of distinct policy options for various aspects of the future GSP that have been defined by the Commission, informed by the findings and conclusions of the MTE, and assesses their potential economic, social, human rights and environmental impacts. Work on the study started in December 2019, with completion scheduled for November 2020.

This interim report presents the current status of the research and initial findings. Chapter 2 presents these findings in line with the research tasks established in the terms of reference (ToR), following the methodology described in the inception report. Specifically, the following issues are addressed:

- Options regarding the GSP arrangements and beneficiaries, with the aim of focussing preferences on the countries most in need (task B.2,⁴ section 2.2);
- Options regarding the product coverage of the GSP arrangements as well as rules for product graduation (task B.3, section 2.3);
- Options regarding the graduation of EBA beneficiaries from LDC status and their consequential move to another GSP arrangement (task B.4, section 2.4);
- Options regarding the conditionalities applied by the GSP related to beneficiaries’ compliance with international conventions on human rights, labour rights, environmental protection and climate change, and good governance. Listed in Annex VIII of the GSP Regulation (task B.5, section 2.5);
- Options for updating the list of international conventions listed in Annex VIII of the GSP Regulation (task B.6, section 2.6);

² 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, OJ L 303/1, 31 October 2012.

³ European Parliament resolution of 14 March 2019 on the implementation of the GSP Regulation (EU) No 978/2012 (2018/2107(INI)), P8_TA(2019)0207, http://www.europarl.europa.eu/doceo/document/TA-8-2019-0207_EN.pdf.

⁴ Task numbers refer to the numbering in the terms of references; tasks under “A” were completed in the inception phase; task B.1 refers to consultation activities which are addressed in Annex B1).

- Options regarding the GSP+ monitoring process, including its transparency and inclusiveness (task B.7, section 2.7);
- Options regarding the process for temporarily withdrawing GSP preferences (task B.8, section 2.8);
- Options for amending the GSP safeguard mechanisms, notably automatic safeguards (task B.9, section 2.9);
- The development of a refined problem tree and objectives tree for the GSP (task B.11, section 2.10); and
- Suggestions for a performance measurement framework for the future GSP regulation (task B.10, section 2.11).

To the extent that they are relevant, the analysis for each research issue covers economic, social, environmental, human rights (including labour rights), legal, institutional and procedural dimensions. Impacts on women are addressed throughout the study, mostly in the form of text boxes, which are spread through the report and also the case studies in the annexes (Box 1).

Box 1: Analysis of impacts on women

Gender impacts of the considered policy options are addressed throughout the study. Impacts of GSP preference loss on women are summarised, for a number of countries, in the form of text boxes. These are:

- Tajikistan (see Box 2, page 42)
- Nigeria (Box B2-4.1 in Annex B2-4)
- Bangladesh (Box 1 in case study 1, Annex C-1)
- Pakistan (Box 1 in case study 2, Annex C-2)
- India (Box 1 in case study 3, Annex C-3)
- Ethiopia (Box 1 in case study 4, Annex C-4)
- Myanmar (Box 1 in case study 5, Annex C-5)
- Lao PDR (Box 1 in case study 6, Annex C-6)

An important caveat to be noted at the outset is the impact of the Covid-19 pandemic on the analysis and findings presented in the report. Notably, the economic modelling that constitutes the basis for much of the analysis in this report was undertaken prior to the outbreak of the pandemic and is based on assumptions that were made when the pandemic was not foreseeable. Maybe most importantly in this context, assumptions made about the graduation of countries from the GSP due to reaching upper middle-income status (that was assumed for Armenia and Sri Lanka) and about the graduation of 12 countries from LDC status and their subsequent leaving the EBA, now have to be considered overoptimistic, as they were based on growth forecasts made before the pandemic. The introduction to section 2.4 provides more detail on the impact of Covid-19 on the LDC graduation schedule.

The report also presents an updated schedule for the completion of the study and the work still to be done (chapter 3). More detailed information about stakeholder consultations, various aspects of the research, as well as cases studies are presented in the annexes to the report (volume 2).

2 PRELIMINARY RESULTS OF THE ANALYSIS

2.1 Background: Macroeconomic and Trade Performance Trends in GSP Beneficiaries

Prior to embarking on the analysis of the impact of the various policy options, it is useful to review the recent macroeconomic and trade performance of GSP beneficiaries, as this provides the background against which the impact of the policy actually taken will unfold. This review is presented in Annex B2-1, which updates the descriptive analysis previously undertaken in the MTE. Several important conclusions emerge from this review.

First, the real economic growth performance of the EBA countries was the best across the groups of beneficiary countries – at least when account is taken of the handful of countries that had sharply negative developments in this period due to conflict. This suggests that the comprehensive preference regime provided by the EBA arrangement has supported improvements in terms of income levels for the lowest income economies in the world.

Second, comparing the GSP+ and Standard GSP countries, the former performed measurably better than the latter. This is consistent with the expectation that stronger governance commitments support stronger real growth.

Third, there is a wide range of performance differences within each of the three groups with most economies registering average annual real growth within the 2% to 8% range. Within the EBA group, only four conflict countries (Central African Republic, South Sudan, Sudan and Yemen) had negative performance; among the Standard GSP countries, only Micronesia realized real growth substantially below 1%.

Fourth, India and Indonesia, while performing strongly over this period, do not stand out in real growth performance compared to other economies in the various beneficiary groups; these two economies are primarily distinguished by their size.

Fifth, current account positions vary widely across individual economies: a relatively small number – including a number of oil exporters – register surpluses but most have deficits. Current account performance generally weakened across all the beneficiary groups over the period. Accordingly, the GSP beneficiaries are generally more exposed to external shocks at the end of this period than they were immediately following the global financial crisis. In particular, it is noteworthy that six of the countries expected to graduate from EBA status would have the largest current account deficits among the Standard GSP countries, all over 5% of GDP (Bhutan, Lao PDR, São Tomé and Príncipe, Nepal, Timor-Leste, and the Solomon Islands).

Sixth, dependence on exports to the EU27 varies widely across economies, with most of the relatively highly dependent economies being in the EBA group. Of those that have a relatively significant exposure in terms of exports to the EU27 as a share of their GDP, the relative importance of these exports compared to total exports to the world also varies sharply. In a few cases (Cabo Verde and São Tomé and Príncipe), the EU27 accounts for almost all their trade exposure. Finally, India and especially Indonesia have a relatively small exposure in terms of exports to the EU27.

Seventh, the EBA arrangement provides for the best balance in export performance: EBA countries had strong overall growth in exports to the EU with good performance across all sectors. By contrast, the Standard GSP countries had a more highly concentrated structure of exports to the EU, primarily in manufactures with very limited growth in agricultural and mineral products. The Standard GSP countries, while having by far the largest export totals to the EU, also saw the slowest growth and had almost no growth in their exports of agricultural and mineral products. This would be of some concern for the current EBA countries that are moving into the Standard GSP arrangement, both because of the poorer performance of GSP beneficiaries and because of their vulnerability to trade shocks on the current account.

2.2 Options regarding the GSP arrangements and beneficiaries (Task B.2)

2.2.1 Introduction

This section reviews the options for modifying the GSP arrangements aimed at streamlining the scheme to keep it relevant and focussing on the countries most in need (Task B.2). This introductory sub-section sets out the purpose and several discrete options under consideration, together with a description of the modelling framework used for the

quantitative analysis of these options and a brief discussion of the theoretical expectations concerning the outcome.

The remainder of this section reviews the legal framework for the GSP arrangements and the implications of these for the scenarios contemplated. It also provides an economic analysis of each of the scenarios along with the consequential analysis of environmental, labour, gender, and human rights implications, which drive off the quantitative modelling results. Finally, it draws preliminary conclusions regarding the impact of country graduation.

2.2.1.1 Purpose and Options

Following recommendations made by the MTE, the Commission is considering to adapt the GSP arrangements and beneficiaries. Specifically, the MTE recommended evaluating further possible ways to harmonise the Standard GSP and GSP+ approaches but did not provide details with regard to the conditions of such a new GSP or its beneficiary countries. For this analysis, four different policy scenarios have been identified by the European Commission. As these constitute the basis for the economic modelling undertaken by the Commission (see below), they also constitute the basis for the present task. It should be noted that the scenarios, and the inclusion of countries within them, was defined prior to the outbreak of the COVID-19 pandemic. In light of the economic consequences of the pandemic, it is now very likely that the assumptions made with regard to e.g. countries reaching Upper Middle Income Status, or graduating from least developed country (LDC) status will not hold in practice, respectively will be delayed. The four scenarios are:

- **Baseline scenario (scenario 2a⁵): The current regime of Standard GSP, GSP+ and Everything But Arms (EBA) 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 incorporated in this scenario. Specifically, this refers to:
 - The entry into force of Vietnam's free trade agreement (FTA) with the EU, and Vietnam therefore leaving the GSP;
 - 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 Príncipe, 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;⁶ and
 - Tajikistan and Uzbekistan joining the GSP+ (based on the application submitted by the latter and the expected application by the former).⁷

⁵ Given that different scenarios have been defined for various tasks under this study, these have been numbered by task (here: Task B.2) and scenario (a to x, with scenario "a" always being the baseline scenario which assumes that the current rules are not changed).

⁶ For the period 2017-19, 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 2020-22, 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.

⁷ See e.g., for Uzbekistan: "Uzbekistan files application for GSP+ status," Tashkent Times, 13 June 2020, <https://tashkenttimes.uz/economy/5405-uzbekistan-files-application-for-gsp-status>; and for Tajikistan:

- **Scenario 2b: Ending the Standard GSP and GSP+, and continuation of EBA.** All beneficiaries of the Standard GSP and GSP+ would be subjected to MFN tariffs, while there would be no change for EBA beneficiaries' eligibility criteria compared to the baseline. All LDCs will continue to be granted EBA access. Note that countries expected to graduate from LDC status over the next years (see the analysis in Task B.4, section 2.4), which are assumed to move from EBA to Standard GSP status would also cease to be eligible for preferences in this scenario. This means that the total effect in this case for a current LDC (and thus EBA beneficiary) expected to graduate in the coming years would be the combined effect of losing EBA and then losing Standard GSP preferences (although the impact of the LDC graduation itself is not caused by the policy scenario).

This scenario is the legal default ("do nothing") option under the current GSP Regulation, according to which both the Standard GSP and the GSP+ expire at the end of 2023, while the EBA continues;

- **Scenario 2c: Ending the Standard GSP, and continuation of GSP+ and EBA.** This implies that tariffs for imports from current GSP beneficiaries would be increased to MFN level, unless they successfully apply for GSP+. As in scenario 2b, the same applies to countries that graduate from EBA to GSP in the baseline. The assumption is that all countries which are Standard GSP beneficiaries in the baseline (including countries expected to graduate from LDC status in the coming years) would face MFN tariffs. GSP+ beneficiaries under the baseline (including Tajikistan and Uzbekistan) are not affected by any EU tariff changes in this scenario.

- **Scenario 2d: Graduation from GSP of large developing countries, i.e., all Standard GSP and GSP+ beneficiaries that individually account for 0.5% or more of total world GDP⁸** would be removed from the GSP, while the various GSP arrangements as such would remain in place unchanged. This would apply to India and Indonesia only. Part of the rationale of this scenario is aim to focus preferences on smaller developing countries with a stronger need for support.

This scenario should also be seen in light of the possibility of negotiating FTAs between the EU and the two countries. These would preserve (and possibly even expand) preferential access to the EU market exports from India and Indonesia, although on more reciprocal terms. Indeed, trade negotiations with both countries have been launched. With Indonesia, by early 2020, nine negotiation rounds on a trade agreement have taken place. Negotiations with India are formally on hold since 2013 due to differences in approaches to the level of ambition between the Parties. The EU remains committed to an FTA once there is sufficient mutual understanding and proximity regarding the scope and the level of ambition of the agreement.⁹

Table 1 provides **a list of the beneficiary countries in the different GSP arrangements in the various scenarios**. The number of GSP beneficiaries differs in all three scenarios. Scenario 2b, which discontinues the Standard GSP and GSP+, is the most extreme, leaving only 36 beneficiaries compared to 64 in the baseline scenario (Scenario 2a). Scenarios 2c and 2d are "lighter" reform options that lead to smaller changes in the number of GSP beneficiary countries. Under Scenario 2c, which ends Standard GSP only, the number of GSP beneficiaries falls to 43, although in reality the number of countries remaining in the GSP regime would depend on whether Standard GSP beneficiaries successfully apply for GSP+ status. In the case where all current Standard GSP countries successfully applied for GSP+, the number of beneficiaries in Scenario 2c would be 64, the same as in the baseline scenario 2a, although with a changed composition by arrangement; this is, however, only a theoretical option as some Standard GSP countries in practice would not qualify for GSP+ under the current criteria. Under Scenario 2d, under which only

https://eeas.europa.eu/delegations/tajikistan_en/58200/The%20EU%20and%20Tajikistan%20discuss%20additional%20trade%20preferences%20for%20Tajikistan.

⁸ This was applied based on GDP at constant 2010 prices.

⁹ Overview of FTAs and other trade negotiations: https://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf

India and Indonesia leave the GSP, the number of beneficiaries falls from 64 in the baseline to 62.

Table 1: Beneficiaries of GSP arrangements in the current status and in the various policy scenarios¹⁰

CGE model Code	ISO3 Code	Country name	Current	Scenario 2a (baseline)	Scenario 2b	Scenario 2c	Scenario 2d
OGSP	HTI	Haiti	EBA	EBA	EBA	EBA	EBA
OGSP	YEM	Yemen	EBA	EBA	EBA	EBA	EBA
OLDC	AFG	Afghanistan	EBA	EBA	EBA	EBA	EBA
OLDC	BEN	Benin	EBA	EBA	EBA	EBA	EBA
OLDC	BFA	Burkina Faso	EBA	EBA	EBA	EBA	EBA
OLDC	KHM	Cambodia	EBA	EBA	EBA	EBA	EBA
OLDC	ETH	Ethiopia	EBA	EBA	EBA	EBA	EBA
OLDC	GIN	Guinea	EBA	EBA	EBA	EBA	EBA
OLDC	MDG	Madagascar	EBA	EBA	EBA	EBA	EBA
OLDC	MWI	Malawi	EBA	EBA	EBA	EBA	EBA
OLDC	MOZ	Mozambique	EBA	EBA	EBA	EBA	EBA
OLDC	RWA	Rwanda	EBA	EBA	EBA	EBA	EBA
OLDC	SEN	Senegal	EBA	EBA	EBA	EBA	EBA
OLDC	TZA	Tanzania	EBA	EBA	EBA	EBA	EBA
OLDC	TGO	Togo	EBA	EBA	EBA	EBA	EBA
OLDC	UGA	Uganda	EBA	EBA	EBA	EBA	EBA
OLDC	ZMB	Zambia	EBA	EBA	EBA	EBA	EBA
SSA	BDI	Burundi	EBA	EBA	EBA	EBA	EBA
SSA	CAF	Central African Republic	EBA	EBA	EBA	EBA	EBA
SSA	TCD	Chad	EBA	EBA	EBA	EBA	EBA
SSA	COM	Comoros	EBA	EBA	EBA	EBA	EBA
SSA	DJI	Djibouti	EBA	EBA	EBA	EBA	EBA
SSA	COD	DR Congo	EBA	EBA	EBA	EBA	EBA
SSA	ERI	Eritrea	EBA	EBA	EBA	EBA	EBA
SSA	GMB	Gambia	EBA	EBA	EBA	EBA	EBA
SSA	GNB	Guinea-Bissau	EBA	EBA	EBA	EBA	EBA
SSA	LSO	Lesotho	EBA	EBA	EBA	EBA	EBA
SSA	LBR	Liberia	EBA	EBA	EBA	EBA	EBA
SSA	MLI	Mali	EBA	EBA	EBA	EBA	EBA
SSA	MRT	Mauritania	EBA	EBA	EBA	EBA	EBA
SSA	NER	Niger	EBA	EBA	EBA	EBA	EBA
SSA	SLE	Sierra Leone	EBA	EBA	EBA	EBA	EBA
SSA	SOM	Somalia	EBA	EBA	EBA	EBA	EBA
SSA	SSD	South Sudan	EBA	EBA	EBA	EBA	EBA
SSA	SDN	Sudan	EBA	EBA	EBA	EBA	EBA
BGD	BGD	Bangladesh	EBA	GSP	MFN	MFN	GSP
LAO	LAO	Lao PDR	EBA	GSP	MFN	MFN	GSP
NPL	NPL	Nepal	EBA	GSP	MFN	MFN	GSP
OGSP	KIR	Kiribati	EBA	GSP	MFN	MFN	GSP
OGSP	MMR	Myanmar	EBA	GSP	MFN	MFN	GSP
OGSP	SLB	Solomon Islands	EBA	GSP	MFN	MFN	GSP
OGSP	TLS	Timor-Leste	EBA	GSP	MFN	MFN	GSP
OGSP	TUV	Tuvalu	EBA	GSP	MFN	MFN	GSP
OGSP	VUT	Vanuatu	EBA	GSP	MFN	MFN	GSP
OLDC	BTN	Bhutan	EBA	GSP	MFN	MFN	GSP
SSA	AGO	Angola	EBA	GSP	MFN	MFN	GSP
SSA	STP	Sao Tome and Principe	EBA	GSP	MFN	MFN	GSP
IDN	IDN	Indonesia	GSP	GSP	MFN	MFN	MFN
IND	IND	India	GSP	GSP	MFN	MFN	MFN
KEN	KEN	Kenya	GSP	GSP	MFN	MFN	GSP
NGA	NGA	Nigeria	GSP	GSP	MFN	MFN	GSP
OGSP	COK	Cook Islands	GSP	GSP	MFN	MFN	GSP
OGSP	FSM	Micronesia	GSP	GSP	MFN	MFN	GSP
OGSP	NIU	Niue	GSP	GSP	MFN	MFN	GSP
OGSP	SYR	Syria	GSP	GSP	MFN	MFN	GSP
SSA	COG	Congo	GSP	GSP	MFN	MFN	GSP

¹⁰ Note that the table does not list non-GSP beneficiary countries included in the aggregated regions OGSP, OLDC and SSA in the CGE model.

CGE model Code	ISO3 Code	Country name	Current	Scenario 2a (baseline)	Scenario 2b	Scenario 2c	Scenario 2d
OGSP	UZB	Uzbekistan	GSP	GSP+	MFN	GSP+	GSP+
TJK	TJK	Tajikistan	GSP	GSP+	MFN	GSP+	GSP+
BOL	BOL	Bolivia	GSP+	GSP+	MFN	GSP+	GSP+
KGZ	KGZ	Kyrgyzstan	GSP+	GSP+	MFN	GSP+	GSP+
MNG	MNG	Mongolia	GSP+	GSP+	MFN	GSP+	GSP+
PAK	PAK	Pakistan	GSP+	GSP+	MFN	GSP+	GSP+
PHL	PHL	Philippines	GSP+	GSP+	MFN	GSP+	GSP+
SSA	CPV	Cabo Verde	GSP+	GSP+	MFN	GSP+	GSP+
SSA	GNQ	Equatorial Guinea	EBA	MFN	MFN	MFN	MFN
ARM	ARM	Armenia	GSP+	MFN	MFN	MFN	MFN
LKA	LKA	Sri Lanka	GSP+	MFN	MFN	MFN	MFN
OGSP	NRU	Nauru	GSP	MFN	MFN	MFN	MFN
OGSP	WSM	Samoa	GSP	MFN	MFN	MFN	MFN
OGSP	TON	Tonga	GSP	MFN	MFN	MFN	MFN
VNM	VNM	Viet Nam	GSP	FTA	FTA	FTA	FTA
Total number of EBA beneficiaries			48	35	35	35	35
Total number of GSP beneficiaries			15	21	0	0	19
Total number of GSP+ beneficiaries			8	8	0	8	8
Total number of beneficiaries			71	64	35	43	62

Source: Prepared by the authors based on modelling results provided by the European Commission.

2.2.1.2 The Modelling Framework for the Country Graduation Scenarios

The basic quantitative assessment of options for GSP arrangements and beneficiaries (Task B2) was provided by the European Commission using simulations on a computable general equilibrium (CGE) model. The modelling results constitute the basis for the economic and derived non-economic impacts; it is therefore appropriate to briefly introduce the modelling framework.

The CGE model used by the Commission is the MIRAGE (Modelling International Relationships in Applied General Equilibrium; Decreux and Valin, 2007) model based on the Global Trade Analysis Project (GTAP) V9 database which has a base year of 2011. This multi-region, multi-sector model incorporates constant returns to scale and perfect competition.¹¹

The dynamic version of the model applied here assumes that installed capital is not mobile across sectors or regions and that adjustment to the capital stock by region-sector takes place through a sequential dynamic process of investment and depreciation. MIRAGE also incorporates foreign direct investment, which allows for international capital mobility. The assumption that installed capital is not mobile introduces a rigidity in the economy, which impacts on the speed of adjustment to a new equilibrium. Importantly, since production factors are assumed to be fully employed, negative shocks are absorbed by changes in returns to factors rather than in quantity terms (that is, a negative shock does not reduce an economy's endowments of productive inputs). These features of the model result in relatively strong price effects in simulations compared to "real" or quantity effects.

In the simulation framework, the GSP policy changes are implemented in 2024 with the expiry of the current GSP Regulation; the model only simulates changes in tariffs but not in non-tariff measures, such as changes in rules of origin. The impacts are evaluated as the changes from baseline values in 2029, once the full effects of the policy change have been realized and new equilibrium conditions have been restored.

For the simulations, the model is aggregated to 12 sectors: rice; agrifood products; vegetable oils; primary products; other food products; textiles; garments; leather;

¹¹ Certain options that are available in the Mirage modelling framework, namely imperfect competition market structure in manufacturing and services, and product differentiation by quality were not used for the simulations.

chemicals, rubber and plastics [CRP]; other manufacturing; transport; and services.¹² These sectors are quite broad and not aligned with the GSP sections.¹³ Accordingly, the model simulation results require interpretation as to the implied scale of the changes stemming from the GSP options for the product groups of interest.

Another limitation of the CGE modelling is the high level of regional aggregation. The model data are aggregated into 24 regions. Table 1 above of the composition of GSP beneficiary countries shows their countries' codes in the MIRAGE model (column 1), indicating how they have been aggregated into regions. The EU27 and the UK are treated as separate regions in the model but are assumed to apply an identical GSP regime.¹⁴ Many of the individual GSP beneficiaries are not separately represented in the model; this reflects the fact that a number of GSP beneficiaries are not separately represented in the underlying GTAP database but rather are included in aggregate regions. As regards the aggregated regions in the MIRAGE model that are of particular relevance to this study, the "Other least developed countries" (OLDC) group comprises almost entirely EBA countries and thus features model-driven responses that are reflective of the impact on the EBA group as a whole. The "Sub-Saharan Africa" (SSA) group contains both GSP and non-GSP countries, while the "Other GSP" (OGSP) group includes different categories of GSP beneficiaries. Since the latter two groups are not representative of either of the other GSP beneficiary groups in terms of model-driven responses, the simulation read-outs for these regions are subject to broad caveats.

2.2.1.3 Theoretical expectations regarding impacts

The changes to the GSP scheme contemplated in the scenarios all involve increases in tariffs applied by the EU to imports from a subset of current GSP beneficiaries.

- For **the EU**, the increase in tariff protection carries with it the expectation of negative impacts on economic efficiency coupled with terms of trade improvements as the GSP beneficiaries lower their prices to retain market share in the EU. The economic welfare effects for the EU are thus ambiguous: it is an empirical question as to whether there will be a net positive or a net negative aggregate welfare impact. By extension, the consequential environmental, labour, gender and human rights impacts are also a priori ambiguous in aggregate terms and may depend on the sectoral structure of impacts.
- For **GSP beneficiaries exiting the scheme or graduating to a less generous GSP arrangement**, we expect a reduction in exports to the EU, and an associated worsening of macroeconomic indicators. The expected impact on real GDP is ambiguous. Normally, a negative trade shock reduces overall trade and economic efficiency and results in a negative impact on real GDP. However, given the modelling framework, which lowers returns to factors in sectors experiencing reduced demand, the lower factor prices can have a positive impact on global competitiveness and thus an increase in equilibrium real GDP. Nonetheless, even a marginal increase in real GDP would come with lower welfare due to the negative terms of trade impacts that would be anticipated as these economies confront higher tariffs in the EU. While there is a strong presumption of overall negative impacts, it remains to be empirically determined how the various effects add up for individual economies. In turn, this leaves ambiguous the a priori expectations concerning the consequential environmental, labour, gender and human rights impacts, with the likelihood of strong differentiation across countries according to sector-specific structural changes.

¹² For a detailed concordance with the GTAP 57 sectors, see Appendix C of the inception report.

¹³ For the purposes of implementing the GSP, the GSP Regulation establishes "GSP sections" which are based on the Common Customs Tariff/Harmonised System, and mostly combine several HS Chapters; see Annex V and IX of the GSP Regulation.

¹⁴ In line with the UK's withdrawal from the EU, the model considers the EU27 and the UK as two separate regions. It is assumed that the UK and the EU27 apply the same tariff changes, both in the baseline and the scenarios. Without this assumption, the simulations would be distorted by introducing deviating policy options between the EU27 and the UK.

- For **GSP beneficiaries that remain in the scheme**, an increase is expected in exports to the EU because of a relative improvement in market access compared to countries exiting the scheme. The scale of this relative improvement is an empirical question since these export gains would be shared with all countries exporting to the EU that are not affected by higher tariffs, including advanced countries and intra-EU exporters; accordingly, the extent of this sharing depends on the structure of trade in the products that the remaining beneficiaries export to the EU. This would imply an improvement of macroeconomic indicators, including in terms of real GDP and terms of trade. The implied environmental, labour, gender and human rights impacts are likely to feature both the positive and negative consequences of greater economic activity, with the likelihood of strong differentiation across countries according to sector-specific structural changes.
- For third parties that are **not GSP beneficiaries** but compete with them for the EU market, the effects are likely to be unambiguously positive in pure economic terms as they capture some market share in the EU at the expense of current GSP beneficiaries exiting the GSP altogether or moving to less favourable GSP arrangements. For these economies, the implied environmental, labour, gender and human rights impacts are likely to feature both the positive and negative consequences of higher levels of economic activity, with the likelihood of strong differentiation across countries according to sector-specific structural changes.

2.2.1.4 Legal Analysis

Legal framework for GSP preferences

Article I:1 GATT 1994 (the most favoured nation obligation) prohibits discrimination in favour of products from some WTO members and against “like” products from other countries. As a result, Article I:1 prevents WTO members from granting tariff preferences to some countries on a selective basis. However, Article I:1 is subject to an exception in the form of the 1979 “Enabling Clause”, which waives Article I:1 GATT indefinitely for certain tariff preference schemes for developing countries. This means that WTO members have a right to adopt those tariff preference schemes, but in any WTO dispute settlement proceedings they will bear the burden of proving that their preferential tariffs meet the terms of the Enabling Clause.¹⁵ If they cannot, any preferential tariffs will violate Article I:1 GATT and hence be illegal unless justified on other grounds, for example, under the public policy exceptions in Article XX GATT.¹⁶

The legal questions addressed by this report concerning eligibility, coverage, graduation, safeguards, conditionality and transparency are to be answered by reference to the text of the Enabling Clause. Three paragraphs are particularly important: the terms of the exception described in paragraphs 1 and 2 (and footnote 3), and an additional requirement in paragraph 3. These read as follows.

1. Notwithstanding the provisions of Article I of the General Agreement, contracting parties may accord differential and more favourable treatment to developing countries, without according such treatment to other contracting parties.
2. The provisions of paragraph 1 apply to the following:
 - a) Preferential tariff treatment accorded by developed contracting parties to products originating in developing countries in accordance with the Generalized System of Preferences^[3],

...

¹⁵ Appellate Body Report, *EC – Tariff Preferences*, WT/DS246/AB/R, adopted 20 April 2004, paras 99-114; also Panel Report, *Brazil – Taxation*, WT/DS472/R, adopted 11 January 2019, paras 7.1057-7.1068.

¹⁶ This latter option is not considered further in this report.

- d) Special treatment on [sic] the least developed among the developing countries in the context of any general or specific measures in favour of developing countries.

[3] As described in the Decision of the CONTRACTING PARTIES of 25 June 1971, relating to the establishment of “generalized, non-reciprocal and non discriminatory preferences beneficial to the developing countries” (BISD 18S/24).

3. Any differential and more favourable treatment provided under this clause:

...

- c) shall in the case of such treatment accorded by developed contracting parties to developing countries be designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries.

These terms will be analysed below, as appropriate. In terms of overall legal structure, however, it is important to emphasise here that footnote 3 permits the tariff preference schemes “described” in the 1971 GSP Decision. That covers two different elements of the 1971 GSP Decision. The first is the legally operative waiver given effect by the 1971 GSP Decision. The second are other parts of that Decision, including its preamble, which “describe” a system of preferences that in certain respects are more detailed than what was waived by that Decision. In particular, the preamble to the 1971 Decision states as follows (emphasis added):

Recalling that at the Second UNCTAD, unanimous agreement was reached in favour of the early establishment of a mutually acceptable system of generalized, non-reciprocal and non-discriminatory preferences beneficial to the developing countries in order to increase the export earnings, to promote the industrialization, and to accelerate the rates of economic growth of these countries;

Considering that mutually acceptable arrangements have been drawn up in the UNCTAD concerning the establishment of generalized, non-discriminatory, non-reciprocal preferential tariff treatment in the markets of developed countries for products originating in developing countries;

The unanimous “agreement” reached at the Second UNCTAD was in the form of UNCTAD Resolution 21(II). This resolution set out several principles, and, concretely, established an UNCTAD Special Committee on Preferences to consider the matter further.¹⁷ Two years later, this Committee duly arrived at “Agreed Conclusions”, along with a report, and it is these which are described in the 1971 GSP Decision as “mutually acceptable arrangements drawn up in the UNCTAD concerning the establishment of generalized, non-discriminatory, non-reciprocal preferential tariff treatment.” The Appellate Body discussed the meaning of some of these terms, in particular the term “non-discriminatory”, as discussed below. It did not however make any findings on whether it is permissible not to grant preferences to developing countries on an *a priori* basis.¹⁸ This makes it difficult to determine whether it is possible to exclude *ab initio* from GSP beneficiary status any countries that are undoubtedly developing countries (eg India and Indonesia). This does not mean that these countries cannot be excluded, but this can only be on the basis of country graduation, and as now discussed.

Country graduation

In one respect, country graduation can be seen as an extension of product graduation (discussed in Task B.3, section 2.3 below), in the sense that a beneficiary country is graduated from GSP status when there is no “need” for preferences for *any* of its exports. However, that is perhaps better understood as “complete product graduation”. Strictly

¹⁷ On the disagreements buried within this ‘agreement to agree’, see Marc Williams, *The Group of 77 in UNCTAD*, PhD thesis (LSE, 1987) at 352.

¹⁸ Appellate Body Report, *EC – Tariff Preferences*, above at n 15, paras 128, 129 and 174 n 355.

speaking, country graduation has a different rationale, namely, that a country is sufficiently developed to be able, itself, to address problems of non-competitive sectors without the aid of special preferences from developed countries. This explains the fact that the principal metrics chosen for country graduation are product-neutral and focus rather on indicators such as per capita income. Country graduation, independently of complete product graduation, therefore has a separate justification under the Enabling Clause.

Such justification does, in fact, exist, for the simple reason that the GSP scheme was only ever to be open to developing countries (and not, for example, to “developing industries” in developed countries). This is perhaps disguised by two facts: first, that it was left to developing countries to determine whether they were developing countries; and second, that country graduation was not mentioned in the preparatory work to the 1971 GSP Decision, or in that Decision itself. The first is irrelevant to the concept of country graduation: which countries benefit is a question independent from how that determination is made. The second is explained by the fact that the 1971 GSP Decision was supposed to expire after ten years (Murray 1995, para. 20); indeed, this expiry period can even be explained by there being an assumption that there would be country graduation at the end of that period, at least for some beneficiaries.

Legal conclusions

The above considerations lead to the following legal conclusions in respect of the policy scenarios noted above. In terms of country graduation, i.e. **scenario 2d**, it is permissible to exclude non-developing countries from the GSP (albeit the decision on its developing country status is, in the first instance, to be taken, in good faith, by the putative beneficiary country itself). It cannot, however, seriously be contended that India and Indonesia are not developing countries, so excluding them cannot be justified on this basis. The remaining rationale for excluding certain beneficiary countries from a GSP is what might be called “comprehensive product graduation” (discussed in section 2.3.1.2 below). It would however be necessary to retain the possibility of “ungraduating” product sectors – that is, restoring sector preferences – if the economic situation vis-à-vis those sectors changes, and GSP preferences continue to be granted in those sectors to other developing countries with the same development needs. Otherwise these countries would suffer discrimination in violation of para 2(a) of the Enabling Clause. Without this rationale and administrative protection for “ungraduation”, scenario 2d would not be legal.

As for differential preferences **between** developing countries (**scenarios 2b and 2c**), it is to be recalled that, under the Enabling Clause, any differentiation can only be justified on the grounds that the preferences (including any additional GSP+ type preferences) are both a positive response to a development need of the beneficiary country, and do not discriminate in favour of that country and against other developing countries with the same development needs. At the moment, the justification for EBA and Standard GSP preferences is that they are a positive response to the development needs of the beneficiaries, defined in economic terms (LDCs being deemed by paragraph 2(d) of the Enabling Clause to have special development needs), while the justification for GSP+ preferences is that they are a positive response to development needs defined in non-economic terms with due regard to sustainable development.

As for **scenario 2b** (continuation of EBA only), it is conceivable that EBA preferences are retained on the basis that they are expressly permitted under paragraph 2(d) of the Enabling Clause, while abandoning GSP and GSP+ preferences. However, this is not straightforward. An argument might be made that paragraph 2(d) permits special LDC preferences within the context of an overall GSP system, and therefore there must be a GSP system that continues to apply to developing countries. Hence, it would need to be demonstrated that, on development grounds seen in economic terms, all product sectors for non-LDC developing countries can be graduated.

Concerning **scenario 2c** (continuation of EBA and GSP+), at the moment, GSP+ beneficiaries receive preferences for development reasons defined both in economic terms (the GSP component of GSP+ preferences) and non-economic terms (the governance commitments incentivised by the additional preference increment). By removing the GSP component the entirety of the GSP+ preferences would be justified in terms of development needs defined in non-economic terms. The question is whether a purely non-economic definition of “development needs” is acceptable as a basis for preferences (and not just additional preferences). The fact that the EU continues to apply an economic definition of development needs to the LDCs under the EBA arrangement might also require the EU to explain why it is adopting two different rationales for its GSP. But in fact, even though the rationale for GSP+ combines both rationales, one could argue that the additional GSP+ preference increment is already being justified solely on non-economic grounds, so nothing changes, other than that the split between the rationales would now become more obvious.

2.2.2 Scenario 2a: Baseline – no change to the current GSP scheme

In the baseline scenario, which assumes continuation of the GSP scheme with its current structure, the most important changes (compared to the situation as of 2020) in terms of trade would emerge for two groups of countries. The first one includes the current EBA beneficiaries that are likely to graduate from LDC status in the coming years and move to the Standard GSP; the impact of this change is analysed in Task B.4 (section 2.4).

The other group of countries for which the situation would change between 2020 status quo and the baseline scenario would be those leaving the GSP scheme due to achieving upper-middle income country status (six countries) as well as due to having an FTA with the EU (Vietnam). These changes in status are unrelated to the policy options considered for the future GSP regulation; a detailed assessment of the impacts on these countries from leaving the GSP scheme is beyond the scope of this study. Nevertheless, Annex B2-2 provides a summary of expected impacts. The human rights impact of the baseline scenario has already been covered by the MTE evaluation (2017) which has pointed out the impacts.

In consultations for this study, the vast majority of respondents supported maintaining a unilateral system of preferences as a tool to help eradicate poverty, create jobs (notably for women), support economic growth, and contribute to the overall sustainability of development. The unilateral system of preferences may also serve as a stepping-stone to trade relations on reciprocal terms since graduating beneficiaries have incentives to conclude a trade agreement with the EU to preserve their market access. Some respondents also highlighted that sectors exporting to the EU may attract investment, technology and innovation; accordingly, exports stimulated by GSP preferences may contribute to development of domestic supply chains within the beneficiary countries and facilitate the integration of their local enterprises into global supply chains. In that context, stability, predictability and objectiveness of the GSP scheme is very important.

Some respondents, however, noted that results of the GSP are not entirely satisfactory, given that workers have a relatively small share in created wealth compared to exporting businesses and international buyers, and that working conditions and wages for labour could have been better by now. Also, respect for human and workers’ rights requires further improvement. Moreover, the GSP scheme has not contributed to the expected degree to economic diversification in beneficiary countries. Finally, some respondents noted that, while continuing to grant GSP preferences, the EU should better protect its economic and financial interests and sectors competing with cheap imports, in particular from import competition from countries not respecting human and labour rights or environmental standards.

Maintaining the GSP scheme with its three arrangements was supported by consulted stakeholders, among others from India and the EU, including representatives of the leather and fisheries sectors (written positions and responses in public consultations). They see it as a tool supporting economic growth, poverty reduction, income generation and job creation, including for women, in particular in labour intensive sectors, such as leather and footwear. Moreover, maintaining GSP preferences with the three arrangements is seen as ensuring continuity and predictability for exporters and their trade partners and supporting economic recovery of the beneficiary countries, many of which have been severely impacted by COVID-19.

Regarding country coverage of the GSP, diverse views were expressed. Some were of the view that the number of beneficiaries should be reduced to focus on the countries most in need and thus to increase the value of GSP preferences granted to them (as they will not be diluted by many other countries benefitting from them). Some respondents believed the current list of beneficiaries reflects accurately the countries most in need, while others were of the view that countries classified as developing, but having large economies should benefit from access to the EU market on a reciprocal basis rather than through the GSP scheme (some suggested removing India, Indonesia and Vietnam from the scheme). Some respondents thought the current reference to the World Bank income classification should be maintained.

Responding to a question of potentially expanding the GSP scheme by adding developing countries that currently do not benefit from the scheme, some respondents referred to the Maldives. The country does not qualify for the scheme based on the income criterion, but the respondents believed it has a vulnerable economy and therefore might deserve this form of support. Other respondents were of the view that more consideration should be given to the impact on countries graduating from the EBA arrangement, e.g., through a longer transitional period.

A few respondents suggested simplification of the GSP scheme (however, without providing further details of what this would mean in practice). Another few supported either merging GSP and GSP+ or GSP+ and EBA; these, however, did not explain what the features of, or entry conditions to, the so-modified arrangement should be. Some were in favour of relaxing vulnerability criteria to the GSP+ arrangement; others proposed harmonisation of rules of origin across the scheme; and finally, a few suggested extending conditionality on international conventions to EBA or to all GSP beneficiaries.

GSP objectives, including promotion of economic growth, poverty eradication, sustainable development, improved respect for human rights and labour standards, and protection of the EU's financial and economic interests are considered by the consulted stakeholders (based on written positions and responses in public consultations) as still relevant. However, some respondents suggested modifications corresponding to current trends or MTE findings – in particular to include more emphasis on trade and climate change, SDGs, and monitoring and enforcement of respect for international conventions. Some referred to the objectives related to the EU's interests; here the views varied from inclination towards protection of EU sectors competing with imports (e.g., textiles and garments) to treating this objective as secondary compared to the first two.

2.2.3 Scenario 2b: Only EBA Remains in Place

This scenario involves the discontinuation of the Standard GSP and the GSP+ arrangements. The reported economic effects in this scenario (as well as in scenario 2c) reflect only the marginal impact of this policy change. However, it should be noted that the countries graduating from LDC status and moving from EBA to the Standard GSP in the baseline scenario (Bangladesh, Lao PDR, Nepal, Myanmar, Angola, Bhutan, Kiribati, Sao Tomé & Príncipe, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu) would experience a double hit – first from the loss of EBA preferences resulting from a move to the Standard

GSP (analysed in detail in Task B.4); and second, from the loss of the Standard GSP preferences evaluated below. Since both impacts would materialise around the same time, the impacts need to be considered on a cumulative basis for this group of countries. This is discussed in the conclusions.

2.2.3.1 Analysis of Economic Impacts

2.2.3.1.1 **Overall trade effects**

As a result of the discontinuation of the Standard GSP and the GSP+, **exports to the EU** from those countries that see their preferences revoked are estimated to drop by up to 25% in the case of Pakistan (Table 3). Bilateral exports are also 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%. Conversely, EBA countries remaining in the scheme as well as third countries would experience small bilateral export gains (e.g., up to 1.0% in the case of Vietnam).

Due to trade diversion effects – i.e., exporters losing GSP preferences diverting to other markets – the impact of the discontinuation of the Standard GSP and GSP+ arrangements would have more limited effects on **total exports** than on bilateral exports to the EU (Table 4). Thus, total exports of the most affected country, Pakistan, would be only 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%). All other Standard GSP and GSP+ countries would see smaller export contractions. For EBA and third countries, as well as the EU and the UK, total exports hardly change (with the exception of Vietnam and Sri Lanka, which see increases on the order of +0.2%).

2.2.3.1.2 **Macroeconomic effects**

The modelling results are consistent with the theoretical expectations (Table 2).

For the countries that are **Standard GSP** beneficiaries in the baseline scenario, the loss of GSP benefits in scenario 2b results in a decline in real economic activity as shown by the negative impact on real GDP for all modelled countries in this group. The impact is strongest by far in Bangladesh, where real GDP is expected to fall by 0.3% compared to the baseline. This real impact is compounded by a steep decline in the terms of trade (an effect experienced by all Standard GSP beneficiaries with the exception of Nigeria), which results in the GDP value impact being about 3.5 times larger, reaching almost 1% for Bangladesh. The declining terms of trade also exacerbate the welfare impacts which are about 25% larger in percentage terms than the real GDP decline (Nigeria is again an exception as the welfare impact is smaller than the real GDP decline); the largest negative welfare impact is again experienced by Bangladesh (-0.4%).

Table 2: Macroeconomic and revenue impacts of scenario 2b (changes in % compared to baseline)

Region	GDP - value	Real GDP - quantity	Welfare	Terms of trade	Tariff revenues
EU27	0.03	-0.01	-0.01	0.02	0.49
Standard GSP					
Bangladesh	-0.98	-0.32	-0.40	-0.49	-2.09
Indonesia	-0.29	-0.08	-0.09	-0.11	-0.68
India	-0.25	-0.07	-0.09	-0.13	-0.45
Kenya ¹⁹	-0.28	-0.06	-0.10	-0.13	-0.23
Lao PDR	-0.08	-0.01	-0.03	-0.03	-0.08
Nigeria	-0.07	-0.02	-0.01	0.01	-0.22
Nepal	-0.13	-0.02	-0.03	-0.03	-0.20
GSP+					
Bolivia	-0.05	-0.01	-0.01	-0.01	-0.08
Kyrgyzstan	-0.08	0.03	-0.04	-0.07	-0.19
Mongolia	-0.08	-0.06	-0.06	-0.01	-0.11
Pakistan	-1.31	-0.30	-0.46	-0.90	-3.00
Philippines	-0.22	-0.05	-0.07	-0.08	-0.33
Tajikistan	-0.10	0.02	-0.02	-0.09	-0.33
EBA					
Other LDC	0.01	0.02	0.03	0.02	0.08
Other (non-GSP)					
Armenia	0.01	0.00	0.01	0.00	0.02
China	0.02	0.00	0.01	0.01	0.03
Sri Lanka	0.04	0.01	0.03	0.06	0.08
Turkey	0.11	0.00	0.02	0.07	0.51
UK	0.04	-0.01	-0.01	0.02	0.67
Vietnam	0.06	0.03	0.05	0.02	0.13
Sub-S Africa	-0.01	0.00	0.00	0.00	-0.01
Other GSP	-0.03	-0.01	-0.02	-0.01	-0.06
Rest of world	0.00	0.00	0.00	0.00	0.01

Notes: GDP change in value terms is at post-shock prices which reflects both change in quantity and change in relative prices, including terms of trade. GDP change in quantity terms is at pre-shock prices; this is commonly referred to as "real GDP".

Reported changes in tariff revenues are likely to be underestimated due to the inclusion of the ad-valorem tariff equivalents of non-tariff barriers in tariff rates used for the model, which inflates the baseline.

Source: European Commission Modelling Results.

For **GSP+ countries**, the loss of preferences in Scenario 2b has similar effects to those for Standard GSP recipients: a decline in real economic activity compounded by a steep decline in the terms of trade which results in the GDP value impact being larger. For two of the economies, Kyrgyzstan and Tajikistan, however, the declining terms of trade allow a small increase in real GDP through increased price competitiveness. Otherwise, welfare also falls, in line with the decline in GDP value. The most negatively affected country in this group is Pakistan, which experiences an impact similar to Bangladesh: real GDP declines by 0.3%, and welfare by almost 0.5%

For the **EU27**, real GDP and welfare decline but, driven by terms of trade gains, GDP value rises. There are some notable symmetries: the welfare decline is smaller in percentage terms than the real GDP decline, which is due to the terms of trade improvement. This softens the welfare impact of lower economic output as it tends to increase factor returns which has a positive effect on welfare, although it also increases prices, which lowers welfare.

For **non-GSP countries** (in the baseline), the picture is similarly straightforward and consistent with prior expectations. These economies benefit in two ways from the trade diversion away from GSP beneficiaries that lose preferences. First, real economic activity increases, and terms of trade improve. Welfare gains are roughly double those of real GDP

¹⁹ The projected increase in emissions for Kenya is a simulation artefact. Because Kenya benefits from preferential access to the EU market under the Market Access Regulation (and makes virtually no use of GSP preferences), the discontinuation of the Standard GSP would have no impact on the country.

gains in percentage terms; the GDP value gains are consistently over three times larger than the real GDP gains. The country in this group that benefits most is Vietnam.

There are three other regions that are comprised of economies facing mixed policy impacts in the three scenarios:

- The 17 countries in the **OLDC** (other LDCs) group are almost all EBA recipients (representing about 98% of the group's total exports and GDP; see Annex Table B2-3.2 and Figure B2-3.2), with the exception of Bhutan, which is a GSP recipient in the baseline, and the Maldives, which is not a GSP beneficiary. This group would have effects qualitatively in line with the non-GSP country group. Bhutan's individual effects, meanwhile, would follow those of the Standard GSP countries. Not surprisingly, the OLDC impact pattern shows real GDP gains for the group on average, with welfare gains more powerful than the real GDP gain, in all likelihood because of the terms of trade impacts.
- The **SSA** (Sub-Saharan Africa) group consists of 27 countries, of which six are not GSP beneficiaries in the baseline, and 17 are EBA recipients. These 23 economies have anticipated impacts qualitatively in line with the non-GSP economies, as described above. Four other economies are Standard GSP or GSP+ and would have impacts following those outlined above for these respective groups (in the case of Cabo Verde, which is GSP+ in the baseline, the expected pattern would be the one described in the simulations for Pakistan and the Philippines). The results for this group represent an average of the positive effects for the EBA group and the negative effects for the Standard GSP economies. The average impacts are a small negative, indicating that on balance, the negative impacts on the Standard GSP beneficiaries in the baseline outweighed the positive effects for the EBA/MFN group. In this context it should be noted that the EBA countries in the group account for 50% of group GDP and 30% of exports, and the Standard GSP countries for 37% of group GDP and 53% of exports, while the respective shares for non-GSP countries are 12% and 17%, respectively (see Annex Table B2-3.1 and Figure B2-3.1).
- The **OGSP** (other GSP countries) group is comprised of 48 countries (mostly small Caribbean and Pacific, but also some larger economies), including only few GSP countries: two (Haiti and Yemen) are EBA countries, one (Uzbekistan) is GSP+, and ten are Standard GSP. In terms of the economic weights in this group, 75% of the group's GDP and 79% of exports come from non-GSP countries (see Annex Table B2-3.3 and Figure B2-3.3. The group has therefore been listed under the non-GSP countries, although the heterogeneous composition of the group hardly allows drawing any conclusions from the modelling results.

2.2.3.1.3 Impact on government revenue

For the EU27 (as well as the UK and Turkey, due to the latter's customs union with the EU), scenario 2b implies a change in tariffs with increased tariff revenues generated by imports from GSP beneficiaries losing that status, offset to some extent by the trade diversion to third parties with tariff-free access to the EU market – this would include suppliers in EBA countries, those in third countries with which the EU has FTAs, and of course to intra-EU trade and domestic production within the EU. The net tariff revenue effect would also reflect the macroeconomic changes in the EU and in the UK generated by the tariff policy, which would impact on the quantity and price of imports from all sources. As can be seen, EU27 and UK tariff revenues rise by 0.5% and 0.7% respectively (Table 2).²⁰

For EU Member States, total government revenues would tend to move with GDP value impacts. Since the EU27 realises a small increase in GDP value in scenario 2b, overall government revenues would be expected to rise marginally.

²⁰ As indicated in the note to Table 2 above, these tariff revenues percentage changes are likely to be underestimated.

For GSP beneficiaries, which do not implement tariff policy changes, the implications for government revenues depend on the impacts on GDP value and imports. Consistently, countries that lose GSP benefits suffer terms of trade declines and therefore have lower GDP value. Some countries also reduce imports – Pakistan by 2.6% and Bangladesh by 2.0% – and accordingly have lower tariff revenues. As a result, for Standard GSP and GSP+ countries that lose preferences, tariff revenues are expected to fall; the strongest decline is predicted for Pakistan (-3%), followed by Bangladesh (-2.1%) and Indonesia (-0.7%). To obtain the overall impact on government revenue the losses stemming from lower revenue collection due to reduced GDP would have to be added. Conversely for the non-GSP and EBA economies, which benefit from trade diversion, government revenues would rise slightly in line with higher GDP value. As described above, there is considerable variation in GDP value impacts and, hence, in revenue impacts, across individual economies.

2.2.3.1.4 Sectoral effects

Exports to the EU

Across sectors, bilateral export effects caused by the discontinuation of the Standard GSP and the GSP+ arrangements, vary considerably (Table 3). The highest impact is on leather exports to the EU from Kyrgyzstan, which fall by 55% compared to the baseline. Generally, the major impacts would be registered in the three sectors that account for the bulk of GSP imports into the EU, i.e., apparel, textiles and leather. Other sectors that experience notable declines are chemicals, rubber and plastics, other food, and plant oils. Sectors where GSP preferences are limited either because they are excluded from Standard GSP and GSP+ or because they attract low or zero MFN duties in the EU (e.g., primary products, rice, and agri-food) experience small changes in bilateral exports. Services sectors in the Standard GSP and GSP+ countries, as well as some goods sectors not affected by the policy option, such as rice from Pakistan and Bangladesh (which is treated as a Standard GSP country in the baseline), would experience small bilateral export gains. These sectoral gains can be explained by improved relative competitiveness compared to major goods sectors in the GSP countries through general equilibrium effects.

Countries that benefit through trade diversion effects see moderate bilateral export increases even in the most affected sectors, i.e., up to 2.6% in leather, textiles and clothing, whereas bilateral export changes in other sectors all remain below 1%.

Total Exports

At the sector level, the discontinuation of the Standard GSP and GSP+ arrangements would significantly reduce total exports for the most affected sectors in some countries, indicating a limited capacity to adjust at sector level in these countries (Table 4). 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. Conversely, sectors that benefit less from GSP preferences in the Standard GSP and GSP+ countries experience a relative gain in competitiveness: this applies to transport and services sectors, rice, vegetable oil, other food and primary resources, but also, in some countries, to manufacturing goods.

In EBA countries, third countries, and the EU as well as the UK, total exports of the textile, garments and leather sectors benefit by an increase of about 1%, whereas other sectors are hardly affected.

Globally, exports of textile, garments, leather and footwear, and agri-food decline by about 0.3%, which is a reflection of the higher level of protection in the EU for these sectors introduced by the policy in scenario 2b.

Table 3: Scenario 2b - Changes in exports to the EU, by sector (2029, in % compared to baseline)

Exporter	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.4	0.2	0.1	0.3	0.0	1.4	1.6	1.4	0.2	0.0	0.0	0.0	0.1
Standard GSP													
Bangladesh	2.2	-18.0	0.7	-22.6	3.2	-17.0	-6.3	-8.8	-16.4	-12.2	2.3	2.0	-7.4
Indonesia	0.5	1.1	-9.3	-12.9	0.1	-21.5	-3.0	-9.9	-16.1	-8.3	0.6	0.7	-8.0
India	0.2	-6.9	-1.9	-15.9	0.2	-16.6	-2.7	-10.9	-7.3	-4.3	0.5	0.6	-3.1
Kenya	1.0	-13.9	-2.6	-11.2	0.0	2.3	-9.4	-11.9	-17.4	-5.1	0.5	0.7	-2.1
Lao PDR	-0.2	-15.1	-1.5	-9.2	0.1	-19.4	-4.7	-10.4	-13.0	-1.0	0.2	0.2	-2.2
Nigeria	-0.2	-0.8	0.5	-16.0	0.1	0.6	-2.0	-11.0	-0.3	-2.8	0.3	0.3	-0.4
Nepal	0.0	-14.4	0.2	-4.4	0.5	-9.3	-3.2	-9.6	-6.0	-10.6	0.3	0.4	-1.2
GSP+													
Bolivia	-0.3	0.0	-1.0	-29.5	0.0	-0.8	-48.5	-49.6	-53.9	-2.1	0.2	0.2	-1.5
Kyrgyzstan	-0.3	0.5	-8.4	-12.5	-0.1	-55.5	-31.9	-47.4	-23.9	0.0	0.2	0.3	-2.7
Mongolia			0.0	-36.1	0.1	-2.3	-39.4	-50.1		-8.6	0.2	0.2	-2.1
Pakistan	3.1	2.5	-4.7	-17.6	-0.1	-23.8	-40.0	-44.4	-50.3	-7.9	2.8	2.9	-24.9
Philippines	0.2	-24.9	-7.1	-39.5	0.1	-43.6	-27.6	-43.5	-21.1	-3.6	0.4	0.6	-4.7
Tajikistan		0.3	-0.4	-11.4	-0.1	-45.2	-30.5	-53.2	-27.6	0.8	0.6	0.5	-7.2
EBA													
Other LDC	-0.3	0.4	0.2	0.4	0.0	2.6	2.6	2.5	0.5	0.2	0.1	0.1	0.4
Others													
Armenia	-0.5	0.4	0.2	0.4	-0.1	2.4	2.4	2.3	0.4	0.2	0.1	0.1	0.1
China	-0.6	0.4	0.2	0.4	0.0	2.4	2.5	2.4	0.4	0.2	0.0	0.1	0.5
Sri Lanka	-0.6	0.4	0.2	0.4	0.1	2.3	2.4	2.5	0.4	0.3	0.0	0.0	0.8
Turkey	-0.6	0.1	-0.1	0.2	0.0	1.6	1.7	1.5	0.0	-0.2	-0.2	-0.2	0.2
UK	-0.3	0.1	0.1	0.3	0.0	1.5	1.7	1.5	0.2	0.0	0.0	0.0	0.1
Vietnam	-0.5	0.5	0.2	0.4	0.0	2.4	2.5	2.5	0.4	0.1	0.1	0.0	1.0
Sub-S Africa	-0.3	0.5	0.3	-0.6	0.0	2.6	-0.2	1.9	0.0	-0.4	0.1	0.1	0.0
Other GSP	-0.3	0.0	-0.1	-2.3	0.0	-16.2	-1.3	-9.2	-3.6	-0.4	0.1	0.1	-0.1
Rest of world	-0.4	0.4	0.2	0.4	0.0	2.5	2.6	2.5	0.4	0.2	0.1	0.1	0.2
Total	0.0	0.0	0.0	-0.2	0.0	-0.3	-0.3	-0.4	0.0	0.0	0.1	0.1	0.0

Source: European Commission Modelling Results.

Table 4: Scenario 2b - Changes in total exports, by sector (2029, in % compared to baseline)

Exporter	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.6	-0.2	0.0	-0.1	-0.1	-0.5	-0.3	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1
Standard GSP													
Bangladesh	2.3	0.8	-13.1	1.1	2.6	-4.1	-3.0	-1.3	-0.2	-0.8	2.2	2.0	-1.6
Indonesia	0.6	0.4	-1.3	-0.8	0.1	-9.1	0.0	-1.1	-2.0	-0.1	0.5	0.7	-0.5
India	0.2	-0.4	-2.6	0.2	0.1	-9.7	-0.3	-4.5	-1.0	-0.5	0.5	0.5	-0.4
Kenya	0.5	-1.2	-4.4	-0.9	0.0	1.1	-0.1	-0.3	-0.2	-0.1	0.4	0.6	-0.3
Lao PDR	0.0	-0.1	-1.4	-0.2	0.0	-2.0	-1.3	-4.7	-0.4	0.1	0.2	0.2	-0.1
Nigeria	-0.1	-0.7	-10.1	0.0	0.0	0.6	-0.7	-2.6	-0.5	-1.8	0.2	0.2	-0.2
Nepal	0.1	-0.7	-0.5	-0.8	0.3	-2.6	-0.9	-2.9	-0.3	-1.0	0.3	0.3	-0.3
GSP+													
Bolivia	-0.3	0.0	-3.5	-0.1	0.0	-0.3	-6.3	-9.5	-3.7	0.0	0.1	0.1	-0.1
Kyrgyzstan	-0.2	0.0	-2.7	-1.5	-0.2	-3.9	-5.9	-8.7	-11.4	0.5	0.2	0.2	-0.4
Mongolia		0.2	-3.4	0.2	0.0	-0.2	-13.0	-17.7		-0.1	0.1	0.1	-0.1
Pakistan	2.8	2.6	1.4	2.1	-0.1	-4.7	-9.8	-20.0	-9.7	1.9	2.7	2.8	-3.8
Philippines	0.2	-1.6	-6.9	0.0	0.0	-5.8	-3.9	-6.0	-1.2	0.0	0.4	0.5	-0.4
Tajikistan	0.0	0.2	0.5	0.1	-0.1	-27.7	-18.5	-42.0	-0.7	0.8	0.5	0.4	-1.1
EBA													
Other LDC	-0.3	0.0	0.2	-0.1	0.0	1.3	1.2	0.6	0.0	0.0	0.0	0.0	0.1
Others													
Armenia	-0.4	0.0	0.0	0.0	-0.1	1.1	1.1	1.4	0.0	0.1	0.0	0.0	0.0
China	-0.6	-0.1	0.0	-0.2	-0.1	0.5	0.1	0.5	0.0	0.0	0.0	0.0	0.0
Sri Lanka	-0.6	-0.6	-0.1	-0.1	0.0	1.1	0.7	0.7	0.0	0.0	0.0	-0.1	0.2
Turkey	-0.5	-0.4	-0.1	-0.2	0.0	0.2	0.7	0.9	-0.3	-0.3	-0.2	-0.2	-0.1
UK	-0.3	0.0	0.1	0.0	0.0	0.9	0.7	0.7	0.0	-0.1	-0.1	-0.1	0.0
Vietnam	-0.8	-0.1	0.1	-0.1	0.0	1.4	0.3	0.6	-0.1	-0.1	0.0	-0.1	0.2
Sub-S Africa	-0.2	0.0	-0.1	-0.1	0.0	0.7	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0
Other GSP	-0.5	-0.4	-0.2	-0.1	0.0	-3.2	-0.4	-1.4	-0.6	-0.1	0.0	0.0	0.0
Rest of world	-0.5	-0.1	0.1	-0.1	0.0	1.2	0.6	1.6	0.1	0.0	0.0	0.0	0.0
Total	0.1	0.0	-0.3	-0.1	0.0	-0.3	-0.3	-0.3	-0.1	-0.1	0.0	0.0	-0.1

Source: European Commission Modelling Results.

Table 5: Scenario 2b - Changes in real value added, by sector (2029, in % compared to baseline)

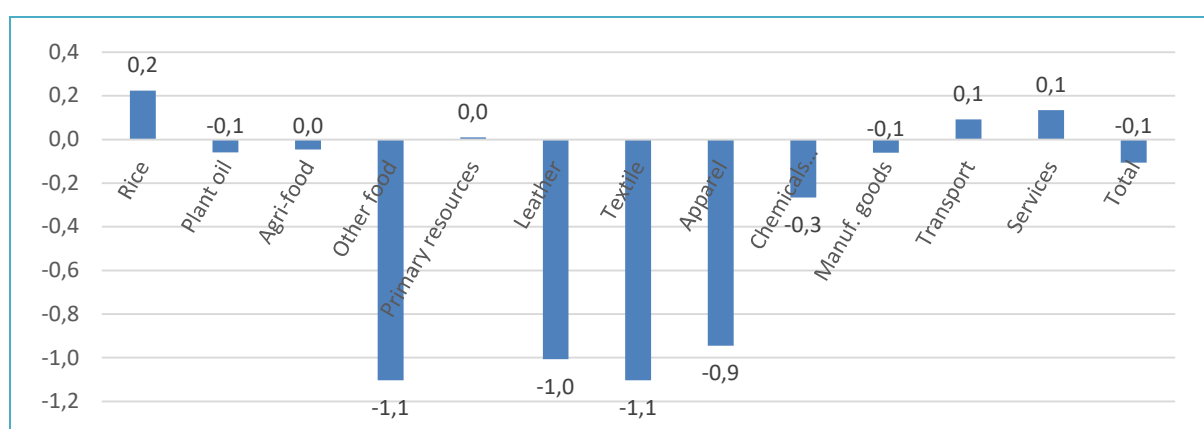
Region	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.3	0.1	0.0	0.1	0.0	0.6	0.9	0.6	0.0	0.0	0.0	0.0	0.0
Standard GSP													
Bangladesh	-0.2	0.3	-0.2	-2.2	0.1	-2.6	-0.8	-0.8	0.3	0.5	0.0	-0.1	-0.1
Indonesia	0.1	0.3	0.0	-0.1	0.0	-3.8	0.1	-0.7	-0.4	0.1	0.0	0.0	0.0
India	0.0	0.0	-0.1	-0.3	0.0	-3.2	-0.2	-1.8	-0.2	-0.1	0.0	0.0	0.0
Kenya	-0.4	-0.1	-0.1	-0.3	0.1	0.7	0.1	-0.1	0.1	0.2	0.2	0.1	0.0
Lao PDR	0.0	0.0	0.0	0.0	0.0	-0.7	-0.6	-2.2	-0.4	0.1	0.1	0.0	0.0
Nigeria	0.0	0.0	0.0	-0.2	0.0	0.4	0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Nepal	0.0	-0.1	0.0	0.0	0.0	-0.4	-0.4	-0.3	-0.2	-0.1	0.0	0.0	0.0
GSP+													
Bolivia	0.0	0.0	0.0	-0.1	0.0	0.0	-1.1	-0.4	-0.5	0.0	0.0	0.0	0.0
Kyrgyzstan	0.1	0.0	-0.1	-0.1	0.0	-2.9	-1.6	-7.2	-7.2	0.4	0.2	0.1	0.1
Mongolia	0.2	0.2	0.0	-0.1	0.0	-0.1	-8.3	-2.5		0.1	0.0	0.0	0.0
Pakistan	0.0	0.4	-0.4	-0.2	0.3	-0.4	-5.3	-3.1	0.5	0.9	0.1	0.0	-0.1
Philippines	0.0	-0.3	0.0	-0.5	0.1	-1.4	-0.7	-2.1	-0.1	0.2	0.1	0.0	0.0
Tajikistan	0.2	0.1	0.0	0.3	0.1	-22.6	-2.8	-38.6	-0.4	0.7	0.2	0.2	0.1
EBA													
Other LDC	-0.1	0.0	0.0	0.0	0.0	0.4	0.5	0.3	0.0	0.0	0.0	0.0	0.0
Others													
Armenia	-0.5	0.0	0.0	0.0	0.0	0.5	0.3	0.6	0.1	0.0	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Sri Lanka	0.0	-0.2	-0.1	0.0	0.0	0.1	0.3	0.4	0.0	-0.1	0.0	0.0	0.0
Turkey	-0.4	-0.1	0.0	0.0	0.0	0.5	0.7	0.3	0.1	-0.1	0.0	0.0	0.0
UK	-0.5	0.2	0.0	0.2	0.0	1.0	1.2	1.0	0.1	0.0	0.0	0.0	0.0
Vietnam	-0.1	-0.1	0.0	0.0	0.0	1.2	0.3	0.6	0.0	0.0	0.0	0.0	0.0
Sub-S Africa	-0.4	0.0	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other GSP	0.0	-0.1	0.0	0.0	0.0	-0.6	-0.2	-0.3	-0.1	0.0	0.0	0.0	0.0
Rest of world	-0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

EU Imports

Due to the higher level of protection implied by the removal of the Standard GSP and GSP+ arrangements, total EU imports of textiles and apparel, leather and footwear, and other food products are expected to decrease by about 1% compared to the baseline (Figure 2). Imports of other sectors will hardly change. Due to reallocations by the affected countries and secondary macroeconomic effects, imports of those products and services for which the policy option implies no or only limited changes in market access conditions will slightly increase. More detailed analysis of the anticipated impacts in the textile and garments sectors is provided in case study 7 (Annex C-7). This confirms a small positive impact of the discontinuation of the Standard GSP and GSP+ (and similar effects from the other scenarios considered in task B.2), but it also shows that, from a value chain perspective, most of the factors that determine sourcing patterns in the sector are outside the influence of the GSP Regulation.

Figure 2: Scenario 2b - Changes in EU imports, by sector (2029, in % compared to baseline)



Source: European Commission Modelling Results.

Value Added

Changes in sectoral value added follow the pattern of total exports described above (Table 5). The leather (-22.6%) and apparel sectors (-38.6%) in Tajikistan stand out in terms of the magnitude of declines in sectoral value added. The strongest gains are expected to be registered textile, garments and leather & footwear sectors in Vietnam, the UK and the EU, although these will be relatively modest, at about 1% compared to the baseline.

2.2.3.2 Analysis of Social Impacts

Following from the economic impacts, it is to be expected that Standard GSP and GSP+ beneficiaries would also face negative social impacts in this scenario. As noted above, it needs to be flagged that in this case (as well as in scenario 2c, in which only the GSP general arrangement is discontinued) the countries graduating 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 double-hit: first by the loss of EBA preferences resulting from a move to the Standard GSP (analysed in detail in Task B.4); and second, by losing even the Standard GSP preferences. The economic modelling in this task only reflects the latter change. In real life, however, as both changes would materialise around the same time, their impacts would need to be considered as a combined effect.

2.2.3.2.1 Impact on wages and welfare

Social effects triggered by the changes in the availability of GSP arrangements to

beneficiary countries are in line with the economic impact (Table 6). Overall, wages and welfare in Standard GSP and GSP+ countries are predicted to fall, while in EBA countries and third countries to increase – although only marginally so – as they benefit from the relatively better market access to the EU. 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.

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%. Other GSP countries which experience losses are India, Indonesia, the Philippines and Mongolia (all at around 0.1% welfare loss compared to the baseline, as well as reduced wage levels by about 0.1%). Although all Standard GSP and GSP+ countries are expected to see welfare decline – if only marginally in a number of cases – some are predicted to see average wage increases, although only for skilled workers. This is especially the case for Tajikistan (+0.22%) and Kyrgyzstan (+0.15%).

Table 6: Scenario 2b - Changes in welfare and wages by region (2029, in % compared to baseline)

Country / region	Welfare	Wages	
		Skilled	Low-skilled
EU27	-0.01	-0.01	-0.01
Standard GSP			
Bangladesh	-0.40	-0.54	-0.40
Indonesia	-0.09	-0.18	-0.13
India	-0.09	-0.06	-0.11
Kenya	-0.10	0.02	-0.12
Lao PDR	-0.03	-0.03	-0.04
Nigeria	-0.01	-0.02	-0.01
Nepal	-0.03	0.03	-0.03
GSP+			
Bolivia	-0.02	-0.03	-0.02
Kyrgyzstan	-0.04	0.15	0.01
Mongolia	-0.06	-0.08	-0.06
Pakistan	-0.46	-0.34	-0.46
Philippines	-0.07	-0.07	-0.08
Tajikistan	-0.02	0.22	-0.01
EBA			
Other LDC	0.03	0.03	0.01
Others			
Armenia	0.01	0.01	0.01
China	0.01	0.01	0.01
Sri Lanka	0.03	0.03	0.02
Turkey	0.02	0.01	0.01
UK	-0.01	-0.02	-0.02
Vietnam	0.05	0.05	0.03
Sub-S Africa	0.00	0.00	-0.01
Other GSP	-0.02	-0.02	-0.02
Rest of world	0.00	0.00	0.00

Source: European Commission Modelling Results.

2.2.3.2.2 Impact on sectoral employment changes

The results of the economic modelling 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, clothing²¹ and leather & footwear). For some countries, changes of a varying magnitude may be recorded also in other sectors (Table 7 and Table 8). It should be noted that the model can only make predictions for changes in employment across sectors, as total employment is held constant by assumption in the model.

²¹ Note that we use the terms “clothing”, “garments” and “apparel” synonymously.

Table 7: Scenario 2b - Changes in employment levels of skilled workers across sectors (2029, in % compared to baseline)

Country / region	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manufactured goods	Transport	Services
EU27	-0.3	0.1	0.0	0.1	0.0	0.7	0.9	0.7	0.0	0.0	0.0	0.0
Standard GSP												
Bangladesh	0.0	0.5	-0.2	-2.0	0.6	-2.4	-0.7	-0.7	0.6	0.7	0.1	0.0
Indonesia	0.1	0.4	0.0	-0.1	0.2	-3.9	0.2	-0.7	-0.4	0.2	0.1	0.0
India	0.0	0.0	-0.1	-0.3	0.1	-3.3	-0.3	-1.8	-0.2	0.0	0.0	0.0
Kenya	-0.5	-0.2	-0.2	-0.3	0.1	0.7	0.1	-0.1	0.0	0.1	0.2	0.0
Lao PDR	0.0	0.0	0.0	0.0	0.0	-0.8	-0.6	-2.4	-0.4	0.1	0.1	0.0
Nigeria	0.0	0.0	0.0	-0.2	0.0	0.4	0.1	0.0	0.0	-0.1	0.0	0.0
Nepal	0.0	-0.1	-0.1	-0.1	0.0	-0.5	-0.4	-0.4	-0.2	-0.1	0.0	0.0
GSP+												
Bolivia	0.0	0.0	0.0	-0.1	0.0	0.0	-1.1	-0.4	-0.5	0.0	0.0	0.0
Kyrgyzstan	0.0	0.0	-0.1	-0.2	-0.2	-3.1	-1.7	-7.3	-7.1	0.2	0.0	0.0
Mongolia		0.3	0.0	0.0	0.0	-0.1	-9.1	-2.5		0.1	0.0	0.0
Pakistan	0.1	0.5	-0.4	-0.2	0.7	-0.4	-5.4	-3.1	0.5	0.9	0.1	0.0
Philippines	0.0	-0.3	0.0	-0.5	0.1	-1.4	-0.7	-2.1	-0.1	0.2	0.1	0.0
Tajikistan	0.1	0.0	0.0	0.1	-0.1	-23.8	-3.1	-38.6	-0.5	0.5	-0.1	0.0
EBA												
Other LDC	-0.2	-0.1	0.0	0.0	0.0	0.4	0.5	0.3	0.0	0.0	0.0	0.0
Others												
Armenia	-0.6	0.0	0.0	0.0	0.0	0.5	0.3	0.6	0.1	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.2	0.0	0.0	0.0	0.0
Sri Lanka	0.0	-0.2	-0.1	0.0	0.0	0.1	0.3	0.5	-0.1	-0.1	0.0	0.0
Turkey	-0.4	-0.1	0.0	0.0	-0.1	0.5	0.7	0.3	0.1	-0.1	-0.1	0.0
UK	-0.5	0.2	0.0	0.2	0.0	1.0	1.2	1.0	0.1	0.0	0.0	0.0
Vietnam	-0.1	-0.1	0.0	0.0	0.0	1.2	0.3	0.6	0.0	-0.1	0.0	0.0
Sub-S Africa	-0.4	0.0	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Other GSP	-0.1	-0.1	0.0	0.0	0.0	-0.6	-0.2	-0.3	-0.1	0.0	0.0	0.0
Rest of world	-0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

Table 8: Scenario 2b - Changes in employment levels of unskilled workers across sectors (2029, in % compared to baseline)

Country / region	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manufactured goods	Transport	Services
EU27	-0.4	0.1	0.0	0.1	0.0	0.8	1.0	0.7	0.1	0.0	0.0	0.0
Standard GSP												
Bangladesh	0.1	0.6	-0.1	-1.9	0.3	-2.3	-0.7	-0.6	0.7	0.5	0.1	0.1
Indonesia	0.1	0.5	0.1	-0.1	0.1	-4.1	0.2	-0.7	-0.4	0.1	0.1	0.0
India	0.0	0.0	0.0	-0.2	0.1	-3.2	-0.2	-1.8	-0.2	0.0	0.0	0.1
Kenya	-0.4	-0.1	-0.1	-0.2	0.1	0.8	0.2	0.0	0.1	0.2	0.3	0.2
Lao PDR	0.0	0.0	0.0	0.0	0.0	-0.8	-0.7	-2.6	-0.4	0.1	0.1	0.0
Nigeria	0.0	0.0	0.0	-0.2	0.0	0.4	0.1	0.0	0.0	-0.1	0.0	0.0
Nepal	0.0	-0.1	0.0	0.0	0.0	-0.5	-0.4	-0.4	-0.2	-0.1	0.1	0.0
GDP+												
Bolivia	0.0	0.0	0.0	-0.1	0.0	0.0	-1.1	-0.4	-0.5	0.0	0.0	0.0
Kyrgyzstan	0.0	0.0	-0.2	-0.3	0.1	-3.2	-1.8	-8.6	-9.1	0.4	0.0	0.0
Mongolia	0.2	0.3	0.0	-0.1	0.0	-0.1	-9.9	-2.6		0.1	0.0	0.0
Pakistan	0.2	0.7	-0.2	0.0	0.7	-0.3	-5.2	-2.9	0.6	0.9	0.3	0.2
Philippines	0.0	-0.3	0.0	-0.4	0.1	-1.4	-0.7	-2.1	-0.1	0.2	0.1	0.1
Tajikistan	0.1	0.0	0.0	0.1	0.1	-24.7	-3.1	-40.3	-0.5	0.6	0.0	0.1
EBA												
Other LDC	-0.2	0.0	0.0	0.0	0.0	0.4	0.5	0.3	0.0	0.0	0.0	0.0
Others												
Armenia	-0.6	0.0	0.0	0.0	0.0	0.5	0.3	0.6	0.0	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.2	0.0	0.0	0.0	0.0
Sri Lanka	0.0	-0.2	-0.1	0.0	0.0	0.1	0.4	0.5	0.0	-0.1	0.0	0.0
Turkey	-0.4	-0.1	0.0	0.0	-0.1	0.5	0.7	0.3	0.1	-0.1	-0.1	0.0
UK	-0.5	0.2	0.0	0.2	0.0	1.1	1.2	1.0	0.1	0.0	0.0	0.0
Vietnam	-0.1	-0.1	0.0	0.1	0.0	1.3	0.4	0.6	0.0	0.0	0.0	0.0
Sub-S Africa	-0.4	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other GSP	-0.1	-0.1	0.0	0.0	0.0	-0.6	-0.2	-0.3	-0.1	0.0	0.0	0.0
Rest of world	-0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

Generally, GSP+ countries are more negatively affected than Standard GSP countries. The most important employment effects in GSP countries are as follows (for numbers, see Table 7 and Table 8):

In relative terms, the largest negative impacts in this scenario are expected in **Tajikistan** (GSP+), particularly in textiles, apparel, and footwear. According to the model results, employment of skilled workers in the apparel sector stands to decrease by 38.6% compared to the baseline, in the leather sector by 23.8%, and in textiles by 3.1%; for low-skilled workers, the fall is estimated to be 40.3% in the apparel sector, 24.7% in the leather sector and 3.1% in textiles.²² To illustrate the potential scale of that change, consider that the number of workers in the textile and garment sector in Tajikistan was 13,200 out of about 1.6 million employed persons in 2014 (the latest data available; Mahammadiev 2015), the majority of whom were women; this points to a potentially large impact of the policy on women (see Box 2).

Box 2: Potential impact of GSP preference loss on women in Tajikistan

Current situation

Women as workers: In spite of the rise of wage employment, informal employment accounted for 78% of employment in Tajikistan in 2009, with 80% of women and 77% of men working in the informal economy. (ILO, 2016a) By 2016, this share decreased to 59.4% (58.7% for women and 59.6% for men).²³ In 2005, women made up only 19% of the total labour force of 2.05 million people (ILO, 2008).²⁴ In 2020, the share, as modelled by the ILO, should increase to 37% (ILOSTAT database). The low female participation in the labour market can be explained by inadequate education, skills mismatches, gendered cultural traditions, family responsibilities, and discrimination in the workplace. Moreover, the legislation (e.g., Labour Code Article 160) prohibits women from engaging in certain kinds of jobs (Strokova, Ajwad, 2017). In 2019, 60% of economically active women worked in agriculture (men: 36%), mostly in subsistence farming; 7% in industry (men: 21%); and 33% in services (men: 43%). The two most prominent services sectors employing women are education (11% of women's employment) and health care (7.7%) (ILOSTAT database). People working in the public sector, including women, tend to have a higher education level than in the private sector. In the last decade in Tajikistan, jobs were created mainly in agriculture and the services sector, followed by construction, while job reduction was reported in the industry (Strokova, Ajwad, 2017).

The textile and clothing sector of Tajikistan is the second largest exporting industry in the country accounting for about 5.5% of the country's total exports and as high as 21% when cotton fibre is included (down to 18% in 2019). It has been chosen by the Government as a priority for export diversification and import substitution.²⁵ In 2019, exports in textile and garment represented 47% of Tajikistan's exports to the EU.²⁶ Moreover the textile and clothing sector has been considered as one of the few in Tajikistan's economy with a potential to create jobs, especially for women. (ITC, 2015) With skilled male workers migrating to Russia (where they find better wages and working conditions), companies in the sector already depend heavily on the female labour force (characterised as low skill work) and in particular women living in the neighbourhood of textile and clothing factories. Given the lack of adequate education and factors related to culture and tradition, women are rarely involved in decision making and managerial positions in the sector. (ITC, 2016) Moreover, based on law (state as of 2017), women cannot engage in 19 professions and tasks related to textile and light industry, for instance, press operators in primary cotton processing, scourers in fleshing and breakdown of major raw hides, or leather cleaners. Regarding wages, adults working in the industry sector in Tajikistan in the last decade, earned 175% more than in agriculture and those in the services sector earned 61% more than in agriculture. At the same time, however, women earned less than men (gender pay gap was still of 36%). (Strokova, Ajwad, 2017)

²² Note that these impacts are those projected for 2029 and are based on the assumption that the Tajik economy has been in a GSP+ equilibrium in the base year – which is unlikely given that the country in practice will have only joined the GSP+ only shortly before (if at all) the shock is applied. As a result, the simulation results are likely to overestimate the real impact.

²³ ILOSTAT database: <https://ilostat.ilo.org/>

²⁴ In the last decade, the rate of female labour force participation was very low in Tajikistan (in 2013, 27% of women of working age participated in the labour force compared to 68% of men) compared to neighbouring countries. For example, in Kazakhstan, it was 75%, in Kyrgyz Republic 60% and in Uzbekistan 51%. The falling trend in female employment in Tajikistan (from 63% in early 1990s) was observed since the collapse of the Soviet Union, with an increasing pressure on women to stay at home. (Strokova and Ajwad, 2017)

²⁵ International Trade Centre (ITC), *Tajikistan: Improving the international competitiveness of the textile and clothing sector (GTEx)*: <http://www.intracen.org/projects/gtex/Tajikistan-Improving-the-international-competitiveness-of-the-textile-and-clothing-sector-GTEX/#Beneficiaries> [accessed on 20 March 2020]

²⁶ International Trade Centre, Trade Map: <https://www.trademap.org/>

Women as entrepreneurs: In the 2012 World Bank report on ease of doing business, Tajikistan was ranked 147th out of 183 economies,²⁷ while in 2019, it was classified as 106th.²⁸ Over the last decade, corruption, red tape, problems with access to finance and the lack of skills in running business counted as challenges for all willing to set up a company in the country, but difficulties faced by women were exacerbated by the local culture and traditional approaches that perceived them as household keepers rather than company leaders.²⁹ According to an enterprise survey conducted by the World Bank in 2013, 32.7% of firms in Tajikistan had female participation in ownership, but only 8% had majority of female ownership. Women entrepreneurs in Tajikistan and in the region face barriers in setting up, running and growing a company related to socio-cultural norms, access to finance, information and communication technology and training. Their companies are also usually smaller than men-led ones and employ fewer workers (UN ESCAP, 2018). In the textile sector in Tajikistan, women own small-scale production of handicraft goods, including rugs, carpets, and traditional cloth. They usually sell their products through informal networks or in local markets and rarely engage in exports. In addition to family obligations, limited access to finance and business skills limits their prospects for growing their undertakings (ITC, 2016). To support entrepreneurship, especially for women, UNIDO³⁰ developed a project called 'Industrial modernization and competitiveness improvement of carpet-weaving, embroidery and textile sectors in Tajikistan', whereby more than 500 experts in the sector, mostly women, enhanced their skills in the production and market access through new training opportunities between 2015 and 2017.³¹ Women entrepreneurs also benefit from the annual Women's Business Forum and Expo, supported by the Government of Tajikistan, which sees a participation of more than 200 entrepreneurs from the country and Central Asian countries, that help to develop women's entrepreneurship.³² Support project have been also provided by the ILO and UN Women (UN ESCAP, 2018).

Analysis of impact

Women account for the largest share in employees in the textile, garments and leather sectors, which are predicted to see job losses of up to 38.6%, compared to the baseline. Women workers would thus bear the brunt of these sectoral job losses.

Regarding impacts for women as entrepreneurs, the removal from the GSP scheme could result in Tajikistan's exports to the EU falling by 53% in apparel, by 45% in leather, by 30.5% in textiles, and by 27.6% in chemicals, rubber and plastics. Sector output in apparel is estimated to fall by 38.6%, in leather by 22.4%, and in textiles by 2.5%.³³ If we take the number of enterprises in the textile and apparel sector in Tajikistan as the same as in 2014 (the latest available data), i.e., 196, including among others 40 garments enterprises (big and SMEs) and 124 small clothing workshops (Mahammadiev, 2015 and ITC, 2016), it would be likely that women would own part (probably up to 10%) of small clothing workshops. Given that women-led enterprises (as noted above) are rather not involved in exports and focus on local markets, as well as manufacture a wider range of products, such as rugs and carpets, they may initially be less affected by reduced export opportunities and start facing challenges if there is an increased competition on the domestic market including from those who used to export to the EU.

Mongolia (GSP+) also records significant job reductions in some sectors, with employment for skilled workers falling by 9.1% in textiles (wool being the most important export, where the EU accounts for about 30% of Mongolia's total exports, and exports account for a large share of output) and 2.5% in apparel; and employment for unskilled workers falling by almost 10% in textiles and 2.6% in apparel. While we did not identify any recent data regarding employment in the textiles sector in Mongolia³⁴, we note that in 2007, it employed 20,000 workers, 12% of all employed persons in the industrial sector.

Kyrgyzstan (GSP+) similarly sees employment reductions for skilled workers of 7.3% in apparel, 3.1% in leather and 1.6% in textiles, and reductions for low-skilled workers of 8.6% in apparel, 3.2% in leather and 1.8% in textiles. This is despite the low share of textiles and apparel in Kyrgyzstan's exports to the EU, and also the limited value of GSP-eligible exports from Kyrgyzstan to the EU, which reached €10 million in 2018, equalling

²⁷ <https://eurasianet.org/tajikistan-women-strive-to-carve-out-economic-niche>

²⁸ World Bank, *Ease of doing business rankings*: <https://www.doingbusiness.org/en/rankings>

²⁹ Eurasianet (2012), *Tajikistan: Women Strive to Carve Out Economic Niche*: <https://eurasianet.org/tajikistan-women-strive-to-carve-out-economic-niche>

³⁰ United Nations Industrial Development Organisation

³¹ *Industrial modernization and competitiveness of carpet weaving, embroidery and textile sectors in Tajikistan*: <https://www.unido.org/our-focus-advancing-economic-competitiveness-upgrading-businesses-and-industrial-infrastructure/industrial-modernization-and-competitiveness-carpet-weaving-embroidery-and-textile-sectors-tajikistan> [accessed on 20 March 2020]

³² Regional Women's Business Forum and EXPO: <http://wbf.tj/en/> [accessed on 20 March 2020].

³³ See, however, footnote 22 above.

³⁴ The only data found to-date comes from 2007: Invest Mongolia, Textile industry: <https://investmongolia.wordpress.com/category/textile-industry/>

0.6% of the country's total exports to the world (European Commission, 2020a). In absolute terms, the apparel sector is much larger than in Tajikistan or Mongolia: In 2012, the number of workers in the apparel sector in Kyrgyzstan was estimated in the range from 150,000 to 300,000, equalling 7% to 14% of the working population.³⁵ Similar estimates (200,000 to 300,000) were made in 2018. It must be noted that most of these people work in the informal economy; formal employment as reflected in official statistics amounts to only 45,000³⁶. Women represented 92% of workers at all levels (ILO, 2012a).

Negative impacts are estimated also for **Pakistan** (GSP+), with job reductions for skilled workers of 3.1% in apparel, 5.3% in textiles,³⁷ and 0.4% in leather; there are, however, limited job increases in other sectors. Considering that, in 2014, employment in the combined textile and apparel sector in Pakistan was estimated at 15 million workers (30% of the workforce in the country),³⁸ the job reductions predicted by the model could have significant actual social impacts. More details, including analysis of impacts for women, are provided in case study 2 (**Annex C-2**).

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%. In **Bangladesh**, the model predicts that employment of skilled workers would decrease relative to the baseline by 0.7% in apparel, by 0.7% in textiles, by 2.4% in leather, and by 2.0% in "other food". At the same time, there may be additional jobs in chemicals, rubber and plastics (increase by 0.5%), manufactured goods (0.7%), primary resources (0.6%) and plant oil (0.5%). For low-skilled workers, employment effects are similar. To illustrate the scale of changes, one has to consider that total employment in the garment sector in Bangladesh is very high, at 3.6 million to 4 million workers, 80% of whom are women. More details, including analysis of impacts for women, are provided in case study 1 (**Annex C-1**).

For **Lao PDR**, removal from the GSP scheme may provoke job reductions for skilled workers by 2.4% in apparel, by 0.7% in leather and by 0.6% in textiles. Low-skilled workers may face job reductions of 2.6% in apparel, 0.8% in leather, and 0.7% in textiles. More details, including analysis of impacts for women, are provided in case study 6 (**Annex C-6**).

The remaining two countries expected to experience notable sectoral job reductions are: **India** (employment decrease for skilled workers by 3.3% and low-skilled ones by 3.2% in leather, as well as by 1.8% for both groups of workers in apparel); and **Indonesia** (job reductions for skilled workers by 3.8% and low-skilled ones by 4.1% in leather, and by 0.7% for both groups of workers in apparel).

In line with the economic impacts, **EBA beneficiaries**, which would be the only ones remaining in the scheme in this scenario, as well as **non-GSP countries** and, last but not least the **EU**, are expected to see limited reallocations of sectoral employment, with gains particularly in the sectors most affected in the GSP countries, i.e., apparel, textiles and leather. Note, however, that in the EU the sectoral gains in the more protected sectors lead to relative employment losses in the sectors that would not gain protection from the

³⁵ Eurasianet (October 2012), David Trilling, *Kyrgyzstan: Garment Industry Is a Bright Spot in Grey Area*: <https://eurasianet.org/kyrgyzstan-garment-industry-is-a-bright-spot-in-gray-area> [accessed: 8 May 2020]. The ILO 2012 report provides also estimates between 100,000 and 300,000 while saying that official data for that time spoke of 200,000 workers.

³⁶ The Times of Central Asia (November 2018), Maria Levina, *Kyrgyzstan: Textile and Clothing Week held in Bishkek*: <https://www.timesca.com/index.php/news/20506-kyrgyzstan-textile-and-clothing-week-held-in-bishkek> [accessed on 8 May 2020].

³⁷ Due to the large absolute size of the sector in Pakistan (when e.g. compared to Mongolia) percentage changes are more limited.

³⁸ ILO (August 2014), *ILO and Pakistan Textile Exporters Association (PTEA) agree to jointly promote 'International Labour Standards in Textile Industries in Pakistan'*: [accessed on 8 May 2020] https://www.ilo.org/islamabad/info/public/fs/WCMS_301218/lang--en/index.htm

policy; in particular, this applies to the rice sector, where employment would be 0.3% to 0.4% lower than in the no-change scenario.

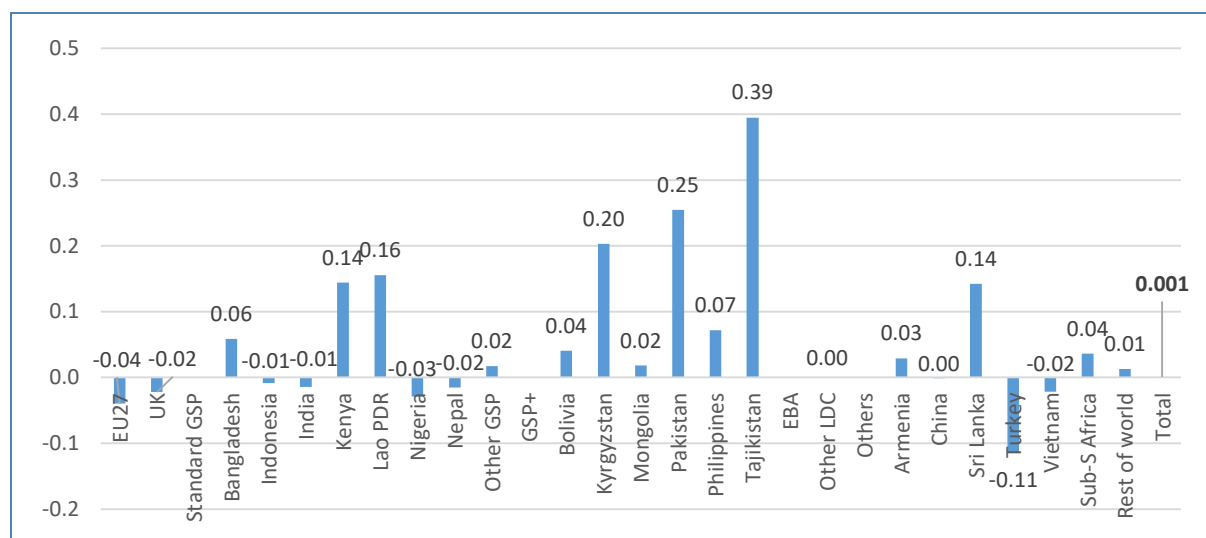
Some consulted stakeholders (e.g., EU representatives of the footwear sector) are in favour of a reduced number of GSP beneficiaries, given impacts of imported footwear products on the EU industry. They are concerned about the increase in imports from GSP beneficiary countries between 2010 and 2018, of which imported footwear products represented 11%. The European footwear industry (written position) reports a loss of around 14,000 jobs in the last six years, including around 4,000 in 2017-2018. This trend is very likely to be exacerbated by the COVID-19 crisis. However, the economic impact analysis shows that footwear imports by the EU would decrease by only 1% if the Standard GSP and GSP+ were abolished; this suggests that the contribution of GSP imports to the performance of the EU sector was limited.

Moreover, EU sector representatives argue that footwear manufactured in GSP beneficiaries (including India, Vietnam, Indonesia, Bangladesh and Pakistan), some of which belong to the world top ten footwear producers, may not be safe for the European consumers due to materials and production methods used. In addition, they are likely to be manufactured under low labour and environmental standards. It should be noted, however, that product safety is monitored by the relevant bodies in the EU and is unrelated to the existence of GSP preferences. In terms of avoiding undercutting labour and environmental standards, a more appropriate policy response would seem to be the use of conditionalities and policy dialogue between the EU and exporting countries to ensure that minimum standards are respected in production regardless of the import regime under which the goods enter the EU; this is addressed in tasks B.5 to B.8 (sections 2.5 to 2.8).

2.2.3.3 Analysis of Environmental Impacts

Globally, the economic modelling predicts hardly any change in aggregate CO₂ emissions (Figure 3). 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 CO₂ 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 CO₂ emissions in all GSP+ countries considered.

Figure 3: Scenario 2b - Changes in CO₂ emissions, by country/region (2029, in % compared to baseline)



Source: European Commission Modelling Results.

The economic modelling identifies the highest impacts as being in the textile, apparel, and leather sectors. At a country level, the following observations may be made (see Annex Table B2-5.1 for CO₂ emission changes):

GSP+ countries

Tajikistan: Changes in CO₂ emissions are expected to be significant. The CGE model simulations show potential sectoral decreases of 38.4% in apparel, 22.2% in leather, and 2.4% in textiles. In addition, a small reduction of CO₂ emissions is expected in chemicals, rubber and plastics. Total CO₂ emissions, however, are expected to increase by 0.4% as a result of reallocation of production to other sectors. Other significant environmental challenges may also be expected: besides a high contribution to climate change, the leather industry also has high water use and is a significant contributor to water pollution, both of which are pressing environmental challenges in Tajikistan.³⁹ If the expected reduction in output of 22.6% in leather production is of a structural nature it may therewith have a positive impact on water availability and water quality. At the same time, it should be noted that the expected increase in, among others, manufacturing may worsen the increasing chemicals and waste management challenges that Tajikistan is facing.⁴⁰

Pakistan and Kyrgyzstan also have expected increases in CO₂ emissions in this scenario. Expected developments in both countries show a similar pattern as for Tajikistan, with CO₂ emission reductions in the leather, apparel and textile industries as a result of production losses, and an increase in emissions in manufacturing as a result of increase in output. The possible increase in production in manufacturing in Kyrgyzstan from an environmental perspective is a worrying element as the manufacturing industry is already responsible for approximately 27% of air pollution.⁴¹ In Kyrgyzstan, CO₂ emissions are also expected to increase (0.4%) in the transport sector, which most likely will also result in a further aggravation of air pollution from particulate matter (PM) emissions in the bigger cities. This estimate is in line with recent developments in emissions. In terms of other environmental impacts, a notable aspect is the potential impact on water availability in Pakistan, as the country currently is among the most water stressed countries in the world.⁴² The shortfall to meet water demand was estimated to be 11% in 2004 and estimated to reach 31% by 2025.⁴³ Reductions in the leather, apparel and textiles sectors may alleviate this water stress as these activities are particularly water intensive.

Mongolia: The economic modelling results also show significant CO₂ reductions for the textile industry in Mongolia (-8.26%). However, given the relatively small contribution to overall CO₂ emissions this has only a small impact on total expected CO₂ emissions (0.02%). A larger environmental concern is air pollution, especially in the capital Ulaanbaatar, where 46% of the country's population resides. According to the WHO this is primarily caused by use of coal in household stoves and low-pressure boilers. The WHO also indicates that this contribution to air pollution is much worse than other sources of pollution such as cars and trucks or waste burning and that no affordable alternatives exist

³⁹ The Higg Materials Sustainability Index gives most leathers an impact of 159, compared with 44 for polyester and 98 for cotton, see <https://msi.higg.org/page/msi-home>.

⁴⁰ See for example UNECE's environmental performance review of Tajikistan at https://www.unece.org/fileadmin/DAM/env/epr/epr_studies/Synopsis/ECE_CEP_180_Tajikistan_Synopsis_Eng.pdf or UNEP's report on chemical and waste management at <https://www.unenvironment.org/news-and-stories/story/tajikistan-taking-strides-chemicals-and-waste-management>

⁴¹ Data on air pollution from UNDP, available at <https://www.kg.undp.org/content/kyrgyzstan/en/home/blog/2019/the-transition-to-a-more-inclusive-green-economy--how-will-it-im.html>. Note that the CGE model also shows that the manufacturing industry contributed to nearly half of the CO₂ emissions but this share in emissions has significantly reduced in recent years, see for example <https://www.oecd-ilibrary.org/sites/4d2a6962-en/index.html?itemId=/content/component/4d2a6962-en&mimeType=text/html>.

⁴² See for example the WRI National Water Stress ranking, available at <https://www.wri.org/blog/2019/08/17-countries-home-one-quarter-world-population-face-extremely-high-water-stress>

⁴³ Pakistan Academy of Sciences, 2019, "Water Security Issues of Agriculture in Pakistan". Available at <http://www.pcrwr.gov.pk/Publications/Water%20Management/Final%20PAS%20Water%202019.pdf>

for the relatively poor population. Any decrease in welfare, such as indicated in the modelling results, would further aggravate the problem.⁴⁴

Standard GSP countries

Lao PDR: Although environmental impacts in Lao PDR are quite small in absolute amounts, the relative environmental impacts for the country are expected to be significant when the Standard GSP and GSP+ arrangements are discontinued. The economic modelling results show an expected decrease in CO₂ emissions in the leather (-0.73%), apparel (-2.38%), and textiles (-0.59%) sectors, as well as in chemicals and rubber production (-0.33%). However, expected increases in CO₂ emissions in transport (0.24%), manufacturing (0.22%), services (0.15%), and primary products (0.14%) would contribute to an expected absolute increase in CO₂ emissions by firms of 0.12%. Bigger environmental concerns would come from the expected impact of GDP decline, reduction of jobs and welfare losses, which could set Lao PDR back in terms of efforts to address loss of forest coverage and overexploitation of natural resources, both of which would put further stress on Lao PDR's rich biodiversity.

Bangladesh: The economic modelling suggests total emissions by firms would increase by 0.18%, partially offset by lower emissions from government and households (due to the reduced GDP), so that the overall emissions increase is only 0.06%. CO₂ emissions are expected to decrease most in the leather (-2.82%), apparel (-0.98%), and textiles (-1.0%) sectors. However, expected increases in CO₂ emissions in chemicals, rubber and plastics (0.22%), manufacturing (0.29%), and plant oil (0.17%) more than offset these reductions, leading to the expected absolute increase in emissions. The case study on environmental effects in Bangladesh (**Annex C-12**) illustrates that, over the last few years, the country has seen a steep growth in its GHG emissions, significantly higher than the world average. The case study also shows that air pollution has strongly increased over the years, the main cause of which has been uncontrolled urbanization and industrialization. In this respect the expected reduction of GDP and loss of welfare in this scenario compared to the baseline situation would have a positive turnout for Bangladesh's PM 2.5 emissions.

For both **India** and **Indonesia**, the modelling shows a small decrease in CO₂ emissions, consistent with the predicted decline in economic activity. The reduction of production in the very CO₂-intensive leather sector would also result in lower water pollution as a result of effluent from untreated waste water, especially from the use of toxic chemicals in the tanning process.

The effect on CO₂ emissions for **non-GSP countries** is rather diverse, depending on the relative importance of the more CO₂-intensive industries in the national economies. CO₂ emissions in Armenia and Sri Lanka would be expected to increase, for EU-27, Turkey, the UK, and Vietnam total CO₂ emissions would be expected to decrease, while for China no significant impact would be expected.

2.2.3.4 Analysis of Impacts on Human Rights

2.2.3.4.1 Effects in Standard GSP and GSP+ beneficiary countries

The loss of preferences by Standard GSP and GSP+ countries has economic and social effects and from those effects, via a causal chain analysis, we can also 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. We combine in the analysis the quantitative modelling inputs with inputs from the UN monitoring bodies and other focused literature sources regarding specific human rights, as well as with key stakeholder inputs. The degree to which the

⁴⁴ World Health Organisation, Air Pollution in Mongolia. Available at <https://www.who.int/bulletin/volumes/97/2/19-020219/en/>

modelling results can be used for the detailed human rights analysis is limited, especially when the projected effects are small. In some cases, the overall macroeconomic effects of the policy change are however very clear so overall impacts matter, while in most cases sector-specific effects are most important and telling for the analysis.

Some caveats need to be mentioned. First, when countries are grouped together, it is not possible to distil the separate country-specific effects, which is needed as the starting point for the analysis. Hence, in the analysis we do not report those countries for which we do not have individual country effects. In addition, with regard to labour-related rights, the following should be kept in mind: in the short run, the larger relative changes in the economy will lead to adjustment pressures where workers would re-allocate across sectors. This has various labour market consequences. First, in the immediate aftermath after losing Standard GSP or GSP+ status, the pressure of losing jobs is highest and only after a while does the highest immediate pressure subside. Second, proper labour market adjustments are only possible if skills requirements match and/or if re-education programmes are made available to facilitate this adjustment. Third, the economic simulations do not take into account the informal economy. That means the projected changes in employment apply to the formal sector only. In some GSP countries, the informal sector is larger than the formal one. And labour protections are lower there.

In Table B2-6.1 in annex B2-6, we provide the analysis of human rights impacts⁴⁵ in this scenario for GSP+ countries, and in Table B2-6.2 for Standard GSP countries.⁴⁶

Among the GSP+ beneficiaries, the impact is largest for **Pakistan**. This country is impacted at the overall economic level, which in turn means there are effects on human rights. For most GSP+ countries, the impact manifests itself at the sector level. We see that there is a sectoral shift away from sectors like textiles, apparel, and leather towards manufacturing, services, and transport.

Among the Standard GSP beneficiaries, the effect is largest for **Bangladesh**. This country is impacted at the overall economic level which has impacts for human rights. In addition, several Standard GSP countries are impacted at the sector level. 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).

2.2.3.4.2 Effects in countries not directly affected by the policy option

Apart from the direct effects of the discontinuation of GSP+ and Standard GSP on the affected beneficiary countries, there are also spill-over effects on other countries.

European Union

The EU benefits from a human rights perspective from the discontinuation of GSP+ and Standard GSP, but to a very small extent:

- The *right to work* is not expected to be impacted overall (i.e., there is no material change in wages and no change in total employment). At the sector level, however,

⁴⁵ None of the rights considered in the analysis are absolute rights, in line with Tool Number 28 of the Better Regulation Toolbox.

⁴⁶ In line with the EU guidelines for human rights impact assessments (European Commission, 2015), the tables provide information about (a) Potentially affected human rights/issues and the normative framework for these rights; (b) a short explanation of the impact based on secondary materials: nature of the expected impact and possible directions of the impact; (c) what kind of impact is expected (direct or indirect); (d) the degree of the impact (major or minor); (e) the direction of the impact (positive and/or negative) that is specified through a 5-item Likert scale: positive impact (++), somewhat positive impact (+), no impact (0), somewhat negative impact (-), negative impact (--); and (f) population groups that are affected by the impact.

increases in employment for skilled and unskilled workers are expected in leather (0.7 and 0.8% respectively), textiles (0.9 and 1.0% respectively), and apparel (0.7%). These increases are likely to affect the *right to work* in a positive way and consequently support the *right to an adequate standard of living*. This is the result of the fact that the discontinuation of the two GSP arrangements is expected to reduce import competition for the EU sectors.

- The *right to health*, *right to education*, and *right to social security* are not impacted in this scenario, because these policies are predominantly carried out at EU Member State level, and because the tariff revenue increase is too marginal to have an impact on budget allocation for these public services.
- No impact on gender equality is expected.
- The right to a clean environment is not affected for the EU at the aggregate economy level; however, at the sectoral level, the expansion of leather, textiles and apparel production – sectors in which effluents that contribute to water pollution are concentrated – there could be a small impact on the right to a clean environment because of water pollution.

EBA countries

Though there is no policy change for the EBA countries, the loss of EU preferences by GSP+ and Standard GSP beneficiaries, which compete to some degree with the EBA countries in the EU market, allows EBA beneficiaries partially to capture additional market share in the EU, with consequential implications from a human rights perspective.

- As regards the *right to work*, the expansion of employment of skilled and unskilled workers in the leather, textiles, and apparel sectors has positive effects for the right to work and, consequently, for the *right to an adequate standard of living* for workers in these sectors. For other sectors, changes are negligible, except for a marginal decrease in employment in the rice sector.
- The *right to health*, *right to education*, *right to social security* are not expected to be affected in this scenario. Even though tariff revenues go up marginally, this change is too insignificant to influence EBA countries' budgets for these public services.
- *Gender equality* is mainly determined by domestic policies in the EBA countries (as shown in the OHCHR monitoring reports). To a small extent, gender effects also come from sectoral effects. In this case, because women traditionally have high relative shares of employment in the textiles and apparel sectors, increased employment opportunities in these sectors might benefit them disproportionately, supporting also their right to an adequate standard of living.
- The *right to a clean environment* could be impacted marginally as increased activity in the leather, textiles and apparel sectors leads to more water pollution, local emission to air, and GHG emissions. In some EBA countries, the environmental situation is dire and increases in pollution from the GSP change could have a stronger cumulative effect, when combined with the existing environmental and health challenges.

Other countries

As far as China, the US, Turkey, and the UK are concerned, we see the typical third-country trade creation effects when trade is diverted from the GSP+ and Standard GSP countries when their preferential access is discontinued. This leads to similar effects on the rights as described above for the EU and EBA beneficiaries in relative terms.

It is important to note that the removal of the Standard GSP and GSP+ arrangements would remove the incentive for ratifying and implementing international human rights conventions. As such, some backsliding or at least lower ratification speed could result in Standard GSP countries, but in particular GSP+ countries that will not have the oversight of the GSP+ procedures to ensure progress in human rights. This topic is also covered in more detail under Task B.5 and in related case studies.

2.2.4 Scenario 2c: EBA and GSP+ Remain in Place

2.2.4.1 Analysis of Economic Impacts

2.2.4.1.1 Overall trade effects

As a result of the discontinuation of the Standard GSP, **exports to the EU** from Standard GSP countries are affected similarly to scenario 2b, where also the GSP+ would be discontinued (Table 10): bilateral exports drop for all countries within the group, and slightly more so than if both the Standard GSP and the GSP+ were withdrawn. The most affected countries would be Indonesia and Bangladesh (each seeing a decline in exports to the EU of -8.1%), with India and Lao PDR also seeing losses in their exports to the EU in the range of 2.2% to 3.2%. Nigeria and Nepal are comparatively less affected. All other countries, including EBA and GSP+ beneficiaries, would benefit through slightly higher exports to the EU. Bilateral export gains due to such trade diversion effects will, however, be modest, not exceeding the 0.8% predicted for Vietnam and Pakistan.

Like in the case of scenario 2b, the impact of the discontinuation of the Standard GSP arrangement would have limited effects on **total exports** (Table 11). These are almost identical in scenario 2b and 2c for all countries except Bangladesh (expected decline in total exports is marginally greater at 1.8%, compared to 1.6% in scenario 2b) and naturally for the GSP+ beneficiaries, which would not be affected negatively by the end of the Standard GSP only: their total exports would hardly be affected at all, like the exports of EBA beneficiaries and non-GSP countries.

2.2.4.1.2 Macroeconomic effects

For countries which are **Standard GSP beneficiaries** in the baseline, the economic impact of discontinuing only the Standard GSP arrangement is also almost identical to the discontinuation of both the Standard GSP and GSP+: real GDP declines compared to the baseline; and, due to a decline in terms of trade, GDP value declines by even more. The only notable difference between the two scenarios is for **Bangladesh**, which is even more negatively affected in case only the Standard GSP is removed: real GDP is expected to be 0.36% lower than in the baseline, welfare 0.45% lower, and GDP value 1.08% lower. Note that, on top of this, Bangladesh is currently still an EBA beneficiary, and the move from EBA to GSP status – which also entails negative economic effects is not reflected here (see more details in task B.4, section 2.4 below).

By contrast, the economic effects on **EBA and GSP+ beneficiaries** as well as **non-GSP countries** are mostly positive, featuring typically small gains in GDP, welfare, and terms of trade (Table 9). Across the board, the effects are smaller for these countries than in the previous scenario, because the average tariff increase in the EU (and UK and Turkey) from the discontinuation of the Standard GSP only is smaller than in scenario 2b. Indeed, apart from Sri Lanka and Vietnam, the gains are marginal at best.

The main difference between scenarios 2b (discontinuation of the Standard GSP and GSP+) and 2c (discontinuation of the Standard GSP only) in terms of economic impact is for the **GSP+ countries**. As these retain their preferential status in scenario 2c, they are not expected to be negatively impacted – but they are also mostly unlikely to benefit from the relative increase in competitiveness compared to the Standard GSP countries that lose preferences: economic impacts are close to zero, with the exception of very small gains for Pakistan.

For the **EU**, the **UK** and **Turkey**, the impacts are mostly positive, although the EU27 do experience a modest decline in real GDP.

Table 9: Macroeconomic impacts of scenario 2c (changes in % compared to baseline)

Region	GDP - value	Real GDP - quantity	Welfare	Terms of trade	Tariff revenues
EU27	0.03	-0.01	0.00	0.01	0.39
Standard GSP					
Bangladesh	-1.08	-0.36	-0.45	-0.55	-2.35
Indonesia	-0.29	-0.08	-0.09	-0.11	-0.68
India	-0.26	-0.07	-0.09	-0.13	-0.46
Kenya ⁴⁷	-0.25	-0.06	-0.10	-0.13	-0.21
Lao PDR	-0.08	-0.01	-0.03	-0.03	-0.09
Nigeria	-0.07	-0.02	-0.01	0.01	-0.22
Nepal	-0.13	-0.02	-0.03	-0.04	-0.21
GSP+					
Bolivia	0.00	0.00	0.00	-0.01	-0.01
Kyrgyzstan	0.00	-0.01	-0.01	0.00	0.00
Mongolia	-0.01	0.00	-0.01	-0.01	-0.01
Pakistan	0.02	0.00	0.01	0.02	0.05
Philippines	0.00	0.00	0.00	0.00	0.00
Tajikistan	0.01	-0.01	-0.01	0.00	0.02
EBA					
Other LDC	0.01	0.01	0.01	0.01	0.03
Other					
Armenia	0.01	0.00	0.00	0.00	0.02
China	0.01	0.00	0.00	0.01	0.02
Sri Lanka	0.02	0.01	0.02	0.04	0.04
Turkey	0.07	0.00	0.01	0.05	0.39
UK	0.03	0.00	0.00	0.01	0.53
Vietnam	0.05	0.03	0.04	0.02	0.10
Sub-S Africa	-0.01	0.00	0.00	0.00	-0.01
Other GSP	-0.01	-0.01	-0.01	-0.01	-0.03
Rest of world	0.00	0.00	0.00	0.00	0.01

Source: European Commission Modelling Results.

2.2.4.1.3 Impact on government revenue

The impact of scenario 2c on government revenues (Table 9, last column) is in line with the macroeconomic impacts mentioned above. For **Standard GSP countries**, the impact is negative and similar to the scale of the impacts in scenario 2b, except for Bangladesh, which faces somewhat larger tariff revenue declines (2.35% instead of 2.09% in scenario 2b). These outcomes reflect the fact that the policy shock is concentrated on fewer exporting countries. Tariff revenue effects on the **EU27** (as well as on the UK and Turkey), **EBA beneficiaries, non-GSP countries** are similar to the effects in scenario 2b, but slightly lower (because the size of the shock is smaller). For all other countries, the impact on tariff revenues is very small. In terms of total government revenues, like in scenario 2b, the impact would be in line with changes of GDP value – i.e., negative for Standard GSP countries and marginally positive for most other countries.

⁴⁷ See comments made in footnote 19 on page 19 above.

Table 10: Scenario 2c - Changes in exports to the EU, by sector (2029, in % compared to baseline)

Exporter	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.1	0.1	0.1	0.2	0.0	1.4	0.7	1.0	0.2	0.0	0.0	0.0	0.1
Standard GSP													
Bangladesh	3.0	-18.1	0.8	-22.6	3.4	-17.0	-7.4	-9.4	-16.4	-12.1	2.4	2.2	-8.1
Indonesia	1.0	0.9	-9.3	-13.0	0.1	-21.7	-4.3	-10.6	-16.2	-8.3	0.6	0.7	-8.1
India	0.7	-7.0	-1.9	-16.0	0.2	-16.8	-4.0	-11.6	-7.3	-4.3	0.5	0.6	-3.2
Kenya	0.7	-14.1	-2.7	-11.4	0.0	1.9	-10.7	-12.6	-17.6	-5.1	0.5	0.6	-2.2
Lao PDR	0.3	-15.2	-1.6	-9.3	0.1	-19.6	-6.0	-11.1	-13.1	-1.0	0.2	0.2	-2.4
Nigeria	0.3	-0.9	0.4	-16.1	0.1	0.4	-3.4	-11.7	-0.4	-2.8	0.2	0.3	-0.4
Nepal	0.5	-14.5	0.2	-4.4	0.5	-9.5	-4.5	-10.3	-6.1	-10.6	0.3	0.4	-1.4
GSP+													
Bolivia	0.0	0.3	0.2	0.3	0.0	2.3	1.1	1.7	0.4	0.2	0.1	0.1	0.1
Kyrgyzstan	-0.1	0.3	0.2	0.3	0.0	2.2	1.1	1.6	0.4	0.1	0.0	0.1	0.1
Mongolia			0.2	0.3	0.0	2.3	1.1	1.6		0.2	0.1	0.1	0.2
Pakistan	-0.1	0.2	0.1	0.3	0.0	2.3	1.1	1.6	0.3	0.1	0.0	0.0	0.8
Philippines	-0.1	0.3	0.2	0.3	0.0	2.3	1.1	1.7	0.4	0.2	0.1	0.1	0.2
Tajikistan		0.2	0.1	0.2	0.0	2.2	1.1	1.6	0.3	0.1	0.0	0.0	0.3
EBA													
Other LDC	-0.1	0.3	0.2	0.3	0.0	2.3	1.2	1.7	0.4	0.2	0.1	0.1	0.3
Others													
Armenia	-0.1	0.2	0.1	0.3	-0.1	2.2	1.1	1.6	0.4	0.2	0.0	0.0	0.1
China	-0.1	0.3	0.1	0.3	0.0	2.2	1.1	1.6	0.4	0.1	0.0	0.0	0.4
Sri Lanka	-0.1	0.3	0.1	0.3	0.1	2.1	1.1	1.6	0.4	0.2	0.0	0.0	0.5
Turkey	-0.2	0.0	0.0	0.1	0.0	1.7	0.7	1.2	0.1	-0.1	-0.1	-0.1	0.1
UK	0.0	0.0	0.0	0.2	0.0	1.4	0.8	1.1	0.2	0.0	0.0	0.0	0.1
Vietnam	-0.1	0.4	0.1	0.3	0.0	2.2	1.1	1.6	0.3	0.1	0.0	0.0	0.8
Sub-S Africa	0.0	0.3	0.2	0.3	0.0	2.3	1.2	1.7	-0.1	-0.5	0.1	0.1	0.0
Other GSP	0.0	-0.2	0.2	-1.7	0.0	-16.4	1.2	-9.9	-0.2	0.2	0.1	0.1	0.0
Rest of world	0.0	0.3	0.2	0.3	0.0	2.3	1.1	1.7	0.4	0.2	0.1	0.1	0.1
Total	0.0	0.0	0.0	-0.2	0.0	-0.3	-0.1	-0.3	0.0	0.0	0.0	0.1	0.0

Source: European Commission Modelling Results.

Table 11: Scenario 2c - Changes in total exports, by sector (2029, in % compared to baseline)

Exporter	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.3	-0.1	-0.1	0.0	-0.1	-0.4	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1
Standard GSP													
Bangladesh	2.8	0.9	1.6	-13.1	2.9	-4.0	-3.6	-1.4	-0.1	-0.6	2.4	2.1	-1.8
Indonesia	0.9	0.4	-0.7	-1.3	0.1	-9.2	-0.2	-1.3	-2.0	-0.1	0.5	0.7	-0.5
India	0.5	-0.3	0.3	-2.6	0.2	-9.8	-0.6	-4.8	-1.0	-0.5	0.5	0.5	-0.4
Kenya	0.6	-1.2	-0.8	-4.4	0.0	0.9	-0.3	-0.5	-0.2	-0.1	0.4	0.5	-0.3
Lao PDR	0.2	0.0	-0.2	-1.4	0.0	-2.0	-1.7	-5.0	-0.5	0.1	0.2	0.2	-0.1
Nigeria	0.2	-0.7	0.1	-10.2	0.0	0.4	-1.2	-2.8	-0.6	-1.8	0.2	0.2	-0.2
Nepal	0.4	-0.6	-0.7	-0.5	0.3	-2.6	-1.2	-3.0	-0.3	-0.9	0.3	0.3	-0.4
GSP+													
Bolivia	-0.2	-0.1	0.0	0.0	0.0	1.0	0.1	0.2	-0.1	0.0	0.0	0.0	0.0
Kyrgyzstan	-0.2	-0.1	0.1	0.0	0.0	0.4	0.1	0.2	0.2	0.0	0.0	0.0	0.0
Mongolia		-0.1	0.1	0.0	0.0	0.6	0.3	0.5		0.0	0.0	0.0	0.0
Pakistan	-0.2	-0.1	-0.4	0.0	0.0	0.8	0.2	0.8	0.0	-0.1	0.0	0.0	0.1
Philippines	-0.2	-0.1	0.0	0.0	0.0	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Tajikistan	-0.2	-0.1	0.0	-0.1	0.0	1.0	0.5	1.2	0.0	0.1	-0.1	0.0	0.1
EBA													
Other LDC	-0.1	0.0	-0.1	0.1	0.0	1.2	0.5	0.3	-0.1	0.0	0.0	0.0	0.0
Others													
Armenia	-0.2	0.0	0.0	0.0	-0.1	1.0	0.5	0.9	0.0	0.1	0.0	0.0	0.0
China	-0.2	-0.1	-0.1	0.0	-0.1	0.5	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Sri Lanka	-0.2	-0.1	-0.1	-0.1	0.0	1.0	0.2	0.4	0.1	0.0	0.0	0.0	0.1
Turkey	-0.3	-0.3	-0.1	-0.1	-0.1	0.5	0.2	0.8	-0.1	-0.2	-0.1	-0.2	-0.1
UK	0.0	-0.1	0.0	0.1	0.0	0.9	0.3	0.6	0.0	-0.1	-0.1	-0.1	0.0
Vietnam	-0.4	-0.1	0.0	0.1	0.0	1.2	0.1	0.4	-0.1	-0.1	0.0	-0.1	0.1
Sub-S Africa	-0.1	0.0	-0.1	0.1	0.0	0.8	0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Other GSP	-0.3	-0.4	0.0	-0.2	0.0	-3.3	0.3	-1.5	-0.1	0.1	0.0	0.0	0.0
Rest of world	-0.3	0.0	0.0	0.1	0.0	1.1	0.3	1.0	0.1	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	-0.2	0.0	-0.3	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

Table 12: Scenario 2c - Changes in real value added, by sector (2029, in % compared to baseline)

Region	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.1	0.0	0.0	0.1	0.0	0.6	0.4	0.5	0.1	0.0	0.0	0.0	0.0
Standard GSP													
Bangladesh	-0.2	0.3	-0.2	-2.2	0.2	-2.4	-0.9	-0.9	0.4	0.5	0.0	-0.1	-0.2
Indonesia	0.1	0.4	0.0	-0.1	0.0	-3.9	0.1	-0.8	-0.4	0.1	0.0	0.0	0.0
India	0.0	0.0	-0.1	-0.3	0.0	-3.3	-0.3	-1.9	-0.2	0.0	0.0	0.0	0.0
Kenya	0.5	-0.1	-0.1	-0.3	0.1	0.6	0.1	-0.1	0.1	0.2	0.2	0.1	0.0
Lao PDR	0.0	0.0	0.0	0.0	0.0	-0.7	-0.7	-2.4	-0.4	0.1	0.1	0.0	0.0
Nigeria	0.0	0.0	0.0	-0.2	0.0	0.3	0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Nepal	0.0	-0.1	0.0	0.0	0.0	-0.4	-0.5	-0.4	-0.2	-0.1	0.0	0.0	0.0
GSP+													
Bolivia	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kyrgyzstan	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.2	0.1	0.0	0.0	0.0	0.0
Mongolia	0.0	-0.1	0.0	0.0	0.0	0.5	0.2	0.1		0.0	0.0	0.0	0.0
Pakistan	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Philippines	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Tajikistan	0.0	0.0	0.0	0.0	0.0	0.8	0.1	1.1	0.0	0.0	0.0	0.0	0.0
EBA													
Other LDC	0.0	-0.1	0.0	0.0	0.0	0.4	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Others													
Armenia	0.0	0.0	0.0	0.0	0.0	0.4	0.2	0.4	0.0	0.0	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Sri Lanka	0.0	-0.1	0.0	0.0	0.0	0.1	0.1	0.3	0.0	-0.1	0.0	0.0	0.0
Turkey	-0.1	-0.1	0.0	0.0	0.0	0.4	0.2	0.3	0.1	0.0	0.0	0.0	0.0
UK	-0.2	0.2	0.0	0.1	0.0	1.0	0.5	0.8	0.1	0.0	0.0	0.0	0.0
Vietnam	-0.1	-0.1	0.0	0.0	0.0	1.1	0.2	0.3	0.0	0.0	0.0	0.0	0.0
Sub-S Africa	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other GSP	0.0	-0.1	0.0	0.0	0.0	-0.6	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Rest of world	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

2.2.4.1.4 Sectoral effects

Exports to the EU

Across sectors, bilateral export effects caused by the abolition of the Standard GSP arrangement vary considerably (Table 10) but are generally similar to those in scenario 2b. For Standard GSP countries, all sectors apart from rice (which is anyway excluded from the Standard GSP), primary resources (for which the GSP offers no or very low preference margins) and services sectors are negatively affected to varying degrees, with the pattern very similar to scenario 2b. The highest individual country impacts are in “other food” (Bangladesh, -22.6% compared to the baseline) and leather (Indonesia, -21.7%, and Lao PDR, -19.6%). On average, apparel, leather and “other food” exports to the EU are most impacted. Other countries’ exports to the EU, including those of GSP+ countries, would benefit moderately only in the leather, textiles and apparel sectors, with export increases in the range of 1% to 2%. In other sectors, exports to the EU would remain largely unchanged. The decline in exports to the EU from the “other GSP” country group can be explained by the relatively high share of exports from Myanmar, a Standard GSP country in the baseline.

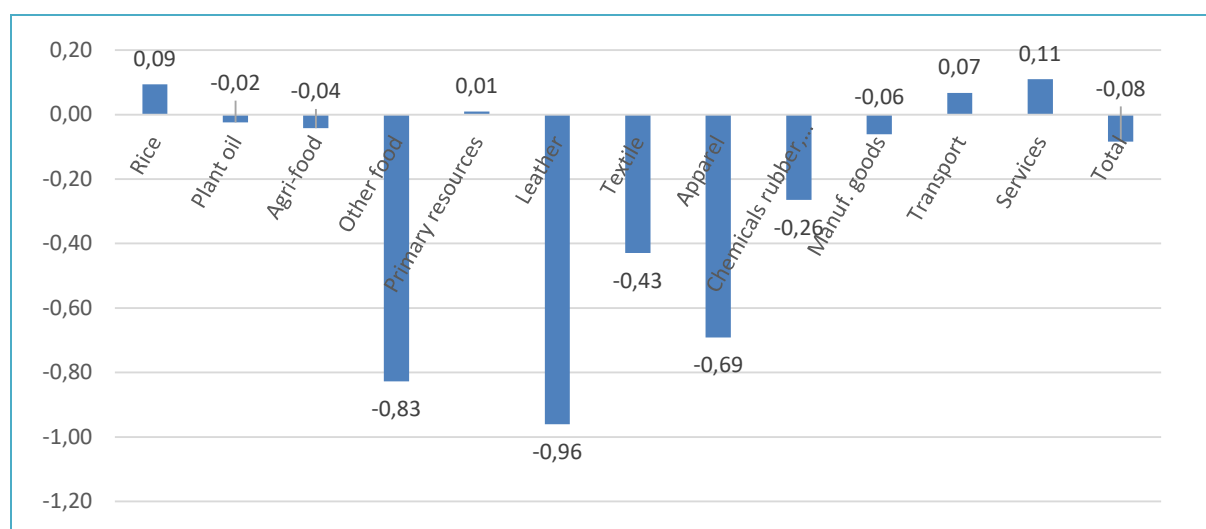
Total Exports

For total sector exports (Table 11), again the results for all country groups except GSP+ beneficiaries are very similar to those in scenario 2b. In terms of individual sector-country effects, the strongest negative impacts are for “other food” (Bangladesh, -13.1%, and Nigeria, -10.2%) and leather (India, -9.8%, and Indonesia, -9.2%). Positive impacts for non-affected countries (or benefitting ones) are largely confined to leather and apparel.

EU Imports

The impact of the policy options on total EU sectoral imports (Figure 4) is very similar in scenarios 2b and 2c, except for textiles (where imports will decrease by only 0.4% if only the GSP+ arrangement were discontinued vs. 1.1% if both the Standard and GSP+ arrangements were removed), apparel (-0.7% vs. -0.9%), and “other food” products (-0.8% vs. -1.1%). In other words, although EU businesses in these sectors still benefit from increased protection against import competition, this effect is smaller than in scenario 2b. Rice imports would increase less (0.1%) if only the Standard GSP were removed compared to scenario 2b (increase of 0.2%).

Figure 4: Scenario 2c - Changes in EU imports, by sector (2029, in % compared to baseline)



Source: European Commission Modelling Results.

Value Added

Changes in sectoral value added (Table 12) follow the same behaviour as described under scenario 2b, except of course that GSP+ countries would not experience the contraction in production (particularly in the leather, apparel and textiles sectors, and to a lesser extent in the “other food products” and chemicals, plastics and rubber sectors). In fact, in contrast to the quite substantial decline predicted for Tajikistan’s leather and apparel sectors in scenario 2b, these two sectors would be among the largest beneficiaries if only the Standard GSP arrangement were discontinued – although the increases in value added would be modest, at 1.0% for leather and 0.8% for apparel.

2.2.4.2 Analysis of Social Impacts

2.2.4.2.1 Impact on wages and welfare

Social impacts driven by the economic impacts of scenario 2c are very similar to those in scenario 2b, except of course for GSP+ beneficiaries, which do not lose preferences in this scenario. The following summarizes the main impacts (see Annex Table B2-4.1 for further details):

- **Standard GSP** countries experience a decline in welfare and wages (with the exception of a very small increase in wages for skilled workers in Nepal), similar to the impacts in scenario 2b. This can be explained by the fact that the direct policy measure on Standard GSP countries is the same in both scenarios, i.e., the withdrawal of the Standard GSP. Only for few countries do the effects reach the first decimal point: welfare would be lower by 0.45% than in the baseline in Bangladesh, and by 0.1% in India and Indonesia. Wages in Bangladesh would decline for skilled workers by 0.6% and for unskilled ones by 0.45%; in Indonesia by 0.2% and 0.1%, respectively, and similarly by around 0.1% in India (for unskilled workers only).
- **GSP+** beneficiaries retain their preferences in this scenario and therefore experience only effects driven by trade diversion and the resulting internal sectoral reallocation of production, as well as terms of trade effects. Pakistan is the only GSP+ country for which a marginally positive impact on welfare and wages is observed in the simulation. This is somewhat counter-intuitive since GSP+ countries benefit from trade diversion. However, given the complex general equilibrium interactions that affect import prices, export prices and growth simultaneously, the main conclusion to be drawn is that the effects are very small and in real life might be indeterminate.
- For other countries – including the **EU**, **EBA** beneficiaries, and **non-GSP countries** – the impact of scenario 2c on welfare and wages are similar to those in scenario 2b, i.e., very small (mostly positive) effects, the strongest impact being on Vietnam with welfare gains of 0.03% to 0.05%.

2.2.4.2.2 Impact on sectoral employment

Like welfare and wage impacts, sectoral employment shifts caused by the discontinuation of the Standard GSP only are very similar to those in scenario 2b which discontinues both the Standard GSP and the GSP+, except of course for the GSP+ countries, for which the impacts are inverted (for details, see Annex Tables B2-4.2 and B2-4.2).

The anticipated negative effects in scenario 2c for **Standard GSP countries** are moderate, with the strongest ones registered in leather with employment declines of -4.1% for unskilled workers and -3.9% for skilled workers in Indonesia; -3.3% (for both skilled and unskilled workers) in India; and -2.1%/2.2% in Bangladesh. These are very similar to the expected effects in scenario 2b. Sectoral job reductions in the apparel sector (in Lao PDR and Bangladesh) and other food (in Bangladesh) also reach around 1.9% to 2.9%. Conversely, sectors in these countries not benefitting from GSP preferences improve their performance, as they gain in competitiveness relative to the sectors that lose their GSP preferences; this applies e.g., to chemicals, rubber and plastics, and manufacturing in

Bangladesh, with employment gains of up to 0.8%. As mentioned before, these effects only consider the loss of GSP preferences for countries graduating from LDC status like Bangladesh or Lao PDR but not the additional shock of LDC graduation, which is addressed in Task B.4 (section 2.4).

Within the **GSP+ countries**, the biggest swing is for Tajikistan, which sees gains in employment of up to 1.2%/1.1% for unskilled/skilled workers in its apparel sector, compared to severe job losses in these sectors under scenario 2b.

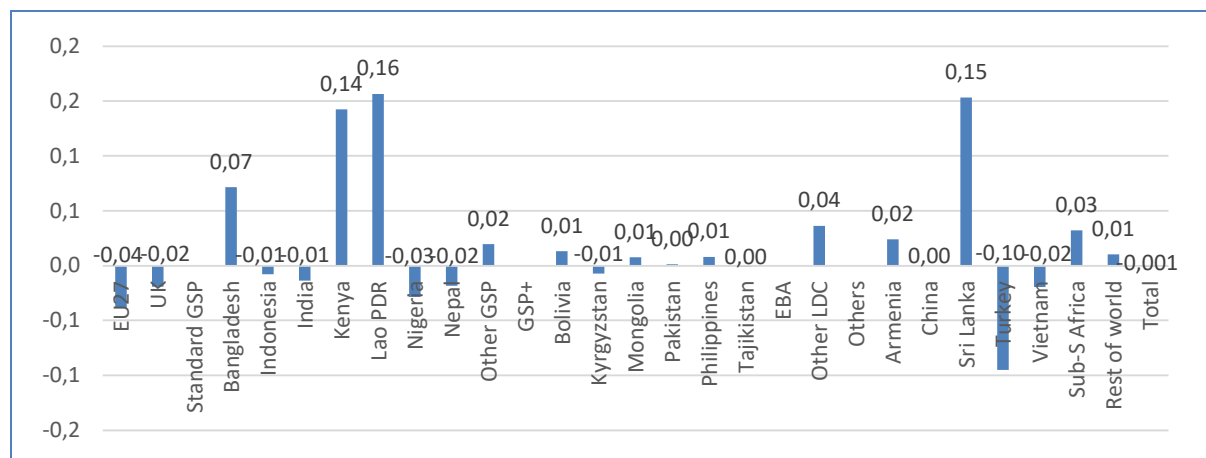
For **EBA beneficiaries**, the **EU**, and **other countries** (leaving aside the mixed country groupings), significant sectoral employment effects are only expected in the leather, apparel, and textiles sectors; these are positive but typically small, reaching a maximum of 1.1% for skilled workers and 1.2% for unskilled workers in the Vietnamese leather and footwear sector.

In order to assess whether women could also be affected in countries where the overall effect of the scenario are expected to be small, Box B2-4.1 in Annex B2-4 does the same for Nigeria.

2.2.4.3 Analysis of Environmental Impacts

As in scenario 2b, discontinuing the Standard GSP has minimal impact on global CO₂ emissions (Figure 3). At a country or region level, the predicted impact of the two scenarios is almost identical except for the GSP+ countries, which were expected to see the highest changes in emissions in scenario 2b but are virtually unaffected in scenario 2c.

Figure 5: Scenario 2c - Changes in CO₂ emissions, by country/region (2029, in % compared to baseline)



Source: European Commission Modelling Results.

As in scenario 2b, the economic modelling identifies the highest impacts of a withdrawal of the Standard GSP in the textile, apparel and leather sectors. At a country-sector level, the following can be observed (see Annex Table B2-5.2 for CO₂ emission changes by firms at sector level): in the case of **Lao PDR** and **Bangladesh**, the loss of GSP preferences leads to a decline in emissions in e.g., the apparel, textiles and (at least in Lao PDR and Bangladesh) leather sectors but a corresponding increase in emissions from other sectors which gain in relative competitiveness. The overall net effect is an increase in CO₂ emissions in these countries. For the **other Standard GSP** countries, shifts in sectoral emissions are similar – with some exceptions, such as an increase in emissions from the leather sector in Nigeria – but result in a slight decrease in total emissions; all these effects are very similar to those described for scenario 2b (see section 2.2.3 above).

Among the GSP+ countries, in **Tajikistan** the increase in CO₂ emissions in leather (0.9%) and apparel (1.2%) is expected to be relatively high, but the small expected reduction of CO₂ emissions in services (-0.004%), which in absolute terms has much higher emissions, compensates for the increases. In **Pakistan** the largest expected changes in CO₂ emissions are in textiles and apparel (both +0.1%) but here it is the small expected reduction of CO₂ emissions in manufacturing (-0.002%) that compensates for the increases. A larger environmental concern in this scenario is water use and pollution in **Tajikistan**. In contrast to the results of scenario 2b, in which reduced production in leather and apparel would have a positive impact on water use and pollution, scenario 2c would aggravate the already serious challenges that Tajikistan is facing with water use and water quality.

2.2.4.4 Analysis of Impacts on Human Rights

2.2.4.4.1 **Effects in Standard GSP beneficiary countries**

As discussed above, scenario 2c (where only the Standard GSP would be discontinued) has the highest economic impact on Standard GSP beneficiaries. Some spill-over effects are predicted also for EBA, GSP+, the EU and other third countries, but these effects are much smaller. We therefore focus on the Standard GSP countries, especially because this highlights the human rights effects if Standard GSP countries would not move to the (continuing) GSP+ scheme.⁴⁸ The latter choice is particularly relevant for human rights, not only because negative economic effects could be avoided for Standard GSP beneficiaries when they choose to join GSP+, but also because joining GSP+ has additional incentives for stronger human rights protection (as part of the positive conditionality that applies in the GSP+ scheme), as also highlighted by the MTE.

It is important to note that the scenario shock for **Standard GSP** countries is the same under this scenario as it was under scenario 2b. The difference is that in scenario 2b the GSP+ scheme is discontinued as well, which is not the case in this scenario. We have therefore carefully compared the two sets of impact results for Standard GSP countries between the two scenarios. We find that in the very large majority of instances, as for the other impact areas, the results do not change or change only so marginally that the human rights impact conclusions do not change. Also, the situational baseline and context per country described Table B2-6.2 (annex B2-6) for scenario 2b remains the same. Hence, Table B2-6.3 in annex B2-6 only addresses the effects of scenario 2c for Standard GSP countries insofar as they are different from what is reported for scenario 2b; indeed, as Table B2-6.3 shows, the differences between the two scenarios in terms of their impact on the human rights situation in Standard GSP countries are minor.

2.2.4.4.2 **Effects in countries not directly affected by the policy option**

Human rights impacts in other country groups are expected to be limited. The **EU** benefits from the discontinuation of Standard GSP, but again to a small relative extent both at the overall and sector levels. The main difference for the EU compared to scenario 2b is that the textile sector is expected to benefit less (an increase in output of 0.7% instead of 1.6% in scenario 2b), while the EU rice sector is less negatively impacted (output only declines by 0.1% compared to the baseline, rather than 0.3% in scenario 2b). This has very small impacts on the human rights situation in the EU: The *right to work* in textiles is expected to be impacted in a slightly less positive way than in scenario 2c, while the impact in the rice sector is now considered as negligible. Consequently, the *right to an adequate standard of living* changes marginally. The *right to a clean environment* is still not expected to be impacted overall for the EU, and the marginal negative impact on the *right to a clean environment* from the textile sector is now expected to be further reduced.

⁴⁸ As a reminder, for the purposes of the impact analysis the assumption has been made that all Standard GSP countries would move to MFN treatment under this scenario. In actual practice, most of the Standard GSP (i.e. all that fulfil the vulnerability criteria) could apply for GSP+.

As regards **EBA beneficiary** countries, there are two changes that become clear when comparing the two scenarios: First, for the *right to work* in the textile sector, output and employment for skilled and unskilled workers are expected to grow less than in scenario 2b by 0.3 percentage points. The right to work is thus still expected to be impacted positively, but to a lesser degree. This is because EBA textiles exports still face competition from GSP+ countries in scenario 2c. Second, a smaller and positive effect on the *right to work* is expected for the rice sector: compared to scenario 2b, output and employment in the rice sector are expected to grow, with positive effects for the *right to work* in that sector. Derived from that, the *right to an adequate standard of living* is expected to be positively impacted for both sectors (but to a lesser degree for textiles than in scenario 2b).

In the **GSP+ countries**, considering the small gains in the textiles, apparel and leather sectors, the *right to work* and *right to an adequate standard of living* are marginally – but positively – impacted. This comes at the expense of marginal declines in output and employment in a wide range of other sectors (depending on the GSP+ country).

For China, the US, and Turkey, there is no difference in results compared to scenario 2b. The relative changes for the UK are the same as for the EU, because of the modelling assumption that the EU and UK follow the same policies.

2.2.5 Scenario 2d: Large Developing Countries Graduate

2.2.5.1 Analysis of Economic Impacts

2.2.5.1.1 Overall trade effects

In this scenario, only India (for more details, see case study 3 in **Annex C-3**) and Indonesia lose GSP preferences. **Exports to the EU** from these two countries fall (-8.2% for Indonesia, -3.3% for India) by about the same as in scenario 2b (Table 14). All other countries benefit through slightly higher exports to the EU, although these effects will be even lower than in scenario 2c, not exceeding Vietnam's 0.7% for any modelled country. In terms of **total exports** (Table 15), the effects on Indonesia (-0.5%) and India (-0.4%) would be limited, and other countries' exports would hardly be affected.

2.2.5.1.2 Macroeconomic effects

Following from the limited trade effects, macroeconomic effects (Table 13) would also be marginal in all countries except India and Indonesia, where they would be essentially identical to scenario 2b. Other Standard GSP beneficiaries would be spared the negative consequences in scenario 2b or 2c. In particular, Bangladesh is expected to benefit from small gains of around 0.05% across all macroeconomic indicators.

2.2.5.1.3 Impact on government revenue

Tariff revenue effects (Table 13, last column) on the EU27 (as well as the UK and Turkey) would be positive but lower than in the other policy scenarios. For the two affected countries, they would be slightly negative, at -0.7% for Indonesia and -0.5% for India. Other countries would see no change in tariff revenues, apart from a small gain in Bangladesh. In terms of total government revenues, the impact would be negligible for all countries except small losses on the order of 0.25 to 0.3% in India and Indonesia.

2.2.5.1.4 Sectoral effects

Sectoral effects in India and Indonesia, as well as for all economies other than the remaining Standard GSP countries, would be very similar to the other scenarios, both in terms of exports to the EU, total exports, and sectoral output (Table 14 to Table 16). For the Standard GSP countries not affected by the preference withdrawal in this scenario,

sectoral effects are similar to those of GSP+ countries in scenario 2c: 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).

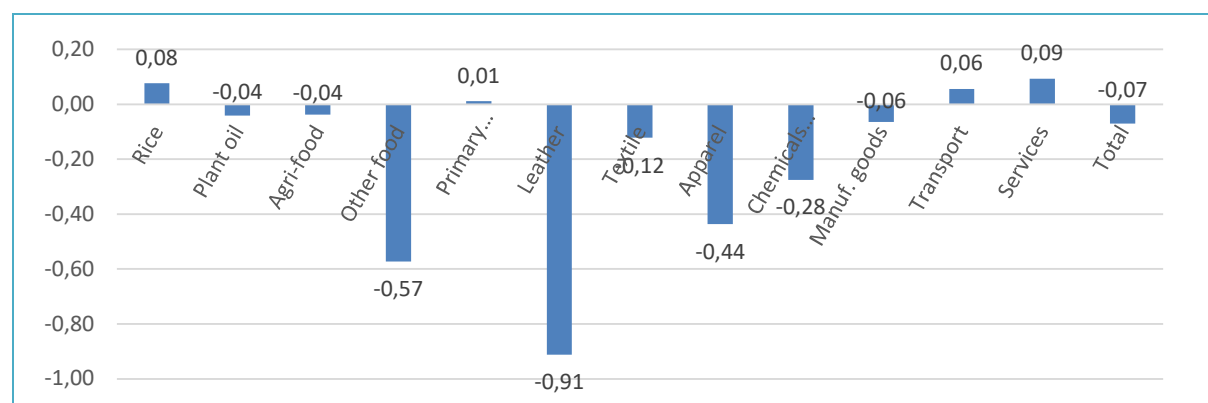
Table 13: Macroeconomic impacts of scenario 2d (changes in % compared to baseline)

Region	GDP - value	Real GDP - quantity	Welfare	Terms of trade	Tariff revenues
EU27	0.02	0.00	0.00	0.01	0.30
Standard GSP					
Bangladesh	0.07	0.03	0.04	0.05	0.19
Indonesia	-0.29	-0.08	-0.09	-0.11	-0.68
India	-0.25	-0.07	-0.09	-0.13	-0.46
Kenya	0.01	0.01	0.01	0.02	0.02
Lao PDR	0.00	0.00	0.00	0.00	0.00
Nigeria	0.01	0.00	0.00	-0.01	0.03
Nepal	-0.03	0.00	0.01	0.02	-0.02
GSP+					
Bolivia	0.00	0.00	0.00	0.00	-0.01
Kyrgyzstan	0.00	0.00	-0.01	0.00	0.00
Mongolia	-0.01	0.00	-0.01	-0.01	-0.01
Pakistan	0.02	0.00	0.01	0.02	0.05
Philippines	0.00	0.00	0.00	0.00	0.00
Tajikistan	0.00	-0.01	0.00	0.00	0.01
EBA					
Other LDC	0.01	0.00	0.01	0.01	0.02
Other					
Armenia	0.01	0.00	0.00	0.00	0.01
China	0.01	0.00	0.00	0.01	0.02
Sri Lanka	0.02	0.01	0.02	0.04	0.03
Turkey	0.05	0.00	0.01	0.03	0.34
UK	0.02	-0.01	0.00	0.01	0.36
Vietnam	0.04	0.02	0.04	0.01	0.09
Sub-S Africa	0.00	0.00	0.00	0.00	0.00
Other GSP	0.00	0.00	0.00	-0.01	-0.01
Rest of world	0.00	0.00	0.00	0.00	0.00

Source: European Commission Modelling Results.

Comparing this scenario with the discontinuation of the Standard GSP (scenario 2c), the main differences regarding total EU sectoral imports are for the textile, apparel and “other food” sectors (Figure 6): in these sectors, the contraction in EU imports will be smaller than in scenario 2c – i.e., the level of protection granted by this policy option is lower in these sectors than under scenario 2b or 2c. For other sectors, the differences between scenarios 2c and 2d are negligible.

Figure 6: Scenario 2d - Changes in EU imports, by sector (2029, in % compared to baseline)



Source: European Commission Modelling Results.

Table 14: Scenario 2d - Changes in exports to the EU, by sector (2029, in % compared to baseline)

Exporter	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.1	0.1	0.0	0.1	0.0	1.3	0.3	0.7	0.2	0.0	0.0	0.0	0.1
Standard GSP													
Bangladesh	-0.2	0.4	0.0	0.1	-0.2	2.0	0.4	1.0	0.3	0.0	-0.1	-0.1	0.6
Indonesia	1.0	0.9	-9.3	-13.1	0.1	-21.8	-4.8	-11.1	-16.2	-8.4	0.6	0.7	-8.2
India	0.7	-7.1	-2.0	-16.1	0.2	-17.0	-4.5	-12.1	-7.4	-4.3	0.5	0.6	-3.3
Kenya	-0.1	0.2	0.1	0.2	0.0	2.1	0.6	1.1	0.4	0.2	0.1	0.0	0.1
Lao PDR	-0.1	0.2	0.1	0.2	0.0	2.1	0.5	1.0	0.3	0.1	0.0	0.0	0.2
Nigeria	-0.1	0.2	0.1	0.2	0.0	2.0	0.5	1.1	0.3	0.1	0.0	0.0	0.2
Nepal	0.1	0.5	0.3	0.3	0.3	2.3	0.8	1.3	0.7	0.4	0.2	0.1	0.3
GSP+													
Bolivia	-0.1	0.2	0.1	0.2	0.0	2.1	0.6	1.1	0.4	0.2	0.1	0.1	0.1
Kyrgyzstan	-0.1	0.2	0.1	0.2	0.0	2.0	0.5	1.1	0.3	0.1	0.0	0.0	0.1
Mongolia			0.1	0.2	0.0	2.1	0.5	1.1		0.1	0.0	0.1	0.1
Pakistan	-0.1	0.2	0.1	0.2	0.0	2.0	0.5	1.0	0.3	0.1	0.0	0.0	0.5
Philippines	-0.1	0.2	0.1	0.2	0.0	2.1	0.6	1.1	0.4	0.2	0.0	0.0	0.1
Tajikistan		0.2	0.1	0.2	0.0	2.0	0.5	1.0	0.3	0.1	0.0	0.0	0.2
EBA													
Other LDC	-0.1	0.2	0.1	0.2	0.0	2.1	0.6	1.1	0.4	0.1	0.0	0.0	0.2
Others													
Armenia	-0.1	0.2	0.1	0.2	0.0	2.0	0.5	1.0	0.4	0.1	0.0	0.0	0.1
China	-0.1	0.2	0.1	0.2	0.0	2.0	0.5	1.1	0.3	0.1	0.0	0.0	0.3
Sri Lanka	-0.1	0.3	0.1	0.2	0.1	2.0	0.5	1.1	0.4	0.2	0.0	0.0	0.4
Turkey	-0.2	0.0	0.0	0.1	0.0	1.6	0.2	0.7	0.1	-0.1	-0.1	-0.1	0.1
UK	0.0	0.1	0.0	0.1	0.0	1.3	0.3	0.8	0.2	0.1	0.0	0.0	0.1
Vietnam	-0.1	0.3	0.1	0.2	0.0	2.0	0.5	1.1	0.3	0.1	0.0	0.0	0.7
Sub-S Africa	0.0	0.3	0.1	0.2	0.0	2.1	0.6	1.1	0.4	0.2	0.1	0.1	0.1
Other GSP	0.0	0.2	0.1	0.2	0.0	2.1	0.6	1.1	0.4	0.2	0.0	0.0	0.1
Rest of world	0.0	0.2	0.1	0.2	0.0	2.1	0.6	1.1	0.3	0.1	0.0	0.0	0.1
Total	0.0	0.0	0.0	-0.1	0.0	-0.3	0.0	-0.2	0.0	0.0	0.0	0.1	0.0

Source: European Commission Modelling Results.

Table 15: Scenario 2d - Changes in total exports, by sector (2029, in % compared to baseline)

Exporter	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.2	-0.1	-0.1	0.0	-0.1	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Standard GSP													
Bangladesh	-0.3	-0.3	-0.4	0.1	-0.2	0.7	0.2	0.3	-0.1	-0.2	-0.1	-0.1	0.1
Indonesia	0.9	0.4	-0.7	-1.3	0.1	-9.2	-0.2	-1.3	-2.0	-0.1	0.5	0.6	-0.5
India	0.5	-0.3	0.4	-2.6	0.2	-9.9	-0.6	-5.0	-1.0	-0.5	0.5	0.5	-0.4
Kenya	0.0	-0.1	0.0	0.1	0.0	0.6	0.0	0.1	-0.1	0.0	0.0	0.0	0.0
Lao PDR	-0.1	-0.1	0.0	0.0	0.0	0.3	0.1	0.5	0.0	0.0	0.0	0.0	0.0
Nigeria	-0.2	0.0	0.0	0.1	0.0	1.6	0.1	0.3	0.1	0.0	0.0	0.0	0.0
Nepal	0.0	-0.5	-0.4	-0.2	0.1	-0.6	-0.2	0.5	-0.2	-0.1	0.1	0.1	0.0
GSP+													
Bolivia	-0.2	-0.1	0.0	0.0	0.0	0.9	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Kyrgyzstan	-0.1	-0.1	0.0	0.0	0.0	0.4	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Mongolia		-0.1	0.1	0.0	0.0	0.6	0.2	0.4		0.0	0.0	0.0	0.0
Pakistan	-0.2	-0.1	-0.1	0.0	0.0	0.7	0.1	0.5	0.0	0.0	0.0	0.0	0.1
Philippines	-0.1	-0.1	0.0	0.0	0.0	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Tajikistan	-0.2	-0.1	0.0	-0.1	0.0	0.9	0.3	0.8	0.0	0.1	0.0	0.0	0.1
EBA													
Other LDC	-0.1	0.0	0.0	0.1	0.0	1.1	0.3	0.3	-0.1	0.0	0.0	0.0	0.0
Others													
Armenia	-0.2	0.0	0.0	0.0	0.0	0.9	0.2	0.6	0.0	0.0	0.0	0.0	0.0
China	-0.2	-0.1	-0.1	0.0	0.0	0.5	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Sri Lanka	-0.2	-0.1	0.0	-0.1	0.0	1.0	0.2	0.4	0.1	0.0	0.0	0.0	0.1
Turkey	-0.3	-0.2	-0.1	0.0	-0.1	0.5	0.0	0.5	-0.1	-0.1	-0.1	-0.1	-0.1
UK	0.0	0.0	0.0	0.1	0.0	0.8	0.1	0.4	0.1	0.0	0.0	0.0	0.0
Vietnam	-0.3	-0.1	0.0	0.0	0.0	1.1	0.0	0.3	0.0	-0.1	0.0	-0.1	0.1
Sub-S Africa	-0.1	0.0	-0.1	0.1	0.0	0.7	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other GSP	-0.1	0.1	0.0	0.0	0.0	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Rest of world	-0.1	0.0	0.0	0.1	0.0	1.0	0.1	0.7	0.1	0.0	0.0	0.0	0.0
Total	0.1	0.0	0.0	-0.1	0.0	-0.3	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

Table 16: Scenario 2d - Changes in real value added, by sector (2029, in % compared to baseline)

Region	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.1	0.0	0.0	0.1	0.0	0.6	0.1	0.4	0.1	0.0	0.0	0.0	0.0
Standard GSP													
Bangladesh	0.0	-0.1	0.0	0.0	0.0	0.5	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Indonesia	0.1	0.4	0.0	-0.1	0.0	-3.9	0.0	-0.8	-0.4	0.1	0.0	0.0	0.0
India	0.0	0.0	-0.1	-0.3	0.0	-3.3	-0.3	-2.0	-0.2	0.0	0.0	0.0	0.0
Kenya	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lao PDR	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Nigeria	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nepal	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.2	-0.1	0.0	0.0	0.0	0.0
GSP+													
Bolivia	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kyrgyzstan	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.2	0.1	0.0	0.0	0.0	0.0
Mongolia	0.0	-0.1	0.0	0.0	0.0	0.5	0.1	0.1		0.0	0.0	0.0	0.0
Pakistan	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Philippines	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Tajikistan	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.7	0.0	0.0	0.0	0.0	0.0
EBA													
Other LDC	0.0	0.0	0.0	0.0	0.0	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Others													
Armenia	0.0	0.0	0.0	0.0	0.0	0.4	0.1	0.3	0.0	0.0	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Sri Lanka	0.0	-0.1	0.0	0.0	0.0	0.1	0.1	0.2	0.0	-0.1	0.0	0.0	0.0
Turkey	-0.1	0.0	0.0	0.0	0.0	0.4	0.1	0.2	0.1	0.0	0.0	0.0	0.0
UK	-0.2	0.1	0.0	0.1	0.0	1.0	0.2	0.6	0.1	0.0	0.0	0.0	0.0
Vietnam	0.0	-0.1	0.0	0.0	0.0	1.0	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Sub-S Africa	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other GSP	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Rest of world	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

2.2.5.2 Analysis of Social Impacts

Social impacts on the two affected countries in this scenario are very similar to the other scenarios. Employment effects are relatively the strongest 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%. Some limited job creation (increase by 0.5%) is predicted in plant oil due to the relative increase in competitiveness (Tables B2-4.5 and B2-4.6 in Annex B2-4). Wages of skilled workers are likely to decrease by 0.2% and those of low-skilled ones by 0.1%; overall welfare is also estimated to decrease by 0.1% (Table B2-4.4 in Annex B2-4). The leather sector in Indonesia, which is hardest hit, contributes less than 0.3% to national GDP,⁴⁹ with an estimated number of workers around 35,000 (Ministry of Trade, Indonesia 2018).

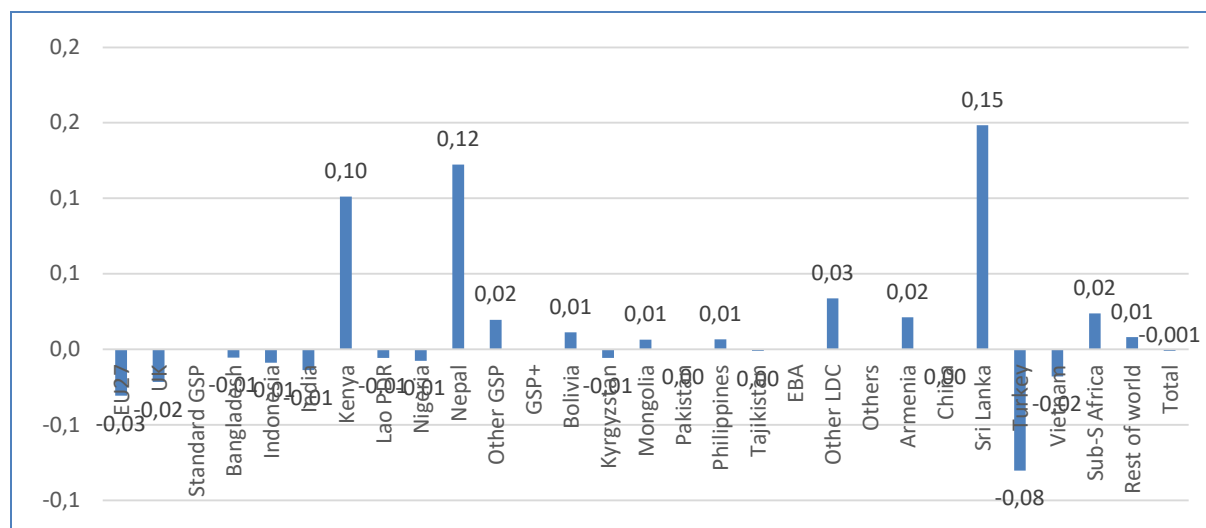
In **India**, employment in leather falls by 3.3% and in apparel by 2.0% (Tables B2-4.5 and B2-4.6 in Annex B2-4). Wages of skilled and low-skilled workers are likely to decrease by 0.1% and overall welfare is also expected to fall by 0.1% (Table B2-4.4 in Annex B2-4). As the leather sector in India provides jobs to 4.4 million people, 30% of which are women,⁵⁰ this could mean a significant number of jobs lost, including for women (also see case study 3, **Annex C-3**).

Social effects in other countries, including the Standard GSP countries which would not be affected by the expiry of preferences in this scenario, are limited, along the lines described for scenario 2c above (for details, see Tables B2-4.4 to B2-4.6 in Annex B2-4).

2.2.5.3 Analysis of Environmental Impacts

The impact of this scenario on global CO₂ emissions is negligible (Figure 7); given the more limited trade and economic effects compared e.g., to scenario 2c, environmental effects globally are also (even) more limited.

Figure 7: Scenario 2d - Changes in CO₂ emissions, by country/region (2029, in % compared to baseline)



Source: European Commission Modelling Results.

⁴⁹ Statistics Indonesia, Quarterly Distribution of GDP at Current Market Prices By Industrial Origin (Percent), 2014-2020, <https://www.bps.go.id/dynamictable/2015/05/06/828/-seri-2010-distribusi-pdb-triwulanan-atas-dasar-harga-berlaku-menurut-lapangan-usaha-persen-2014-2020.html> [accessed 07 July 2020]

⁵⁰ Council for Leather Exports, Indian leather industry, overview, export performance and prospects: <https://leatherindia.org/indian-leather-industry/>

From a sectoral perspective, as in the other scenarios effects on CO₂ emissions in the two countries affected by the ending of GSP preferences are expected to be the highest in the leather sector, with further significant effects in the apparel industry (see Table B2-5.3 in Annex B2-5). The estimated changes in emissions are a direct result of the expected changes in production caused by the removal from the GSP. Reduced production in leather and apparel positively impacts environmental challenges such as water pollution; reduced production in chemicals meanwhile reduces hazardous waste and Persistent organic pollutant (POP) emissions.

In **India**, rice is one of the sectors that could potentially expand in this scenario, because its competitiveness compared to the sectors losing the GSP preference would increase. This, however, would likely lead to increased water stress. The country already ranks as one of the most water-stressed countries in the world: 13th out of 164 countries ranked.⁵¹ Rice has a very high water consumption, several times higher than other crops grown in India, such as wheat. Such further growth in production and export could increase the sector's water use. India's overall rice yields are still well below the world average, and experts suggest that there is further room for increasing rice productivity by expanding irrigation facilities and improving the adoption of newer varieties and technology.⁵² Whereas India is the EU's fourth most important source of rice imports⁵³, the EU's leading expertise in many of such greener production technologies could help India to improve rice yields and ensure that rising production does not mean increased water stress. This, however, is an issue independent of the GSP.

2.2.5.4 Analysis of Impacts on Human Rights

We have compared the two sets of impact results for India and Indonesia across the three scenarios, under all of which these two economies move from Standard GSP to MFN trade with the EU. We already found when analysing the previous scenario that there was no change in scenario 2c compared to 2b for India and Indonesia. When looking at the effects for scenario 2d, we again find there is no significant change for these two countries. The effect of discontinuing Standard GSP for India and Indonesia only are not substantially different from scenario 2c also for third countries other than the GSP+ beneficiary countries.

2.2.6 *Preliminary conclusions and recommendations*

From an **economic** point of view, the three policy scenarios analysed under this task generate small negative economic efficiency and welfare effects for the EU27, although there are relatively strong terms of trade effects that dominate the outcomes for these economies, resulting in positive figures for GDP value. For GSP beneficiaries whose status changes under the policy options there are relatively strong distributional impacts, driven by trade diversion effects. Most of the trade diversion benefits do not flow to EU producers but to other developing countries producing similar quality goods as those countries losing their GSP status. The rest of the world, including the major industrialised countries and China also capture some of the trade diversion gains from GSP beneficiaries exiting the scheme.

Generally, the macroeconomic effects are strongest in Scenario 2b, and are more muted in Scenarios 2c and 2d. Figure 8 provides a perspective on the impacts on the various

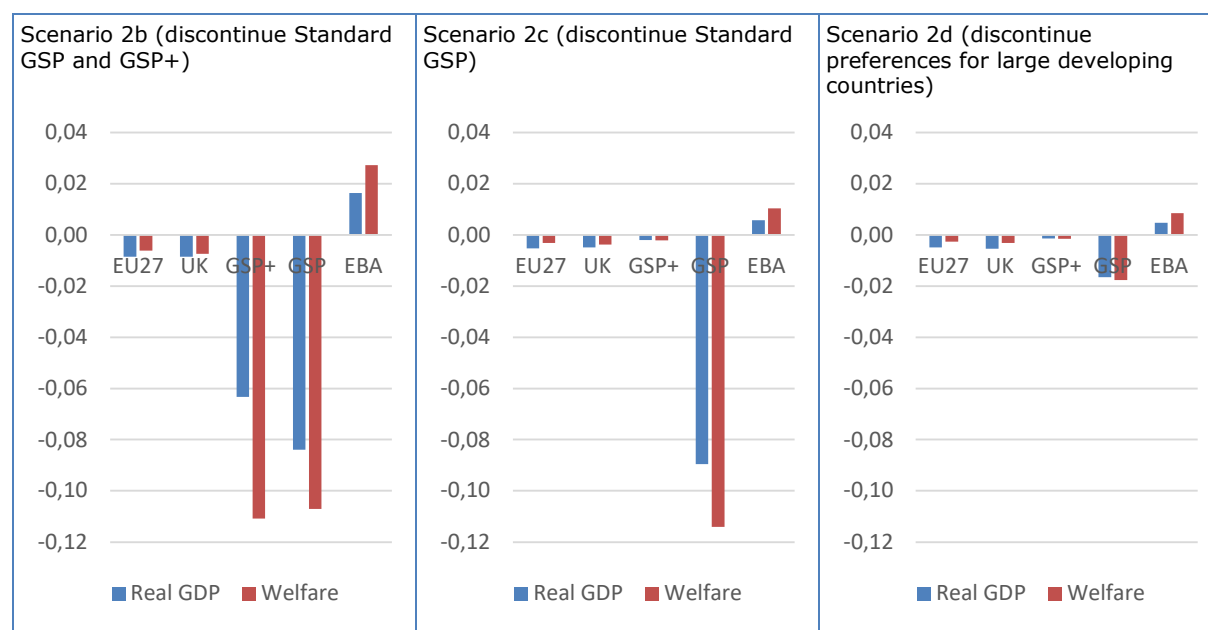
⁵¹ WRI, National water stress rankings, Available at <https://www.wri.org/blog/2019/08/17-countries-home-one-quarter-world-population-face-extremely-high-water-stress>

⁵² https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Grain%20and%20Feed%20Annual_New%20Delhi_India_3-29-2019.pdf

⁵³ https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/plants_and_plant_products/presentations/rice-market-situation.pdf

country groups under the three scenarios. We use the OLDC group as a proxy for the average impact on the EBA countries.⁵⁴

Figure 8: Macro impacts of changes to the GSP arrangements (in % compared to baseline)



Source: European Commission Modelling Results.

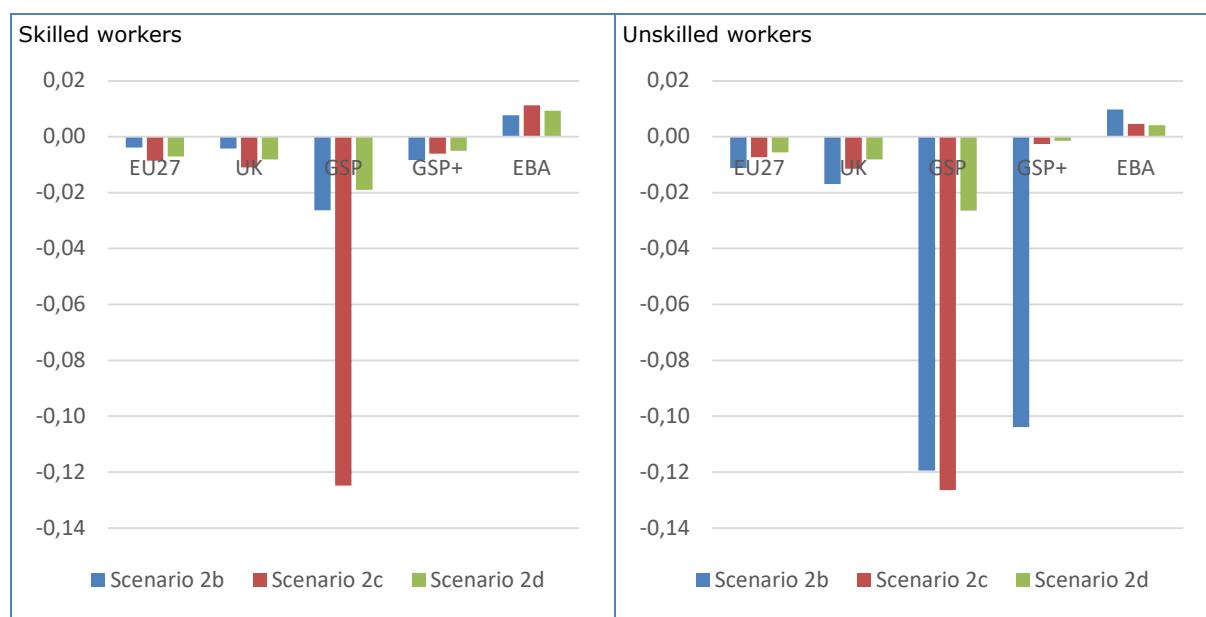
Price effects dominate quantity effects. In Scenario 2b, the GDP value impacts range from +0.1% for Turkey to -1% for Bangladesh and -1.3% for Pakistan. In Scenario 2c, Bangladesh has a GDP value impact as large as -1.1%.

Finally, the strength of the impact on individual economies within the country groups varies widely. For example, the **welfare** impact in Scenario 2b for non-GSP countries ranges over an order of magnitude from 0.005% for Armenia to 0.05% for Vietnam. The OLDC average, which mainly reflects the experience of EBA economies is in the middle of this range but the variance across individual economies might be similarly large. For the Standard GSP/GSP+ countries that are individually represented, the comparable range is similarly large from -0.01% to -0.46%. It cannot be excluded that the Standard GSP/GSP+ economies that are part of aggregate regions would have a similarly wide range of experience.

The impact of the alternative scenarios on real **wages** of skilled and unskilled workers follows the pattern of impact on real GDP (Figure 9). The various scenarios for amending the scope of the GSP scheme increase trade protection within the EU and reduce the amount of trade with beneficiary countries. These negative efficiency effects translate into lower real wages for affected economies. The one group that benefits unambiguously from trade diversion towards it is the EBA group; this is because EBA countries would retain their preferences in all scenarios while a varying mix of other GSP beneficiaries drop out. Third parties who receive either MFN treatment from, or have free trade agreements with, the EU are also safeguarded and see rising real wages from trade gains attributable to trade diversion in their favour. In terms of scale, the only significant decline in real wages for skilled workers is in scenario 2c in the GSP countries. With regard to real wages of unskilled workers, relatively significant declines are registered for GSP countries both in scenario 2b and 2c for the GSP countries; and also under scenario 2b for GSP+ countries.

⁵⁴ As described in section 2.2.3.1.2 above, all other LDCs are part of the "SSA" region, which however also include a number of non-LDCs.

Figure 9: Impact of changes to the GSP arrangements on real wages of skilled and unskilled workers (in % compared to baseline)



Source: European Commission Modelling Results.

It should be noted, that the impacts considered in this task, resulting from the potential changes to the GSP arrangements and the coverage of beneficiary countries are additional to the impacts, analysed in task B.4 (section 2.4), of the expected graduation of a number of countries from LDC status and their subsequent exit from the EBA arrangement. Box 3 provides more information.

Across **sectors**, the impact of these policy scenarios varies considerably: they are strongest with regard to exports to the EU from GSP countries losing preferences, and more moderate, due to cross-sectoral adjustments, in terms of total exports, output and value added, as well as **employment effects**, which are largely in line with value added effects. The most impacted sectors are generally leather and footwear as well as garments. The highest impacts in relative terms on value added (and similarly, employment), across all scenarios, are in the leather (-22.6%) and apparel sectors (-38.6%) in Tajikistan under scenario 2b. Generally, however, the negative impacts on these sectors are strong for all countries losing preferences in any given scenario. What is more, job losses would affect in particular low-skilled vulnerable workers and (depending on the country) in a large part, women. In addition, the most affected sectors are also among the manufacturing sectors that have experienced the largest negative impacts of COVID-19. The strongest gains are expected in the same sectors, but will be relatively modest, at about 1% compared to the baseline. In other words, the ratio of the cost intensity to the benefit intensity is about 10 to 1, due to the dilution of benefits on a much larger number of countries globally, as well as cross-sectoral adjustments.

The concentration of negative effects on countries losing GSP preferences is further exacerbated in scenarios 2b and 2c for those countries that are expected to graduate from LDC status.⁵⁵ They would be "hit twice," first by losing EBA preferences when moving to Standard GSP or GSP+ (see task B.4, section 2.4), and then by losing GSP preferences (see Box 3).

The global **environmental impact** of any of these policy scenarios in terms of climate change is negligible, as effects across sectors and countries cancel each other out.

⁵⁵ This would include Angola, Bangladesh, Bhutan, Kiribati, Lao PDR, Myanmar, Nepal, Sao Tomé and Príncipe, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu.

However, the impact on other environmental issues in specific countries in sectors should not be overlooked, and in some cases could be significant. Again, however, effects go in both directions; positive impacts e.g., on water quality from lower output in leather and textiles sectors (e.g., in Bangladesh or India) need to be seen against negative impacts e.g., on water from increasing rice output in India.

Box 3: Impacts of policy scenarios regarding GSP arrangements and EBA graduation compared

In addition to the potential effects of the changes in GSP arrangements analysed in scenarios 2b to 2d, 12 LDC countries – Angola, Bangladesh, Bhutan, Kiribati, Lao PDR, Myanmar, Nepal, Sao Tomé & Príncipe, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu – are assumed to graduate from LDC status in the CGE model simulations, and accordingly from the EBA arrangement over the next ten years. The impacts of the latter change are analysed in task B.4 (see section 2.4). As in practice the two changes would occur cumulatively, it is interesting to also estimate what the combined effects would be. The table below does this on the basis of the economic modelling results, showing the impacts on real GDP and total exports of scenario 2b and EBA graduation (“scenario 4”) individually, the combined impact, and the ratio of the impact scale between scenario 2b and EBA graduation. LDC graduating countries, as well as the aggregated regions incorporating at least one graduating country, are shown in bold.

As can be seen, the magnitude of graduation from the EBA arrangement is considerably higher for the affected countries, by a ratio of up to 7:1, than the effect of losing Standard GSP preferences. It also becomes clear that Bangladesh is singularly affected by LDC graduation, and the impact of the combined shock of losing EBA preferences due to graduation from LDC status, and then losing Standard GSP preferences due to the assumed discontinuation of the arrangement in scenario 2b would amount to a loss in real GDP of 2.0% (compared to a no-change baseline) – more than ten times the effect compared to any other graduating EBA country.

Region	Real GDP				Total exports (nominal)			
	Scenario 2b	Scenario 4	2b + 4 combined	Ratio 4 vs 2b	Scenario 2b	Scenario 4	2b + 4 combined	Ratio 4 vs 2b
EU27	-0.01	0.00	-0.01	0.2	-0.12	-0.06	-0.18	0.5
Standard GSP								
Bangladesh	-0.32	-1.66	-1.97	5.2	-1.63	-8.52	-10.01	5.2
Indonesia	-0.08	0.00	-0.08	0.0	-0.48	0.00	-0.48	0.0
India	-0.07	0.00	-0.07	0.0	-0.39	0.00	-0.39	0.0
Kenya	-0.06	0.00	-0.06	0.0	-0.30	0.00	-0.30	0.0
Lao PDR	-0.01	-0.09	-0.11	7.2	-0.13	-0.72	-0.85	5.7
Nigeria	-0.02	0.00	-0.02	0.0	-0.17	0.00	-0.17	0.0
Nepal	-0.02	-0.10	-0.13	4.7	-0.34	-1.14	-1.48	3.3
GSP+								
Bolivia	-0.01	0.00	-0.01	0.1	-0.13	0.00	-0.13	0.0
Kyrgyzstan	0.03	0.00	0.02	-0.1	-0.42	0.01	-0.41	0.0
Mongolia	-0.06	0.00	-0.06	0.0	-0.14	0.00	-0.13	0.0
Pakistan	-0.30	0.00	-0.31	0.0	-3.81	-0.02	-3.83	0.0
Philippines	-0.05	0.00	-0.05	0.0	-0.37	0.00	-0.36	0.0
Tajikistan	0.02	0.00	0.02	-0.2	-1.05	0.07	-0.99	-0.1
EBA								
Other LDC	0.02	0.00	0.02	0.2	0.08	0.02	0.10	0.3
Others								
Armenia	0.00	0.00	0.01	0.4	0.02	0.01	0.03	0.5
China	0.00	0.00	0.01	0.3	0.03	0.00	0.03	0.1
Sri Lanka	0.01	0.00	0.02	0.3	0.19	0.07	0.26	0.4
Turkey	0.00	0.01	0.02	2.9	-0.10	0.01	-0.10	-0.1
UK	-0.01	0.00	-0.01	0.1	-0.05	-0.03	-0.08	0.6
Vietnam	0.03	0.01	0.04	0.2	0.16	0.04	0.20	0.3
Sub-S Africa	0.00	-0.03	-0.03	9.5	-0.02	-0.09	-0.11	5.6
Other GSP	-0.01	-0.02	-0.03	1.4	-0.04	-0.06	-0.11	1.4
Rest of world	0.00	0.00	0.00	0.2	0.02	0.01	0.03	0.3

Source: Authors' calculations based on European Commission modelling results.

Given the concentrated negative economic and social effects of the GSP discontinuation contemplated in scenarios 2b and 2c, negative **human rights** effects are expected at least in the most affected countries. For scenario 2b, this concerns Pakistan among the GSP+ beneficiaries and Bangladesh among the Standard GSP beneficiaries (with the added effect of losing EBA status due to graduation from LDC status). In both countries, negative consequences for the right to work and right to an adequate standard of living are predicted, especially given the large size of the informal economies and weak labour protection. For other GSP countries losing preferences, the effects on these rights are similar in nature but to more limited and mostly concentrated in the textiles, wearing & apparel and leather industries.

Gender equality is expected to be negatively affected in countries losing preferential status because of two main reasons. First, women are generally more vulnerable to changes

because they tend to work more in the informal sectors where labour protections are weak, and jobs are characterised by poor labour conditions with low pay. Second, the sectors that are impacted most are those sectors where women have high relative shares of employment, especially in textiles and wearing & apparel.

Regarding other human rights, the following can be noted:

- The impact on *the right to health* in the affected countries depends on three factors. First, the existing quality, coverage, and capacity of the healthcare system – the stronger the coverage, the lower the potential effects on the right to health and access to healthcare. Second, the impact of changes in tariff revenue affects the government budget, which in turn could impact the government's ability to provide public services, like healthcare. With the possible exceptions of Pakistan and Bangladesh (and to a lesser extent India and Indonesia), however, we find this effect to be very small if not negligible. Third, access to healthcare is closely correlated to out-of-pocket expenses. The higher the share of out-of-pocket expenses, the more access to healthcare is negatively affected when the right to work and right to an adequate standard of living are impacted negatively, as patients with low income no longer have resources to pay for access. This is found to be the most important factor of the three.
- The *right to education* is expected to be impacted to a limited extent – with a few exceptions – related to the state of education in rural areas, access for girls to education, and costs associated. While in most GSP+ and Standard GSP countries, education is free, non-fee expenses can still be costly and reduce access to education.
- The *right to social security* is not expected to be impacted strongly, but there are factors that increase pressure on the system. First, as for the right to health, losses in tariff revenues could hamper the government's ability to provide for public services and affect budget necessary for social security benefits (see above). Second, unemployment benefit schemes (that fall under social security) are put under pressure when unemployment levels go up and claims to the system increase. This is an issue only if the system provides adequate coverage (thus helping citizens cope better with unemployment), which is often not the case.
- The *right to a clean environment* is only marginally impacted.

Stakeholders have divided views about the preferred scenario. Some, notably representatives of EU sectors competing with imports from GSP countries (such as the footwear sector), are in favour of a reduced number of GSP beneficiaries, given the impacts of imported footwear products on the EU industry. They argue that these imports have contributed to job losses – which, as discussed above, is not supported by the impact analysis that shows the effects of any scenario on any EU sector imports to be relatively limited (not exceeding import reductions of 1.1% for any sector, in any scenario). Other consulted stakeholders, e.g., international trade unions and NGOs see a clear benefit of maintaining the GSP+ arrangement in the scheme as an incentive to promote sustainable development and respect for human rights, labour and environmental standards and good governance (written position). Stakeholders from GSP countries expectedly favour the *status quo*. For example, representatives of the Indian leather sector are against removing the country from the GSP scheme arguing that graduation should remain to be based on the per capita income criterion (written position). In their view, furthermore, withdrawal of preferences shortly after the country was hit by COVID-19 would reverse positive economic, social and environmental effects achieved thanks to the GSP, such as poverty reduction.

Responses to the online public consultation show a majority of 57% of respondents for maintaining the current three-tiered structure of the GSP, while 25% think it needs to be changed; and 18% have no view on this (Annex B1).

Preliminary conclusions and recommendations: The purpose of the policy options under Task B.2 is to provide more focussed support to developing countries most in need.

The conclusions drawn from the economic impact assessment (and the consequential non-economic impacts) show that this objective is unlikely to be attained by the policy options described in scenarios 2b to 2d: although exports, as well as GDP, welfare and other economic indicators of countries which cease to benefit from preferences under the various policy options decline, it will not be the LDCs that benefit most. Benefits will be relatively evenly distributed across all countries not affected by a given policy option, not least the EU, UK and Turkey (as well as some non-GSP countries like Vietnam). **There is therefore no compelling reason to change the existing GSP scheme** from the point of view of this objective: the costs of the changes arising from scenarios 2b to 2d will be concentrated on a few countries and sectors, while the benefits will be diluted and not targeted on the intended beneficiaries (i.e., the countries most in need). In addition, the negative effects from the preference removal under scenarios 2b and 2c on those countries that are expected to graduate from LDC status and hence EBA add to the negative impact which they will experience in response to EBA graduation (see task B.4, section 2.4).

The purpose of focussing (more) on the countries most in need for support in their economic development and diversification of exports is already built into the GSP scheme through the graduation of upper-middle income countries and globally competitive sectors (also see task B.3, section 2.3).

2.3 Options regarding GSP product coverage and product graduation (Task B.3)

2.3.1 Introduction

2.3.1.1 Purpose and Options

While EBA beneficiaries benefit from duty-free access to the EU for all their exported products except arms and ammunition, the range of products benefitting from preferential access for Standard GSP and GSP+ countries is more limited. While the MTE study found a limited impact of the GSP on export diversification for all three country groups (Standard GSP, GSP+ and EBA), it may be noted that successful export diversification depends on a range of factors, and limitations in the GSP product scope might play a role. In line with this, the 2019 EP Resolution on the implementation of the GSP Regulation⁵⁶ called on the Commission to consider expanding GSP product coverage, in particular with regard to semi-finished and finished products.

Another issue bearing on the product coverage of the GSP is product graduation. In order to ensure that the GSP preferences accrue to those countries most in need, internationally competitive producers of certain products should cease to benefit from the preferences. In this regard, the GSP Regulation (Article 8) provides for the suspension of preferences for products, the exports of which from a GSP beneficiary exceed certain thresholds in total EU imports from all GSP beneficiaries. This mechanism currently applies only to the Standard GSP arrangement, but not to the GSP+ or EBA arrangements.

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

⁵⁶ European Parliament resolution of 14 March 2019 on the implementation of the GSP Regulation (EU) No 978/2012 (2018/2107(INI)), P8_TA(2019)0207, http://www.europarl.europa.eu/doceo/document/TA-8-2019-0207_EN.pdf

competitive.⁵⁷ Conversely, product graduation might take place although certain products within a section are far from reaching international competitiveness.

For the analysis of this research task, the following policy scenarios have been defined:

- **Baseline (scenario 3a):** the product coverage and product graduation mechanism of the existing GSP Regulation are maintained;
- **Scenario 3b:** the product coverage for Standard GSP and GSP+ is expanded to include a number of industrial and agricultural products, with a particular focus on goods that can help achieve environmental and climate protection goals;
- **Scenario 3c:** the product graduation mechanism under Article 8 of the GSP Regulation is expanded to all GSP+ and EBA beneficiaries at least for certain products. Two alternative sub-options are studied, covering a different product scope: under the first sub-option (scenario 3c1), it would apply only to rice and sugar; under the second sub-option (scenario 3c2) to all agricultural products currently covered in Annexes V and IX respectively.⁵⁸ Another assumption for this scenario is that product graduation would be calculated based on total EU imports from the world in the respective product sections, rather than imports from GSP beneficiaries as currently defined.

It is worth noting that, unlike the scenarios under Task B.2, the two policy change scenarios here (expansion of product coverage and expansion of products subject to graduation) are not mutually exclusive but could also be combined. They also follow different rationales and pursue different objectives: whereas scenario 3b would expand the product scope of the GSP in line with the overarching objective of facilitating export diversification in GSP beneficiary countries, scenario 3c would reduce the applied scope of the GSP and is primarily driven by the objective of focussing preferences on the beneficiaries most in need, while also addressing EU business sector concerns that GSP preferences can constitute an unfair competitive advantage if accorded to exporters that are actually already competitive.

An additional assumption for the analysis in task B.3 is that the list of GSP beneficiaries is not amended, i.e., the EBA, Standard GSP and GSP+ scenario continue to be applied (the baseline scenario under task B.2).

2.3.1.2 International legal background of GSP product coverage and graduation

This section provides a brief summary of the context for GSP product coverage and graduation provided by international trade law.

The term “graduation” has two different dimensions which are sometimes entangled. On the one hand, it relates to the loss of *rights* of developing countries (in which context one can speak of GSP graduation); on the other, it relates to an increase in their *obligations* (in other words, graduating from non-reciprocity to reciprocity). In Isaiah Frank’s words:

Just as special and differential treatment for LDGs has comprehended these two aspects, so should the concept of graduation be conceived as a dual principle. It should include not only the phasing *out* of more favorable treatments in the markets of developed countries but also the phasing *in* of LDC compliance with the generally prevailing rules of the international trading system based on a balance of rights and responsibilities.⁵⁹

⁵⁷ In this respect, the 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.”

⁵⁸ As the agricultural sector is in large parts, in particular for sugar and rice, not subject to Standard GSP and GSP+ preferences, graduation would disproportionately affect LDC.

⁵⁹ Frank (1979, 294). Frank also distinguished between ‘special’ and ‘differential’ treatment. ‘Special’ treatment, he said, is non-discriminatory, and ‘includes, for example, deeper-than-formula tariff cuts on products of

There is a policy linkage between the two. Frank proposed, for example, that a Committee on Graduation be established within the GATT, which would, among other things, sequence the removal of preferential market access *rights* with the assumption of export subsidy *obligations* so that a developing country would not suffer a double market access shock (Frank 1979, 301). But conceptually the two forms of graduation must remain distinct.

This is important for understanding the different parts of the Enabling Clause, and in particular paragraph 7, which is sometimes called a “graduation clause”. This paragraph states:

Less-developed contracting parties expect that their capacity to make contributions or negotiated concessions or take other mutually agreed action under the provisions and procedures of the General Agreement would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement.

Historically, this paragraph was a *quid pro quo* for the United States to agree to the Enabling Clause as a whole (Frank 1979, 298f). However, by its own terms, it is limited to the “contributions” and “negotiated concessions” that could be made developing countries. It is about their *obligations*, not their *rights*, and therefore this paragraph is conceptually distinct from graduation in the sense of losing rights to tariff preferences (Frank 1979, 298).

Thus, paragraph 7 of the Enabling Clause is not concerned with graduation from GSP preferences. But several others are. These are as follows:

- paragraph 2(d) permits a distinction between LDC and non-LDC developing countries. This implies that a beneficiary may “graduate” from one status to the other.
- paragraph 3(c) states that “[a]ny differential and more favourable treatment provided under this clause [...] shall in the case of such treatment accorded by developed contracting parties to developing countries be designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries” and paragraph 4 states that “[a]ny contracting party [...] subsequently taking action to introduce modification or withdrawal of the differential and more favourable treatment so provided shall [notify and consult with other affected parties].” These two paragraphs imply that developed countries should *remove* tariff preferences if they are *no longer* a positive response to the development, financial and trade needs of developing countries, provided that they notify and consult affected parties before doing so.⁶⁰

This raises the following general questions: how are the “development, financial and trade needs of developing countries” to be identified, and how can it be determined when tariff preferences are (or are no longer) a “positive response” to those needs?

In practice, developed countries have answered these questions by adopting two approaches. One has been to graduate *countries* from GSP beneficiary status, mainly when they reach a given per capita income (country graduation). The other has been to graduate particular *sectors* when these sectors reach a certain level of competitiveness (which serves as a proxy for not being evidence of any “development, financial and trade needs”).

Two further legal points need to be noted. In *EC – Tariff Preferences*, the Appellate Body confirmed that the concept of “development, financial and trade needs of developing countries” was not to be understood in the aggregate as referring to the “needs” of *all*

special interest to LDCs, or faster staging of concessions on such products.’ (ibid). Correspondingly, he said, there is no need to phase out special (as opposed to ‘differential’) treatment.

⁶⁰ Frank (1979, 298) explicitly stated that paragraph 3(c) was a GSP graduation clause.

developing countries. Rather, tariff preferences must be designed to respond to the *individual* “needs” of *each* developing country (this also sets the stage for positive conditionality, discussed below). Second, the Appellate Body confirmed that the Enabling Clause prohibited discrimination between developing countries with the *same* “needs”. That also applies to graduation practices.

2.3.2 Scenario 3a: No Change in Current Product Scope and Graduation

In this section, we consider the implications of maintaining the existing GSP rules regarding product coverage and product graduation. As noted, pursuant to the GSP Regulation (Article 8), this mechanism currently:

- applies only to the Standard GSP arrangement;
- is applied at the level of GSP product sections; and
- is based on thresholds calculated on the basis of total EU imports from all GSP beneficiaries.

Under the status quo, the present treatment of product sections would continue. Accordingly, the relevant question that we seek to answer here is whether there is evidence of product diversification in line with the stated objectives of the GSP within the current framing. This analysis is relevant for the considerations of whether there is a basis for narrowing the scope of preferences or whether the main direction of change should be to widen the scope of preferences.

To address this question, we review the performance of Standard GSP countries, which face the most restricted preference regime to see whether there is evidence of successful product diversification. We exclude conflict countries (e.g. Syria), as well as small island nations (Cook Islands, Micronesia, Nauru, Niue, Samoa, and Tonga), which by their very nature are not in a position to develop diversified manufacturing sectors given scale requirements for such manufacture. To the extent there is limited evidence of successful diversification, the case for broadening the scope of the preference regime would be strengthened – bearing in mind that simply broadening the preference regime might not be sufficient to enable greater progress on this objective.

We make the following observations based on the trends observed over the period 2010-2018:

Congo has three major commodity exports: mineral fuels, copper wire (HS 740311) and wood products (mainly wood in the rough and sawn lumber).

- The three top commodities accounted for on average about 97% of Congo’s exports to the EU, with no trend, despite some modest fluctuations over the period.
- Exports in HS chapters 84 to 96 increased from about 0.8% of total exports to the EU to 1.3% in 2015 (based on an unsustained sale of machine parts for drilling equipment in that year) but then declined again and finished the period smaller as a share of exports in 2018 (0.5%) than in 2010.

Given these trends, which show no expansion of non-traditional exports over time, there is no evidence of diversification of Congo’s economy driven by exports to the EU28.

Nigeria: Essentially 98% of Nigeria’s exports to the EU28 over the period consisted of mineral fuels and cocoa beans.

- Within the non-oil/non-cocoa margin, Nigeria did have some diversity of exports to the EU, although this margin was dominated by minimally processed or primary products, including most notably raw hides and skins, fish, oil seeds and some mineral products.

- Manufactures in HS chapters 84 to 96 fell from 0.31% of total exports and 9.3% of non-oil/non-cocoa exports to the EU in 2010 to 0.12% and 6.5% respectively in 2018, while also declining in absolute terms.

For Nigeria, again there is no evidence of diversification of the economy driven by exports to the EU28. Nigeria is of course a special case in terms of being a major fossil fuel exporter and thus must contend with strong comparative disadvantage for manufactures. Nonetheless, even within the small margin of non-commodity exports, Nigeria was not able to leverage GSP preferences to establish any meaningful diversification of its economy.

Tajikistan: A similar story emerges with Tajikistan. Its top three exports to the EU28 – unwrought aluminium/antimony, one tariff line of clothing (HS 620342 – men’s trousers), and cotton – accounted for 97% of EU imports at the beginning of the period and 88% at the end. Manufactures in the HS chapters 84-96 fell from a little over 1% of total exports to the EU to 0.64% over the period, while also declining in absolute terms.

Uzbekistan: Uzbekistan has an erratic pattern of exports to the EU; its top exports have fluctuated widely from year-to-year with cotton and a variety of metals dominating the top categories which in most years accounted for over 90% of its exports to the EU28. Similar to the other economies, manufactures above HS 84 are small, declining in absolute size; they accounted for only 0.27% of EU imports from Uzbekistan in 2018.

Vietnam is the poster child for recent economic development success by a developing country. It expanded and diversified its exports to the EU28 and to the world massively. The question that is relevant is the extent to which exports to the EU contributed disproportionately to these developments, thus establishing the basis for a claim that the EU’s GSP made a material contribution.

- The EU accounted for a relatively steady share of Vietnam’s worldwide exports over the period 2010; this share actually edged down from 21.5% in 2010 to 21.1% in 2018. Thus, overall, EU imports could not be said to have been a significant factor driving Vietnam’s overall export performance in this period.
- However, the EU increased its share of Vietnam’s worldwide exports in 37 HS 2-digit categories over this period. EU imports in these product groups comprised only about 16% of Vietnam’s worldwide exports in 2010; by 2018, this share had grown to 54.6% (Table 17). At the same time, these product groups raised their share of Vietnam’s worldwide exports from 35.8% to 52.3%.
- Similarly, the EU increased its share of Vietnam’s manufacturing exports over this period from 21.8% to 55.1%. The share of Vietnam’s exports of manufactured goods to the world in its total exports rose only from 22% to 49%. Accordingly, the EU contributed disproportionately to Vietnam’s manufacturing sector growth and thus to its diversification.

Vietnam’s exports to the EU in these growth categories were thus an important driver of the diversification of Vietnam’s overall trade. Some part of the credit for this is plausibly accorded to the GSP.

Table 17: EU Contribution to Vietnam’s Export Diversification

	EU Imports from Vietnam 2010	EU Imports from Vietnam 2018	Vietnam Exports to the World 2010	Vietnam Exports to the World 2018
Total	15,509,287	51,528,413	72,236,665	243,698,698
EU rising Share	2,525,143	28,142,336	25,878,661	127,476,038
Share	16.3%	54.6%	35.8%	52.3%
Manufacturing	3,375,666	28,394,198	15,914,449	119,508,782
Share	21.8%	55.1%	22.0%	49.0%

Source: International Trade Centre Trade Map; and calculations by the study team.

The picture is less compelling for Indonesia and India, however. For **Indonesia**, the sectors in which the EU expanded its share of Indonesia's worldwide exports were in aggregate declining sectors for the country (Table 18); and in manufacturing, the EU's share of Indonesia's worldwide exports slipped over the period in a context where the country was unable to expand its manufactured goods share of its worldwide exports.

Table 18: EU Contribution to Indonesia's Export Diversification

	EU Imports from Indonesia 2010	EU Imports from Indonesia 2018	Indonesia Exports to the World 2010	Indonesia Exports to the World 2018
Total	20,857,164	22,444,480	157,779,103	180,215,036
EU rising Share	5,208,523	6,421,352	43,830,422	39,655,640
Share	25.0%	28.6%	27.8%	22.0%
Manufacturing	4,841,166	4,903,744	23,182,187	26,496,999
Share	23.2%	21.8%	14.7%	14.7%

Source: International Trade Centre Trade Map; and calculations by the study team

For **India** (Table 19), there is a similar picture as for Indonesia: the sectors in which the EU expanded its share of India's worldwide exports were in aggregate declining sectors for India; and in manufacturing, the EU's share of India's worldwide exports slipped (although in this case, the country did manage to expand its manufactured goods share of its total goods exports to the world).

Table 19: EU Contribution to India's Export Diversification

	EU Imports from India 2010	EU Imports from India 2018	India Exports to the World 2010	India Exports to the World 2018
Total	48,616,405	58,741,204	220,408,496	323,997,680
EU rising Share	5,391,162	11,350,014	48,046,130	47,487,430
Share	11.1%	19.3%	21.8%	14.7%
Manufacturing	10,205,107	11,907,711	34,654,086	62,827,592
Share	21.0%	20.3%	15.7%	19.4%

Source: International Trade Centre Trade Map; and calculations by the study team.

Preliminary conclusions and recommendations: The above evidence does not provide a firm basis for conclusions regarding the extent to which the Standard GSP has contributed to the diversification of the economies operating under this arrangement. Given the myriad factors that combine to drive – or to constrain – diversification, it cannot however be excluded that the Standard GSP does indeed make some contribution. By the same token, this supports the case for broadening the Standard GSP in terms of product coverage to strengthen the impetus that exporting to the EU under this arrangement provides for industrial development and diversification, rather than narrowing the scope of the scheme by tightening the rules for product graduation.

2.3.3 Scenario 3b: Expansion in GSP Product Coverage

Given the dual objectives of promoting environmental goods and export diversification of developing countries, this section considers changes to the Standard GSP and GSP+ arrangements to promote these goals. First, it considers removing tariffs on a range of goods that have been determined by various processes to have positive environmental impacts and for which the EU has non-zero MFN and GSP tariffs. Second, in light of the inconsistent progress to date on export diversification for most GSP beneficiaries revealed in the analysis of the status quo policy on product coverage and graduation, this section considers how the EU might approach the expansion of the product coverage of the arrangements to additional industrial and agricultural products.

In the public consultations for this study, respondents generally supported the extension of product coverage under the GSP scheme, including to sustainably produced goods. They believed this would contribute to further poverty alleviation in the beneficiary countries, job creation and better respect for human and labour rights, environmental standards, the fight against climate change, more diversified and stable economy, export diversification

and the overall sustainable development, i.e. GSP scheme objectives. 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, incl. the Green Deal. Some raised, however, questions around the practical application of such an extension, e.g. how such goods would be defined (to ensure that only goods meeting the requirements enjoy preferential treatment), how they would correspond to HS codes, how would sustainability in production methods be traced along the supply chains (if such goods are considered for preferential treatment), etc. Most respondents were of the view that extension of product coverage will not put the EU producers or EU market at risk. Some, however, suggested a thorough analysis before any changes in product coverage are made.

2.3.3.1 Environmental Goods

2.3.3.1.1 Economic Analysis

It has long been recognized that trade is an important channel for the diffusion of climate mitigation goods. Lowering trade barriers encourages the use of climate-friendly products, improves access to the technologies that help protect the environment, lowers the costs of environmental protection, and spurs innovation in green technologies. Thus, negotiations have been underway for some time under WTO auspices towards an environmental goods agreement (EGA), which would make environmental goods tariff-free once the agreement is reached with a critical mass of WTO members participating (Goff, 2015).

While the exact scope of environmental goods remains under discussion internationally, a list of environmental goods (defined mostly at the HS 8-digit level) - of which 34 are presently considered as sensitive goods under the GSP and therefore are subjected to positive preferential tariffs for Standard GSP countries – has been considered.

Reclassifying these goods as “non-sensitive” and eliminating the GSP tariff would be an early contribution by the EU towards improving environmental outcomes while providing incentives to GSP beneficiaries to capitalize on the improved market access to diversify their industrial structure. Table 20 summarises, by HS chapter, EU trade with GSP beneficiaries in these products and shows the implied trade gains for these economies from elimination of the GSP tariff as well as the implications for EU industry.

These products attract a GSP tariff of approximately 2.33% based on the average product composition of EU imports from Standard GSP and GSP+ beneficiaries over the period 2017-2019. Imports from Standard GSP and GSP+ beneficiaries account for about 2.68% of EU27 imports from the world. These are products in which the EU27 generally has a strong comparative advantage as evidenced by the fact that intra-EU27 imports account for 61% of total imports in the EU27 (from within the EU27 and from outside the EU27).

Table 20: Environmental Goods Inclusion in the GSP and GSP+ Arrangements

HS Code	Title	GSP Imports	ROW Imports	Intra-EU Trade	GSP Tariff	Substit. Elasticity	GSP Import Gain	EU Output
28	Inorganic Chemicals	2,212	128,348	197,461	2.00%	5.6	99	-0.013%
29	Organic Chemicals	3,099	6,009	52,188	3.00%	3.8	149	-0.098%
35	Albuminoidal Substances	12,332	425,030	1,372,854	2.20%	3.8	442	-0.010%
39	Plastics	202,313	3,982,623	11,977,549	3.00%	3.8	10,088	-0.024%
56	Wadding	529	138,159	328,629	3.40%	4.4	34	-0.003%
69	Ceramic Products	25,511	640,319	593,469	1.50%	5.6	837	-0.031%
70	Glass Products	9,178	496,230	954,330	2.80%	5.6	584	-0.018%
74	Copper Products	179	45,668	101,689	1.70%	5.6	7	-0.002%
76	Aluminium Prods.	51,518	1,611,315	3,581,327	2.50%	5.6	2,888	-0.013%
87	Vehicles & Access.	40,680	484,343	182,025	1.20%	5.6	1,019	-0.079%
90	Optical and Other Devices	4,775	1,299,872	285,766	1.20%	5.6	126	-0.004%
94	Furniture and Furnishings	66,099	5,929,360	4,945,356	1.20%	5.6	1,745	-0.008%
	Total	418,424	15,187,276	24,572,643	2.33%	4.66	18,018	-0.019%

Note: The trade figures presented in the table overestimate actual trade in environmental goods as many of these goods are "dual-use" and not distinguished at the tariff line level.

Source: International Trade Centre Trade Map data; COMPAS simulations by the study team. Trade flow data in EUR thousands. Substitution elasticities are drawn from the GTAP data base. The partial equilibrium model chosen was the 3-region COMPAS preferential tariff model developed by Francois and Hall (2007).

Given the fairly minor import market share that Standard GSP and GSP+ imports have in these 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 is by the same token also very minor: 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%.

From the perspective of encouraging trade and industrial diversification within the beneficiary groups, it is important to consider which beneficiaries would be best positioned to capture the additional export the modelling suggests would be generated by tariff elimination on environmental goods. We consider next the top five environmental goods imported by EU27 from the Standard GSP and GSP+ countries in Table 23 below.

There are several observations relevant to the question of how powerful a push an improvement in the treatment of environmental goods in the GSP scheme would provide to diversification of the beneficiaries' trade and industrial development.

- The top five GSP exporters account for virtually all of the GSP exports of the top environmental goods to the EU27.
- The top 2 or 3 GSP exporters capture the lion's share of these exporters' gains: in the Standard GSP case, these are India, Indonesia and Bangladesh; in the GSP+ case, these are Pakistan and the Philippines.
- A handful of other beneficiaries in each arrangement account for a marginal share of the exports.

In all likelihood, the benefits stemming from the improvement of treatment of environmental goods would thus flow to the largest and most diversified economies within the two arrangements. 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.

2.3.3.1.2 Social, Human Rights and Environmental Analysis

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. Accordingly, there would no material impact on **human rights**. **Environmental** objectives should be advanced by the improved treatment of environmental goods within the EU and also in the GSP countries capturing additional market share, which may encourage investment and expansion not only for the EU market to serve local needs.

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, albeit 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.

Table 21: Top 5 EU27 environmental goods imports from Standard GSP and GSP + Markets

HS6	Rank	Import value (1000 EUR) GSP Countries	Import value (1000 EUR) EU27 Worldwide	GSP Country Share of EU27 Imports	Top 5 GSP Share of EU27 GSP Imports	Rank 1 GSP Exporter	Import value (1000 EUR)	Rank 2 GSP Exporter	Import value (1000 EUR)	Rank 3 GSP Exporter	Import value (1000 EUR)	Rank 4 GS Exporter	Import value (1000 EUR)	Rank 5 GSP Exporter	Import value (1000 EUR)
Standard GSP															
392062	1	121,764	1,741,751	6.99%	6.99%	IND	120,424	IDN	1,320	AGO	16	BGD	1	TLS	TLS
761699	2	48,473	5,085,701	0.95%	0.95%	IND	47,522	IDN	901	BGD	27	KEN	6	STP	STP
871493	3	28,170	366,345	7.69%	7.69%	IDN	23,910	IND	4,259	BGD	1	AGO	-	STP	STP
690919	5	25,189	1,259,342	2.00%	2.00%	IDN	23,183	IND	2,004	BGD	1	NGA	1	AGO	AGO
392010	4	13,772	5,445,772	0.25%	0.25%	IND	7,835	IDN	5,883	BGD	49	NGA	3	KEN	KEN
GSP +															
940540	2	7,586	5,377,895	0.14%	0.14%	PHL	6,896	PAK	674	CPV	8	TJK	4	UZB	2
392062	1	4,548	1,741,751	0.26%	0.26%	PAK	3,474	PHL	1,065	MNG	9	TJK	1	BOL	-
871496	3	4,101	340,751	1.20%	1.20%	PHL	4,097	PAK	3	BOL	-	KGB	-	UZB	-
761699	4	2,853	5,085,701	0.06%	0.06%	PHL	2,512	PAK	332	CPV	4	BOL	3	UZB	1
392190	5	818	5,022,729	0.02%	0.02%	PHL	716	PAK	97	BOL	5	TJK	-	UZB	-

Source: Source ITC Trademap, calculations by the Study Team. Standard GSP countries making the top 5 in environmental goods products: Angola (AGO), Bangladesh (BGD), India (IND), Indonesia (IDN), Kenya (KEN), Nigeria (NGA), Sao Tome and Principe (STP), and Timor-Leste (TLS). GSP+ Countries in the top 5 products: Bolivia (BOL), Cabo Verde (CPV), Kyrgyzstan (KGB), Mongolia (MNG), Pakistan (PAK), Philippines (PHL), Tajikistan (TJK), and Uzbekistan (UZB).

2.3.3.2 Enhancing the GSP Scheme for Diversification Purposes.

Participation in the modern, globalised economy necessarily entails some degree of state-level specialisation in terms of the relative intensities of activities, consistent with the principle of comparative advantage. At the same time, since at least Imbs and Wacziarg (2003), there has been growing awareness that economies feature decreasing sectoral concentration – i.e., diversification – as incomes rise over much of the income spectrum. As Hausmann (2013) argues, comparison of an advanced economy with a low-income economy demonstrates conclusively that economic development is synonymous with a profound diversification of the economy. In turn, Ciuriak and Bienen (2014) suggest that diversification is synonymous with a proliferation of formal firms that use technology and that are capable of navigating the challenges of exporting. For undiversified countries, the lack of trade diversification can be traced back to a simple lack of firms – this has typically been labelled the “missing middle” (implying there is a bimodal distribution of firm sizes with under-representation of mid-sized firms). However, as recent scholarship shows (Hsieh and Olsen, 2014), it is in fact a missing population of large firms as well – and indeed of formal firms across the size spectrum. And since firms are the economic institutions that acquire and deploy technology, the lack of firms goes hand-in-hand with technological backwardness.

It may be observed in this last regard that most of the technology that underpinned the advanced economies performance in 2000 at the height of the technology boom and bubble is now off-patent and in theory free to flow across borders without charge. The fact that this does not apparently happen very quickly, that developing countries lack firms, and that they lack diversification are thus intimately inter-related issues.

Trade, technology, and the presence of formally organised firms thus constitute a tight nexus that underpins diversification and development. As the foregoing analysis has shown, several of the larger GSP economies have achieved a high degree of diversification, but many have not. Moreover, insofar as the current GSP scheme provides some support for economic diversification in the participating countries, the strongest case may be made for the EBA regime, which has supported the best balance in export performance across all major sectors. By contrast, the Standard GSP countries had a more concentrated structure of exports to the EU. While having by far the largest export totals to the EU, they also saw the slowest growth and had almost no growth in their exports of agricultural and mineral products.

The EBA regime, apart from having no tariffs, is distinguished by the **flatness** of the tariff structure and thus the absence of any distortion in incentives. In other words, there is no presupposition built into the arrangement as to the sector in which the green shoots of industrial diversification are implicitly favoured in the beneficiary economies.

In point of fact, the history of industrialisation shows that it is not possible to predict which sector will flower in which economy. Perhaps the quintessential example of the difficulty of such prediction is Taiwan’s emergence as a technology power, which can be traced to the location of a petroleum refinery in an energy-poor country in 1957. The refinery spawned a proliferation of downstream industries that led Taiwan’s industrialisation, starting with the production of synthetic fibres that supported Taiwan’s textiles and clothing industry; a new naphtha cracker built in 1984 supplied plastics and other inputs for the electronics industry; and a further shift of the chemicals industry up the value chain in the 2000s to production of fine, nano and bio chemicals supported the Taiwan’s electronics industry shift up its value chain to advanced information technology products such as thin-film transistors, LCD displays, flat screen television, and advanced wireless and network technology.

In terms of the direction of reform, these considerations argue for broadening the availability of GSP preferences to the least-diversified beneficiary economies and flattening

the schedule to the extent possible and leaving it to the market to identify profitable niches to develop based on improved access to the EU market. This likely entails two reforms:

- Reducing the number of sectors that are excluded from the GSP scheme and that are considered “sensitive”, to enable an expansion of the range of products that GSP beneficiaries can export to the EU at advantageous tariff terms.
- Graduating products for the more advanced and already-diversified beneficiary economies and preparedness to use safeguards to address internal pressures in the EU stemming from GSP-enabled imports as an alternative to pre-emptive labelling of products as “sensitive” (this is discussed in the next section).

In considering the issue of sensitivity, one of the findings from the consultations was that there is, at least in some cases, a lack of understanding of why particular products are declared “sensitive” (even among representatives of sectors benefitting from the designation). This is not, it must be added, entirely unusual in complex regimes, which over time accumulate an accretion of *ad hoc* measures to address particular pressure points that the passage of time may eventually render irrelevant. This dynamic is likely to be a particularly important consideration for the EU in the years to come given the rapid change in Europe’s industrial structure due to the confluence of major secular trends such as climate change, the transition to “Industry 4.0”, and the severe knock-on changes driven by the pandemic crisis and the tensions in the international trade regime.

Given the unusually large umbra of uncertainty that clouds the future economy for which the revisions to the GSP scheme are being tailored, a simple stratagem would be to incorporate a sunset clause for sensitivities. Then upon a specified date, the regular GSP tariff and conditions would come into effect for any country-product import flow for which EU industry did not make an explicit case for exclusion or continuation of treatment as sensitive.

Preliminary conclusions and recommendations: Given the distortions introduced by selective preferences, it seems recommendable that the GSP reforms introduce a sunset clause for all excluded and sensitive products together with a mechanism for application by industry to establish (or continue) a country-product exclusion/sensitivity. This will establish an orderly process for pruning the system of out-dated and unnecessary reservations from the GSP system and flattening the EU GSP tariff profile, with a clear-cut objective of contributing to diversification of trade and industrial activity in the beneficiary countries and promoting efficiency of the trade system, while at the same time re-tailoring the scheme to meet the needs of a rapidly evolving EU industrial structure. This broadening of the product scope would need to go hand in hand with an effective and efficient product graduation mechanism, as discussed in the next section.

2.3.4 Scenario 3c: Expansion in the Application of Product Graduation Rules

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-5.⁶¹ Scenario 3c assumes that coverage of the product graduation mechanism is expanded to all GSP+ and EBA beneficiaries for certain products. In particular, the following two sub-scenarios are analysed:

- Scenario 3c1: product graduation applies to rice and sugar;

⁶¹ 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, 05 November 2015.

- Scenario 3c2: product graduation applies to all agricultural products currently covered in Annexes V and IX.

In order to analyse the two sub-scenarios, the relevant shares are calculated for GSP+ and EBA countries as the averages over the three most recent consecutive years (2017-2019). These shares are based on both the imports from all GSP beneficiaries (as per the current Regulation), and on total EU imports from the world (as per the ToR requirement to consider the operation of the product graduation mechanism on that basis). Review of these shares allows a straightforward analysis of whether any of the GSP+ or EBA countries would be in line for graduation based on the established criteria for agricultural products.

It is important to note that, for the GSP+ countries, the products within the sections do not include the full range of products within the HS codes that are grouped in these sections. For EBA countries, all the products are assumed to be within the sections. Additional analysis is also carried out in scenario 3c1 for more refined product levels.

2.3.4.1 Sub-scenario 3c1: Rice and Sugar

The analysis is based on the 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, we assume that rice would be part of 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.

The upper panel of Table 22 presents the share of imports from selected GSP+ and EBA beneficiaries of section S-2d goods in total imports of the EU from the world, and in EU imports from all GSP beneficiaries for years 2017-2019, as well as the average over these three years. The lower panel presents the same indicators for imports of rice (HS1006). The countries presented in the table are those GSP+ and EBA beneficiaries for which the average share in EU imports from all GSP beneficiaries exceeds 1%.

According to scenario 3c1, GSP+ and EBA countries for which average shares over the past three years exceed 57% of EU imports from all GSP countries would be subject to the suspension of benefits for section S-2d. Among the selected countries, none exceeds the threshold for section S-2d imports. None of the countries is close to the threshold: Pakistan, whose share increased rapidly over these three years, from 8.5% in 2017 to 18.8% in 2019, 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%.

Table 22: The share of imports of section S-2d and of HS1006 from selected GSP+ and EBA beneficiaries in total imports of the EU, and in EU imports from all GSP beneficiaries.

Country	GSP Status	Share in total EU imports (%)			Average 2017-2019 (%)	Share in EU imports from all GSP (%)			Average 2017-2019 (%)
		2017	2018	2019		2017	2018	2019	
Section S-2d									
Bolivia	GSP+	0.2	0.2	0.2	0.2	2.4	2.0	2.3	2.2
Ethiopia	EBA	0.1	0.1	0.1	0.1	0.8	1.2	1.2	1.1
Cambodia	EBA	0.9	0.9	0.8	0.8	10.5	10.8	9.7	10.3
Madagascar	EBA	0.1	0.2	0.0	0.1	1.8	2.6	0.4	1.6
Philippines	GSP+	0.3	0.3	0.4	0.3	3.4	3.9	4.5	3.9
Pakistan	GSP+	0.7	1.2	1.5	1.2	8.5	15.7	18.8	14.3
Sudan	EBA	0.6	0.4	0.5	0.5	7.2	5.6	5.6	6.1
Somalia	EBA	0.1	0.1	0.1	0.1	1.3	1.6	1.5	1.4
Togo	EBA	0.1	0.1	0.1	0.1	1.1	1.1	1.7	1.3
HS1006: Rice									
Cambodia	EBA	15.0	14.5	12.5	14.0	23.6	24.2	21.3	23.0
Pakistan	GSP+	11.1	20.4	23.5	18.3	17.4	34.0	39.9	30.4

Source: Authors' calculations. Notes: the shares are shown only for those EBA and GSP+ beneficiaries, for which the average share in EU imports from all GSP beneficiaries exceeds 1%.

If instead the total imports were used to calculate the criterion for suspension of benefits – and for now assuming that the threshold value of 57% was not changed (a discussion on this is provided below), none of the countries presented in Table 22 would be close to the threshold: even imports from Pakistan account for only 1.2% of the total imports from the world.

Section S-2d, however, bundles together many different goods, which raises a concern over the applicability of the mechanism for specific goods within section S-2d, such as rice. We therefore calculated the same average shares for rice (HS1006) only. As the lower panel of Table 22 shows, the situation would not change – neither Pakistan nor Cambodia would reach the required threshold to trigger the graduation rules: the average share of rice imports from Pakistan in rice imports from all GSP beneficiaries over the past three years was 30.4%; for Cambodia it was 23%. Moreover, if the total EU imports were used instead, import of rice from Pakistan would amount to 18.3% on average in the past three years, while from Cambodia, the figure would be 14%.

In order to understand the importance of these shares, Table 23 presents the levels of EU imports from the world, from all GSP beneficiaries, and from Cambodia and Pakistan individually of section S-2d goods and rice. While rice constitutes only about 6% of EU imports from the world in this product group, it represents 44% of EU imports from GSP countries within this product group.

Table 23: EU imports of Section S-2d and HS1006 (rice) from the world, all GSP beneficiaries, Cambodia, and Pakistan in thousand EUR in 2017-2019

		2017	2018	2019
EU total imports	Section S-2d	16,946,212	17,886,730	18,997,637
	HS1006: Rice	953,208	1,030,172	1,171,907
EU imports from all GSP	Section S-2d	1,384,291	1,410,872	1,535,789
	HS1006: Rice	606,847	616,913	688,343
EU imports from Cambodia	Section S-2d	144,679	152,224	149,578
	HS1006: Rice	143,273	149,158	146,423
EU imports from Pakistan	Section S-2d	117,544	221,556	289,207
	HS1006: Rice	105,570	209,683	274,862

Source: EU COMEXT database.

Meanwhile, from the perspective of Cambodia and Pakistan, rice is the dominant product, accounting for 98-99% of EU S-2d imports from Cambodia and about 95% from Pakistan in 2019. Thus, the share of Pakistan and Cambodia in EU rice imports is relatively high, both compared to other GSP countries and to the world.

A similar analysis is carried out for section S-4b, which includes sugar. The upper panel of Table 24 presents the shares in EU total imports and in EU imports from all beneficiaries for selected GSP+ and EBA beneficiaries (again, only those for which the latter share exceeds 1% on average in the past three years). None of the GSP+ or EBA countries are currently close to the threshold in their exports of products under section S-4b. The Philippines has the highest share in imports from all GSP beneficiaries, averaging 5.3% in 2017-2019, followed by Pakistan (4.9%). If, however, the total imports of EU from the world is used as the basis to calculate the share instead, none of the countries would exceed even 1%.

The level of aggregation, however, is too high if one wants to analyse the imports of sugar. The middle panel of Table 24 presents the shares at the HS2 digit level, for chapter 17 "Sugars and sugar confectionary." Once this finer level of disaggregation is applied, Mozambique and Malawi appear as countries with a high share of sugar exports to the EU relative to all other GSP beneficiaries (16.3% and 9.4% respectively). Their shares in total

EU imports under chapter 17, however, are still low, averaging 1.3% for Mozambique and 0.7% for Malawi.

The lower panel of Table 24 zooms in further to HS heading 1701, “Cane or beet sugar and chemically pure sucrose, in solid form Raw sugar not containing added flavouring or colouring matter.” Here the comparatively stronger role of Mozambique and Malawi become more evident. The share of Mozambique in EU imports from all GSP beneficiaries of those products averages 25.1%, which would still be below the threshold if the graduation mechanism were applied to this more narrowly defined product category with the current thresholds. Similarly, Malawi would also be well below the threshold, with an average share in imports from all beneficiaries standing at 16.6%. Again, however, if EU total imports was used to calculate the shares, neither of these countries would approach the threshold.

The dynamics of the shares are also interesting: for both countries, the share varied widely from year to year, with Malawi being the larger provider in 2018 while Mozambique dominated in the other two years. This dynamic points towards a conjecture that the three-year period for calculating the average for countries with highly volatile export patterns might not be a good basis for determining product graduation. In other words, for these exporters, outlier values of exports in a given year may drive the average, and in case the rules of product graduation are expanded to cover such countries, they would be eligible for graduation prematurely.

Table 24: The share of imports of section S-4b, HS17, and HS1701 from selected GSP+ and EBA beneficiaries in total imports of the EU, and in EU imports from all GSP beneficiaries.

Country	GSP Status	Share in total EU imports (%)			Ave. 2017-2019 (%)	Share in EU imports from GSP (%)			Ave. 2017-2019 (%)
		2017	2018	2019		2017	2018	2019	
Section S-4b									
Bolivia	GSP+	0.1	0.0	0.1	0.1	1.6	0.7	2.0	1.4
Mauritania	EBA	0.0	0.1	0.1	0.1	0.6	1.3	1.2	1.0
Mozambique	EBA	0.1	0.0	0.1	0.1	1.3	0.4	1.9	1.2
Philippines	GSP+	0.3	0.3	0.3	0.3	5.9	5.2	4.8	5.3
Pakistan	GSP+	0.2	0.2	0.3	0.3	3.9	4.7	6.2	4.9
Sierra Leone	EBA	0.2	0.1	0.1	0.1	3.2	1.3	1.4	2.0
HS17: Sugars and sugar confectionery									
Ethiopia	EBA	0.1	0.0	0.2	0.1	1.5	0.0	1.6	1.0
Cambodia	EBA	0.7	0.0	0.4	0.4	9.1	0.3	4.1	4.5
Malawi	EBA	0.8	0.7	0.4	0.7	11.4	12.3	4.6	9.4
Mozambique	EBA	1.3	0.5	2.2	1.3	18.0	8.3	22.6	16.3
Philippines	GSP+	0.2	0.2	0.2	0.2	2.5	3.8	1.7	2.6
Pakistan	GSP+	0.5	0.8	0.5	0.6	6.5	13.8	4.9	8.4
Sudan	EBA	0.8	0.2	0.0	0.3	10.5	3.2	0.0	4.6
HS1701: Cane or beet sugar and chemically pure sucrose, in solid form Raw sugar not containing added flavouring or colouring matter									
Cambodia	EBA	1.1	0.0	0.8	0.6	11.1	0.0	6.5	5.9
Malawi	EBA	1.4	1.6	0.9	1.3	14.4	27.8	7.5	16.6
Mozambique	EBA	2.2	0.9	4.4	2.5	22.7	15.7	37.0	25.1
Philippines	GSP+	0.2	0.4	0.2	0.3	1.9	6.0	2.0	3.3

Source: Authors' calculations. Notes: the shares are shown only for those EBA and GSP+ beneficiaries, for which the average share in EU imports from all GSP beneficiaries exceeds 1%.

This is brought out in Table 25. As can be seen, while EU import of S-4b products was essentially flat over the three-year period, sugar imports increased substantially, almost doubling or EUR 709 million in 2017 to EUR 1.34 billion in 2019. GSP beneficiaries shared in this import expansion more than disproportionately but rising from a low level of only EUR 42 million in 2017 to EUR 128 million in 2019. For Malawi and Mozambique, the narrowly defined sugar category (HS1701) comprises virtually all of EU imports from these countries under section S-4d. In the context of GSP beneficiaries alone, Malawi and

Mozambique are relatively significant suppliers to the EU; however, they are small relative to all EU imports from the world.

Table 25: EU imports of Section S-4b and HS1701 (sugar) from the world, all GSP beneficiaries, Malawi, and Mozambique in thousand EUR in 2017-2019

		2017	2018	2019
EU total imports	Section S-4b	39,516,647	40,964,911	39,390,011
	HS1701: Sugar	709,692	1,006,340	1,336,699
EU imports from all GSP	Section S-4b	2,037,383	2,308,673	2,206,001
	HS1701: Sugar	41,875	119,401	127,534
EU imports from Malawi	Section S-4b	11,645	8,978	18,612
	HS1701: Sugar	11,643	8,976	18,349
EU imports from Mozambique	Section S-4b	8,894	44,579	29,624
	HS1701: Sugar	6,556	44,198	28,950

Source: EU COMEXT database.

2.3.4.2 Sub-scenario 3c2: All Agricultural Products

For the purposes of analysing this scenario, we define the following sections listed in Annexes V and IX as covering all agricultural products: S-1a, S-2a, S-2b, S-2c, S-2d, S-3, S-4a and S-4b. We exclude fish (S-1b) and tobacco products (S-4c). In terms of HS chapters, this covers chapters 01 to 23 excluding 03 (fish).

Table 26 presents the shares of imports from selected GSP+ and EBA beneficiaries of all agricultural goods (combined) in total imports of the EU from the world, and in EU imports from all GSP beneficiaries. Once agricultural products are bundled in one category, EU imports from the Philippines as a percentage of imports from all GSP beneficiaries are equal to 25.9% over the past three years, well below the 57% threshold.⁶² The Philippines is followed by Madagascar, accounting 13% of imports from GSP beneficiaries on average. Also, these shares have been declining over the years, and the future dynamics would be important to consider for the changes occurring under this scenario. Naturally, if the shares are calculated as a percentage of imports from the world, none of the countries crosses the product graduation threshold (if left unchanged): even the Philippines still accounts only for 8.6% of the total imports in all agricultural products.

Table 26: Share of imports of all agricultural products from selected GSP+ and EBA beneficiaries in total imports of the EU, and in EU imports from all GSP beneficiaries

Country	GSP arrangement	Share in total EU imports (%)			Ave. 2017-2019 (%)	Share in EU imports from all GSP (%)			Ave. 2017-2019 (%)
		2017	2018	2019		2017	2018	2019	
All agricultural products									
Philippines	GSP+	8.8	8.9	7.9	8.6	28.3	26.4	23.0	25.9
Madagascar	EBA	4.2	5.1	3.7	4.3	13.4	15.0	10.7	13.0
Pakistan	GSP+	2.1	3.4	4.6	3.4	6.6	10.2	13.3	10.0
Uganda	EBA	3.0	3.1	2.8	3.0	9.7	9.3	8.0	9.0
Ethiopia	EBA	2.4	2.6	2.6	2.5	7.7	7.6	7.6	7.6
Cambodia	EBA	1.5	1.5	1.6	1.5	4.7	4.6	4.7	4.7
Bolivia	GSP+	1.2	1.2	1.6	1.3	3.9	3.6	4.6	4.0

Source: Authors' calculations. Notes: the shares are shown only for those EBA and GSP+ beneficiaries, for which the average share in EU imports from all GSP beneficiaries exceeds 1%.

Looking at the individual GSP sections covering agricultural products, across all EBA and GSP+ countries and sections, 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 (Table 27). The only other product/country pairs coming close to the threshold values are two sectors in the Philippines: S-3 (fats and

⁶² The threshold for section S-3 (oils and fats) is 17.5%, and although this is the Philippines' most important agricultural export to the EU, its share on total GSP exports, 14% for the period 2017-19, is below the threshold.

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.⁶³

Table 27: Share of imports of agricultural products from selected GSP+ and EBA beneficiaries EU27 imports from all GSP beneficiaries, by GSP section, 2017-19 (%)

Country	GSP arrangement	S-1a	S-2a	S-2b	S-2c	S-2d	S-3	S-4a	S-4b
Afghanistan	EBA	3.3	0.0	0.6	0.0	0.1	0.0	0.0	0.2
Ethiopia	EBA	0.5	24.8	1.6	11.7	1.1	0.0	0.0	0.4
Cambodia	EBA	0.0	0.0	0.1	0.1	10.3	0.0	0.0	0.5
Madagascar	EBA	0.6	0.0	3.7	16.7	1.5	0.0	6.6	2.1
Sudan	EBA	0.1	0.0	0.0	0.0	6.1	0.1	0.0	0.6
Senegal	EBA	0.1	0.0	6.1	0.0	0.2	0.7	0.7	0.1
Tanzania	EBA	0.3	3.7	1.4	2.9	0.9	0.0	0.0	0.6
Uganda	EBA	0.1	6.9	0.7	14.7	0.7	0.0	0.0	0.8
Bolivia	GSP+	0.0	0.0	6.4	0.1	2.2	0.0	0.0	1.5
Cabo Verde	GSP+	0.0	0.0	0.0	0.0	0.0	0.0	9.7	0.1
Mongolia	GSP+	9.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Philippines	GSP+	2.6	0.4	7.1	0.0	3.9	14.0	40.0	5.3
Pakistan	GSP+	17.1	0.0	1.8	0.2	14.5	0.0	0.0	5.0
Graduation thresholds		57	17.5	57	57	57	17.5	57	57

Source: Authors' calculations. See Table B3-1.1 in Annex B3-1.

2.3.4.3 Discussion on graduation thresholds

In the event that the EU were to revise the mechanism to use total imports from the world (assuming imports from outside the EU) as the denominator, it follows that the thresholds defined on the basis of total imports from GSP beneficiaries would logically be reset – the analysis above has shown that applying the current thresholds, defined on the basis of all imports from GSP countries, on the basis of total imports would in practice abolish product graduation (with the exception of cut flowers from Ethiopia).

For a reset of thresholds, different methodologies could be applied. One would be to “recalibrate” existing thresholds by considering the share of GSP imports for a product section in total EU imports of that product section and lower the threshold accordingly. For example, if imports from GSP countries accounted for 10% of total imports, then the new threshold for the section should also be set at 10% of the original threshold, e.g., 5.7% of total imports instead of 57% of imports from GSP countries. This would constitute a mathematical exercise and have the benefit of not materially changing the current rule. On the other hand, it would complicate the system (as each GSP section would have different thresholds), it would be somewhat arbitrary (as the share of imports from GSP countries in total imports fluctuates quite strongly⁶⁴), it would lead to questions about equal treatment across product sections, and it would fail to address some of the comments made by stakeholders on the appropriateness of the current product graduation rules.

Another source of possible guidance for consideration of new threshold values would be trade law which defines “negligible” levels of imports. The “negligible level of imports” is an amount that is deemed not to cause injury to domestic industry. The relevant thresholds for developing countries (e.g., in EU safeguards regulations) are: “3%, provided that developing country members of the WTO with less than a 3% import share collectively account for not more than 9% of total Union imports of the product concerned.”⁶⁵ It would be inconsistent to argue that a level of imports that is deemed not possibly harmful in one

⁶³ 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.

⁶⁴ This could be addressed by periodically adjusting the thresholds. But that would be detrimental to predictability.

⁶⁵ Article 18 of Regulation (EU) 2015/478 of the European Parliament and of the Council of 11 March 2015 on Common Rules for Imports (Codification), OJ L 83/16, 27 March 2015.

context would be so deemed in another. At the same time, a logical connection can be drawn between “causing harm” to EU industry and being “competitive”.

Transported to the GSP context, the implementation of these thresholds would have to take into account that there is no automatic presumption of the possibility of harm and, hence competitiveness. This means that there should be **no graduation for products from any GSP country that account for less than 3% of total EU imports** of that product. At the same time, meeting the *de minimis* threshold does not automatically mean that the exporter has become internationally competitive. Accordingly, the *de minimis* threshold could serve in the first instance as a trigger for monitoring.

Alternatively, **a higher threshold could be set at which competitiveness is presumed**. As an illustration, Table B3-1.2 in Annex B3-1 does this, assuming a graduation threshold of 5% in total EU imports of products in the respective GSP product section. The table highlights product sections below the *de minimis* threshold in green and those that surpass the assumed graduation threshold in red. According to this rule, the extension of product graduation for agricultural products to all GSP countries would lead to the graduation of cut flowers (S-2a) from Ethiopia and tobacco (S-4c) from Malawi. Vegetable oils (S-3) from the Philippines would be close to the assumed graduation threshold (at 4.8%). No exports of rice or sugar from any GSP country would meet the graduation threshold.

A still-more-nuanced approach would take **into account the extent to which the imports compete head-to-head with EU industry**. A simple and computationally tractable method would be to set the threshold in terms of a percentage of EU total imports, inclusive of intra-EU trade, which in this case would serve as a proxy for internal supply capacity. In sectors where intra-EU trade dominates community supply, this would provide substantially more head-room for GSP imports before triggering the threshold. Conversely, in product groups where intra-EU trade is small, the challenge posed by imports from GSP countries would be commensurately greater.

Further, provision might be made to take into account downstream interests in the EU economy by instituting **a provision for expression of concern** about the impact of raising tariffs on EU supply chain costs. Such provision is made in trade remedy law, where consideration of “Union interest” operates as a safety valve by introducing the possibility of avoiding the automatic imposition of duties where duties would generate economic harms within the community. Given the voluntary nature of the GSP scheme in the first instance, the EU would have some discretion, provided the mechanism were transparent.

Finally, given the negative impacts on beneficiaries associated with graduation, the EU might consider **dealing with sensitivity issues through a tariff rate quota (TRQ) approach**, in which graduation affects only EU imports above the stipulated threshold. This would also avoid the potentially challenging issue that raising tariffs (especially on EBA country products currently facing zero tariffs, if those were included in the graduation scheme), would drive imports from those countries back below the threshold. This approach would introduce administrative costs but would ensure that the GSP scheme does not work in contra to the objective of diversification by undermining successful examples (such as cut flowers from Ethiopia, for example, an issue discussed further below). As noted, this would be especially the case in instances where the EU MFN tariff is high and an EBA beneficiary supplier would move from an EBA zero tariff to the much higher MFN tariff.

An important issue in this context is the definition of product groups that are used for the calculation of thresholds: the broader the definition, the less likely that a given threshold is reached. In the GSP Regulation, the product groups are defined as GSP product sections, and listed in Annexes V (for the Standard GSP) and IX (for the GSP+). The current GSP Regulation increased the number of product sections from 21 to 32, implying a narrowing

of the product groups. Nevertheless, some stakeholders in the consultations for this study argued that product sections were still too broad and that thresholds should rather be calculated at the individual product level, arguing that this would also have a positive impact on export diversification. Others countered that some developing countries' exports are highly concentrated, and if these products graduate the negative impact affects the whole economy (see Annex B1). Given these contributions from stakeholders, Box 4 provides a brief discussion on the appropriate broadness of product groups.

Table B3-1.3 in Annex B3-1 provides the same graduation analysis as done above for agricultural products but based on HS chapters rather than GSP product sections. Applying the same thresholds, the following products would be subject to graduation:

- From EBA countries: cut flowers (HS06) from Ethiopia; tobacco (HS24) from Malawi; and lac, gums, resins and other vegetable saps and extracts (HS13) from Sudan. Imports of coffee, tea and spices (HS09) from Madagascar, and tobacco (HS24) from Mozambique and Tanzania are above the de minimis threshold but below the indicative graduation threshold;
- From GSP+ countries: lac, gums, resins and other vegetable saps and extracts (HS13) from the Philippines. In addition, animal and vegetable fats and oils (HS15) and preparations of meat or fish (HS16) from the Philippines are above the de minimis threshold but below the indicative graduation threshold, as are cereals (HS10) from Pakistan.

Box 4: Considerations on the appropriate definition of product sections for graduation

The current framing of product graduation in terms of relatively broad sections has pros and cons from the perspective of the overall goals of the GSP. On the one hand, a broader definition of a product group can indeed mask some cases where a country meets a competitiveness criterion on narrower product grounds. However, this may reflect the fact that product specialisation due to comparative advantage would cause production of products such as rice or sugar to vary widely across GSP beneficiaries. The narrower the product definition, the more likely one economy or another would breach the threshold for graduation. However, this level of specialisation would also mean that exports of such products for any individual country would be relatively important to them. Accordingly, taking into account all EU imports from the world would be important in determining whether a GSP beneficiary were truly a large global competitor.

Again, trade law could provide possible guidance for consideration of product sections: the "de minimis" or "tolerance" level for non-originating materials in a product under rules of origin is set at 10% or 15% depending on the product group.⁶⁶ When an individual product within a product section passes this level, it would be eligible to be treated as a product section in its own right. The economic logic would be as follows. Assuming that the product section chosen makes sense in an industrial context (i.e., the product mix might be considered to be the output of a multi-product firm), then a niche product from a GSP beneficiary that does not amount to 15% of the palette of products in the section would, by the same token, not impinge unduly heavily on the operations of the notional EU multi-product firm competitor. Above that de minimis level, the product group would become sufficiently important to the notional EU multi-product firm competitor that it should be treated as a standalone sector.

Thus, the Commission could consider the following: Does a single product account for 15% of the total EU GSP imports under a product section? This would identify products that are not "de minimis" within the product section. If a product meets this criterion based on a sustained average over three years, that product would become eligible to be treated on an individual basis for product graduation.

Considering the two products addressed by scenario 3c1, rice and sugar, neither reach 10% of the respective section; they would therefore not be treated separately. Rice (HS 1006) accounts for 6% of EU imports from the world in section S-2d, and sugar (HS 1701) accounts for only about 3% of EU from the world in section S-4b.

One general observation concerning the carve-out of products that pass a "de minimis" share of imports within a section is that it might result in a second product also passing the threshold within the smaller section. This consideration might warrant leaving the section definition unchanged even though GSP benefits for one supplier were suspended.

Another issue raised by stakeholders was that the three-year period was not sufficient to

⁶⁶ <https://trade.ec.europa.eu/tradehelp/rules-origin-generalised-scheme-preferences>.

establish that a sector has really become competitive, and should therefore 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. These comments are related to the problem of the “rollercoaster” effect, whereby imports of graduated products from GSP countries fall once they are subject to MFN treatment, leading to re-introduction into the GSP in the following 3-year period.⁶⁷ Examples of this are a number of product sections that had graduated in the 2014-16 period and thereafter re-entered the GSP (S-6b from India and Indonesia, S-8a from India and Nigeria), and also for S-5 from India, which had graduated in the 2017-19 period but re-entered in 2020-22. One possibility to reduce these switches in status for product sections could indeed be to expand the period considered from the current 3 years; another could be to phase out preferences over a transition period.

Preliminary conclusions and recommendations: An extension of the current product graduation rules for rice and sugar to all GSP beneficiary countries (sub-scenario 3c1), unless they are reset at lower levels, would not lead to any graduations from any GSP countries, and would therefore have no effects. This finding holds regardless of whether graduation were to be applied at the GSP product section level or at the narrower HS 4-digit heading level. A further expansion of current graduation rules to all agricultural products (sub-scenario 3c2) is, unless reset at lower levels, expected to only lead to one instance of a product graduation, i.e., cut flowers from Ethiopia (section S-2a). This might lead to significant effects on the sector in Ethiopia (if additional measures such as the use of a TRQ to implement graduation only on above-threshold imports were not implemented); this is to be analysed further in the next stage of the study.

As regards the issue of changing the threshold from a percentage based on total imports from GSP countries to total EU imports from the world, the specific threshold that would be optimal would not be chosen independently of a range of other provisions as discussed above. Accordingly, for this interim report, we decline to make explicit recommendations.

2.3.5 Preliminary conclusions and recommendations

The analysis in this section tends to confirm prior analysis that finds limited if any contribution to trade and industrial diversification by the GSP scheme. Given the complexity of the economic development process, the provision by the EU of preferential tariff access should work to promote such diversification, however, even if the data fail to confirm a clear-cut effect. This section accordingly reaches the preliminary general conclusion that **there is a stronger case for broadening the Standard GSP in terms of product rather than narrowing the scope of the scheme by tightening the rules for product graduation.**

One way to progressively broaden the scope of the GSP would be to **introduce a sunset clause for all excluded and sensitive products.** This would establish an orderly process for pruning the system of out-dated and unnecessary reservations from the GSP system, serve to flatten the EU GSP tariff profile, and support a gradual re-tailoring of the scheme to meet the needs of a rapidly evolving EU industrial structure.

To be feasible, the sunset scheme would need to be accompanied by a **mechanism for establishment or continuation of a country-product exclusion/sensitivity, driven by EU industry.**

As regards extension of the current **product graduation rules for rice and sugar** to all GSP beneficiary countries (sub-scenario 3c1), this would not lead to any graduations from

⁶⁷ The same problem exists in relation to safeguards (task B.9); see the discussion in section 2.9.

any GSP countries, and would therefore have no effects unless the thresholds were set at a lower level.

A further **expansion of current graduation rules to all agricultural products** (sub-scenario 3c2) would lead, if applied at the current GSP product section level and unless thresholds were set at lower levels, to only one instance of a product graduation, i.e., cut flowers from Ethiopia (section S-2a). This might, however, lead to significant effects on the sector in Ethiopia, if additional measures such as the use of a TRQ to implement graduation only on above-threshold imports were not implemented.

As regards the issue of **changing the threshold from a percentage based on total imports from GSP countries to total EU imports from the world**, the specific threshold that would be optimal would not be chosen independently of a range of other provisions as discussed above. Accordingly, for this interim report, we decline to make explicit recommendations.

2.4 Options regarding the graduation of EBA beneficiaries from LDC status (Task B.4)

2.4.1 Introduction: Purpose and Options

Irrespective of potential changes to the GSP as analysed under Task B.2, 12 LDCs currently benefitting from the EBA arrangement are expected to graduate from LDC status over the next ten years.⁶⁸ Accordingly, in line with Article 17(1) of the GSP Regulation, these will be removed from the list of EBA beneficiary countries “following a transitional period of three years.” In practice, delegated regulations taken by the Commission have removed graduating countries at the beginning of the calendar year following the end of the three-year period.⁶⁹ Table 28 provides an overview of the graduations from LDC status already set by the UN General Assembly (for Angola, Bhutan, Sao Tomé and Príncipe, Solomon Islands and Vanuatu, as well as the earliest possible graduation years for those countries where a decision is expected in 2021 (Bangladesh, Kiribati, Lao PDR, Myanmar, Nepal, Timor-Leste and Tuvalu). In this context, it should be noted that, although the standard transition period between the UN GA 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 can be expected that the scheduled decisions for 2021 will either be deferred or longer transition periods will be provided. In this context, on 12 May 2020, the UN Committee for Development Policy (CDP) issued a statement on how it intends to address the impacts of Covid-19 on its work in LDCs. According to this statement:

“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. In obtaining and reviewing this information, the CDP will also consult with the countries concerned. In case any of these countries are recommended for graduation, the CDP will also draw on this information,

⁶⁸ 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.

⁶⁹ See e.g., Commission Delegated Regulation (EU) 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.

inter alia, for suggesting priorities and support needs required to ensure a smooth transition from the LDC category.”⁷⁰

Table 28: Estimated timeline of EBA beneficiary countries’ graduation from LDC status (state of play as of July 2020)

Country	LDC graduation	Expected (earliest) graduation from EBA
Angola	February 2021	January 2025
Bangladesh	Decision expected in 2021; earliest graduation: 2024	January 2028 (earliest)
Bhutan	December 2023	January 2027
Kiribati	Decision expected in 2021; earliest graduation: 2024	January 2028 (earliest)
Lao PDR	Decision expected in 2021; earliest graduation: 2024	January 2028 (earliest)
Myanmar	Decision expected in 2021; earliest graduation: 2024	January 2028 (earliest)
Nepal	Decision expected in 2021; earliest graduation: 2024	January 2028 (earliest)
Sao Tomé & Príncipe	December 2024	January 2028
Solomon Islands	December 2024	January 2028
Timor-Leste	Decision expected in 2021; earliest graduation: 2024	January 2028 (earliest)
Tuvalu	Decision expected in 2021; earliest graduation: 2024	January 2028 (earliest)
Vanuatu	December 2020	January 2024

Sources: Prepared by the authors based on UN Committee for Development Policy, List of Least Developed Countries (as of December 2018): https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf and <http://unohrrls.org/about-ldcs/criteria-for-ldcs/>

Following graduation from EBA, these countries could move to other preference arrangements, notably to Standard GSP or, depending on meeting vulnerability conditions and ratification and implementation of international conventions listed in Annex VIII of the GSP Regulation, to GSP+. Box 5 provides a brief summary of the legal background for the change in status upon LDC graduation.

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 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?

Box 5: Background for the move from LDC status to developing country status in international law

Since 1979, the position of LDCs has been governed by paragraph 2(d) of the Enabling Clause, which permits positive discrimination for LDCs (vis-à-vis other developing countries) “in the context” of GSP programmes authorised by paragraph 2(a).⁷¹ The Appellate Body considered that the function of paragraph 2(d) was to deem LDCs to have special “development, trade and financial needs”. It said:

“In the absence of paragraph 2(d), a Member granting preferential tariff treatment only to least-developed countries would therefore need to establish, under paragraph 2(a), that this preferential treatment did not ‘discriminate’ against other developing countries contrary to footnote 3. The inclusion of paragraph 2(d), however, makes clear that developed countries may accord preferential treatment to least-developed countries distinct from the preferences granted to other developing countries under paragraph 2(a). Thus, pursuant to paragraph 2(d), preference-granting countries need not establish that differentiating between developing and least-developed countries is ‘non-discriminatory’.”⁷²

The LDC category was created by the United Nations in 1971,⁷³ and paragraph 2(d) is understood in terms of this category. From a legal perspective, if an LDC graduates from the UN category, it *ipso facto* graduates from

⁷⁰ <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-Covid-graduation-statement.pdf>

⁷¹ As noted above, however, this is not the only way in which LDCs can benefit from positive discrimination in the context of GSP programmes. Product graduation of non-LDC GSP beneficiaries can also play a role – at least in theory. There is some doubt as to the effectiveness of such methods (Murray 1995, para. 39).

⁷² WT/DS246/AB/R, para 172.

⁷³ “The LDC category was created in 1971 at the UN, and Yugoslavia then proposed building into the GATT trade negotiations elements that would benefit ‘the least developed among the developing countries.’ Later that year, the Informal Group of Developing Countries, comprising Argentina, Brazil, Egypt, India, Yugoslavia, Chile, Pakistan, and Uruguay, and other GATT Contracting Parties formally proposed the creation of a special

the category of developing countries *deemed* to have special needs for GSP purposes. However, it follows from the Appellate Body's statement that an ex-LDC might have such needs anyway, even if these needs must now be specially established. The implications depend on whether these "needs" are determined on a country basis, or on a product basis. If they are on a country basis, then a wholesale upgrade into a different regime is possible. If not, then it is conceivable that an ex-LDC might be entitled, in order to avoid discrimination, to continuing LDC-style treatment at least for particular products.

To respond to the first question, the analysis needs to consider two factors that will determine if a graduating LDC can enter the GSP+ arrangement or will move to the Standard GSP: to be eligible for GSP+, it must meet the positive conditionality criteria set in Article 9(1)(b)-(f) (the "sustainable development criteria"⁷⁴), including the ratification of international conventions listed in Annex VIII, and it must meet the "vulnerability criteria" in line with Article 9(1)(a). The former will depend on the graduating countries' ratification and implementation of the international conventions listed in Annex VIII of the GSP Regulation; this is addressed in section 2.4.3. With regard to the latter, in response to the MTE findings, alternative options for potential amendments to the GSP Regulation have been formulated and are assessed (sections 2.4.3.4 and 2.6):

- Under the **baseline scenario (scenario 4a)**, the vulnerability criteria would remain unchanged. This would mean that 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);
- Under policy **scenario 4b**, the vulnerability criteria would be amended in such a way that all LDC graduating countries would become eligible for GSP+. This option would have an impact only on the status of Bangladesh (which is the largest beneficiary of the EBA arrangement) and would aim at limiting preference erosion for Bangladesh after LDC graduation.

In addition, in order to assess a "worst case" impact on the graduating countries, the impact analysis is based on a CGE model simulation under which all countries expected to graduate from LDC status (i.e., the ones listed in Table 28) would move from EBA to the Standard GSP arrangement; this is presented first to set the stage (section 2.4.2).

With regard to the second question, the analysis of the transition period, the following scenarios are distinguished (section 2.4.6):

- Under the **baseline scenario (sub-scenario 4c1)**, the current transition period of three years would remain unchanged;
- **Sub-scenario 4c2** would extend the transition period to five years and thus "delay" the effects of LDC graduation further, thereby providing additional time to the countries to adjust to the new trade regime; and
- **Sub-scenario 4c3** would reduce the grace period to one year.

2.4.2 Maximum Impact of Graduation for EBA Countries Graduating from LDC Status

2.4.2.1 Analysis of Economic Impacts

The CGE model simulations undertaken by the Commission simulate the effects that would occur if the twelve countries that might graduate from LDC status over the next ten years moved from EBA preferences to Standard GSP beneficiaries. This shows the maximum economic impact, because a move to GSP+ would lead to a lower level of preference loss.

group for LDCs and the possibility of special provisions for them." (Rolland, 2012: 80). This led to para 6 of the 1973 Tokyo Declaration, which stated that "[t]he Ministers recognize that the particular situation and problems of the least developed among the developing countries shall be given special attention, and stress the need to ensure that these countries receive special treatment in the context of any general or specific measures taken in favour of the developing countries during the negotiations." Interestingly, some non-LDC developed countries resisted this idea, on the basis that it introduced the concept of graduation. See Winham (1986: 94).

⁷⁴ See e.g., <https://trade.ec.europa.eu/tradehelp/gsp>.

The model and assumptions are the same as for the economic modelling undertaken for task B.2 (see description in section 2.2.1.2 above). One limitation of the modelling is that changes in rules of origin are not incorporated; this is addressed in case study 9 (**Annex C-9**). Also, only three of the twelve graduating countries are modelled individually, whereas the others belong to aggregated regions. Specifically:

- Bangladesh, Lao PDR, and Nepal are modelled individually;
- Myanmar, Kiribati, Solomon Islands, Vanuatu, Timor-Leste and Tuvalu are modelled as part of the Other GSP (OGSP) region, together with a large number of other countries comprising Standard GSP countries like Samoa, Cook Islands, and Syria, Uzbekistan (GSP+), and non-GSP countries (mostly Caribbean and Pacific countries). The six graduating countries account for about 11% each of GDP and exports of this group (see Table B2-3.3 in Annex B2-3); accordingly, the impacts reported for the OGSP are dominated by the non-graduating group;
- Angola and Sao Tomé & Príncipe are part of the Sub-Saharan Africa (SSA) region, along with many African EBA countries as well as Congo (Standard GSP) and Cabo Verde (GSP+); they (primarily Angola) account for 34% of region GDP and 44% of region exports; for this group the graduation impacts are likely to be close to a simple average of the effects for the graduating group and the non-graduating group;
- Bhutan is part of the Other LDCs (OLDC) region that otherwise contains countries not expected to graduate from LDC status (as well as Maldives, which is not a GSP countries; Bhutan accounts for about 1% of the regions GDP and exports; the effects for the non-graduating would completely dominate and thus not be representative of the effects for Bhutan.

As a result of this regional aggregation, the effects of the status change on the graduating countries can be taken directly from the simulation results only for Bangladesh, Lao PDR and Nepal. Because impacts on the smaller economies (all but Myanmar and Angola) cannot be derived directly from the CGE model results, as they are diluted in the region-wide effects, we compare the importance of these countries' exports to the EU in their total exports with the corresponding shares by the three countries modelled individually, considering also the sectoral structure of exports. In this way, estimates of at least the likely direction of change (positive or negative welfare and GDP effects) and of the likely order of magnitude of the effect of graduation are possible.

2.4.2.1.1 Overall trade effects

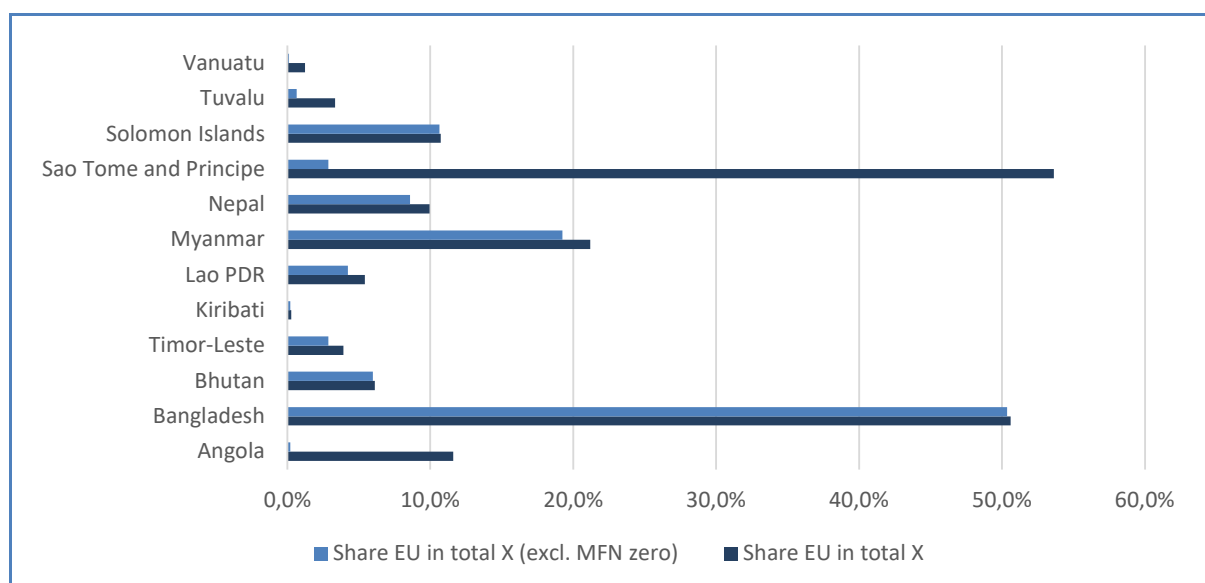
For the three countries modelled explicitly, the simulations show clear negative effects of graduation from EBA to Standard GSP status on their **exports to the EU**, ranging from declines of 5.4% for Nepal to 27.2% for Bangladesh (Table 30). For **total exports**, the direction of the effect is the same (i.e., negative) but, due to the varying importance of the EU as a market for the affected countries and of trade diversion effects, more limited, ranging from declines of 0.7% for Lao PDR to 8.5% for Bangladesh (Table 31). Comparing these values with the impacts of the policy scenarios under task B.2, particularly 2b (discontinuation of the Standard GSP and GSP+) and 2c (discontinuation of the Standard GSP) shows that the impact of EBA graduation (which is not driven by any policy option under study) is about 3 to 6 times larger than the potential changes in the GSP scheme.

The overall impact of EBA graduation on exports of countries not directly affected by it is negligible.

For the graduating countries that are not individually modelled, we note the following: Figure 10 (dark blue series) shows that the importance of the EU as a market for Sao Tomé and Príncipe is comparable to Bangladesh, accounting for about half of total exports. Myanmar sells about one fifth of total exports to the EU, twice as much as Nepal, and the importance of the EU as a market for Angola and the Solomon Islands is comparable to

Nepal, Bhutan, Timor-Leste and Tuvalu are comparable to Lao PDR (around 5%-10%); finally, Vanuatu and Kiribati export very little to the EU.

Figure 10: EBA graduating countries' share of exports to the EU27 in total exports, averages 2017-19 (%)



Note: Based on mirror data due to lack of reported exports for some of the graduating countries.

Source: Authors' calculations based on UN COMTRADE through WITS and Eurostat COMEXT databases.

Considering that some of the exports from graduating countries attract no MFN duties, the exposure of some of the countries to the change in status is more limited (only exports that would attract duties after a change from EBA to Standard GSP would be affected). The light blue series in Figure 10 shows the importance of exports to the EU excluding such zero-duty exports and this indicates the share of exports at risk. Based on this, for some of the graduating countries, graduation is likely to have smaller impacts than the overall share in exports suggests. Most importantly:

- For Sao Tomé and Príncipe, more than 90% of exports consist of products that are MFN zero (mostly cocoa beans);
- For Angola, almost all exports are MFN duty free (primarily mineral fuels, and gold);
- Bhutan's exports to the EU are heavily concentrated (more than 95% of total exports to the EU) in GSP section S-15a (see Table B4-1.1 in Annex B4-1), and specifically ferro-silicon and ferro alloys (HS7202), which are also covered by the Standard GSP product list (see Annex V of the GSP Regulation), although as a sensitive product. Therefore, LDC graduation would change market access conditions for Bhutan in the EU depending on the follow-up arrangement for the country: if Bhutan entered the Standard GSP arrangement, its exports of ferro-alloys would face a 2.2% duty,⁷⁵ but if it joined the GSP+, exports would continue to be duty free;
- Timor-Leste's exports to the EU primarily consist of green coffee beans (HS090111), starter motors (HS851140), fuel pumps (HS841330), and relays (HS853641), accounting for about 30%/30%/30%/10% of total exports to the EU (over the period 2017-19), respectively. All of these are also covered by the Standard GSP as non-sensitive products and would therefore continue to be duty-free after graduation from the EBA. Therefore, LDC graduation would not significantly alter market access conditions for Timor-Leste.

⁷⁵ Based on current tariffs, which are 5.7% MFN for ferro-silicon (CN 72022x) and would be reduced, according to Article 7(2) of the GSP Regulation, by 3.5 percentage points, i.e., to 2.2%.

As a result of these considerations, it is estimated that the order of magnitude of the trade effects of EBA graduation on the countries not explicitly modelled, expressed in terms of percentage changes), would be as follows:

- The impact on Myanmar is expected to be about twice that on Nepal and Lao PDR;
- The impact on Solomon Islands and Sao Tomé and Príncipe is expected to be similar to the impact on Nepal and Lao PDR; and
- Negligible impacts are expected for Angola, Bhutan, Kiribati, Timor-Leste and Vanuatu.

The remainder of this section focuses on the three modelled economies (Bangladesh, Lao PDR, and Nepal) and the three non-modelled economies expected to have non-negligible trade impacts (Myanmar, Sao Tomé and Príncipe, and the Solomon Islands).

2.4.2.1.2 Macroeconomic effects

The expected macroeconomic effects in the three countries that are directly represented in the modelling results are in line with the trade effects (Table 29). The impact is strongest by far in Bangladesh, where real GDP is expected to fall by 1.7% compared to the counterfactual without graduation; Lao PDR and Nepal also face negative, although smaller, real GDP effects of about 0.1% each. This real impact is compounded by a steep decline in the terms of trade, which results in the GDP value impact being about 3 times larger, at close to 5% for Bangladesh. The declining terms of trade also exacerbate the welfare impacts (-2.1%). The ratios between the impact on macroeconomic variables is in line with those in the scenarios under task B.2.

Table 29: Macroeconomic impacts of EBA graduation of 12 countries (changes in % compared to no graduation)

Region	GDP - value	Real GDP - quantity	Welfare	Terms of trade	Tariff revenues
Modelled					
Bangladesh	-4.92	-1.66	-2.12	-2.57	-10.74
Lao PDR	-0.50	-0.09	-0.16	-0.14	-0.43
Nepal	-0.38	-0.10	-0.15	-0.21	-0.65
Inferred					
Myanmar	-1.6	-0.4	-0.6	-0.4	-1.6
Sao Tomé and Príncipe	-1.6	-0.4	-0.6	-0.2	-1.6
Solomon Islands	-1.6	-0.4	-0.6	-0.2	-1.6

Source: European Commission modelling results; and calculations by the study team.

For the countries not individually modelled (i.e. Myanmar, Sao Tomé and Príncipe, and the Solomon Islands), the expected macroeconomic effects depend on the trade effects derived above and the importance of these trade effects to the economies in question:

- The impact on GDP in real or quantity terms would be somewhat larger for the three non-modelled economies as compared to the average effects for Lao PDR and Nepal since the importance of exports to the EU relative to their GDP is about 4 times as great as it is for the latter economies on average. On this basis we infer declines in real GDP of roughly -0.4%, as shown in the bottom panel in Table 29.
- Welfare impacts are about 50% larger for Lao PDR and Nepal than real GDP effects. The impact on the value of GDP is about 4 times as large as the impact in quantity terms. These scaling factors provide a sense of what might expected for the non-modelled economies.
- We use the average effects for Lao PDR and Nepal to approximate the order of magnitude of the terms of trade change for the Solomon Islands and Sao Tomé and Príncipe. Myanmar would likely experience effects about twice as strong as the average given the larger share of its exports that go to the EU.

2.4.2.1.3 Impact on government revenue

Tariff revenue effects (Table 29, last column) would be significant for Bangladesh (almost 11% lower than without graduation), resulting from lower imports in the economy's adjustment to the graduation shock. For Nepal and Lao PDR, the impact on tariff revenue would also be negative but more limited, at 0.6% and 0.4% respectively. Insofar as imports for the beneficiary economies move in line with the value of GDP, tariff revenue effects for the economies would be broadly in line with those changes.

More importantly, total government revenues will likely move in line with GDP value. This implies a significant reduction in total government revenue for Bangladesh and material declines for Myanmar, the Solomon Islands and Sao Tomé and Príncipe. Lao PDR and Nepal face more limited revenue shrinkage.

2.4.2.1.4 Sectoral effects

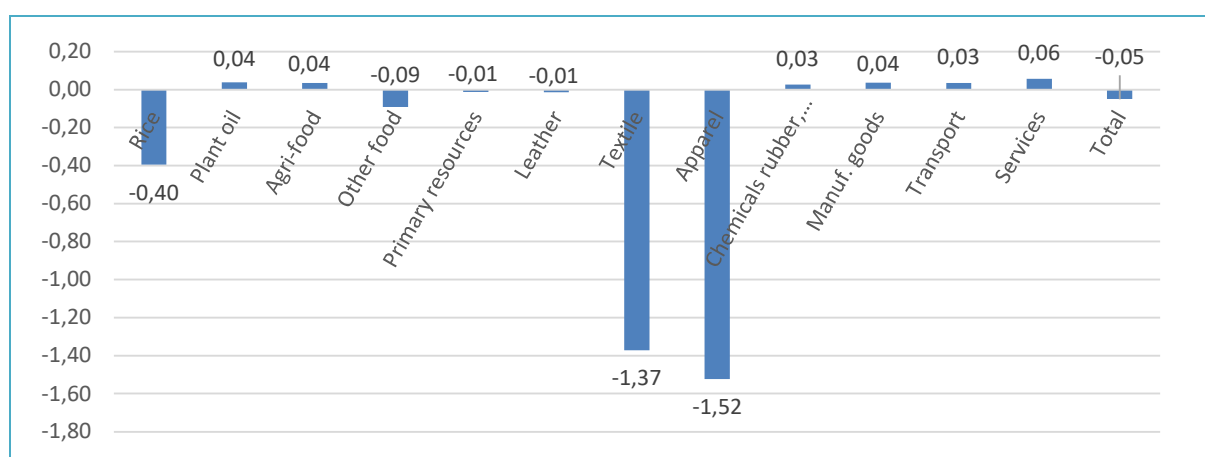
Sectoral effects are predicted to be strong, with significant readjustments across sectors to be expected. This comes through clearly when these impacts are viewed from the perspective of EU imports. The impact of EBA graduation by the 12 countries is concentrated on three sectors, where total imports are expected to decrease as a result of the loss of preferences: apparel imports are predicted to decrease by 1.5%, textile imports by 1.4%, and rice imports by 0.4% (Figure 11).⁷⁶

The breakdown of the sectoral impacts for each of the 12 graduating countries is less clearly captured by the CGE simulations for reasons already noted in the discussion of total trade impacts, namely that only three of the graduating class are separately represented as regions in the simulations. Similar to the results in task B.2, the effects are highest with regard to exports to the EU (Table 30), slightly less high, due to reallocation of exports, for total exports (Table 31), and still more muted – but nevertheless quite high – for value added (Table 32). Specifically:

- In **Bangladesh**, exports to the EU of all sectors except primary resources, transport and services are negatively affected, with a contraction of up to 49% (rice) compared to no graduation. Due to redirection of exports to other markets, total exports are less strongly affected. However, the gains made by some sectors, such as agri-food or chemicals, rubber & plastics, occur in relatively small export sectors (Table 33) and therefore cannot compensate the strong losses of 14% and 11% respectively in the textiles and garments sectors, which account for more than 80% of total exports. The shifts in total exports also translate into similar effects for sectoral value added.

⁷⁶ Note, again, that the predicted decrease in rice imports does not consider the impact of safeguards on rice from Cambodia and Myanmar. Considering their existence, the actual impact is expected to be more limited.

Figure 11: Changes in EU imports resulting from EBA graduation of 12 countries, by sector (2029, in % compared to baseline)



Source: European Commission Modelling Results.

Table 30: Changes in exports to the EU resulting from EBA graduation of 12 countries, by sector (2029, in % compared to baseline)

Exporter	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	0.4	0.0	0.0	0.0	0.0	0.0	1.6	1.8	0.0	0.0	0.0	0.0	0.0
Standard GSP													
Bangladesh	-48.9	-17.7	-4.0	-8.3	14.9	-22.1	-24.8	-35.6	-1.1	-10.6	11.8	10.5	-27.2
Indonesia	0.6	0.1	0.1	0.1	0.0	0.2	2.3	2.8	0.1	0.1	0.0	0.1	0.3
India	0.6	0.1	0.1	0.1	0.0	0.3	2.3	2.9	0.1	0.1	0.0	0.1	0.3
Kenya	0.6	0.0	0.1	0.1	0.0	0.3	2.3	2.9	0.1	0.1	0.0	0.1	0.1
Lao PDR	-44.2	-25.7	-7.7	-42.4	0.1	-27.4	-22.9	-41.1	-13.9	1.1	1.1	1.1	-11.8
Nigeria	0.6	0.0	0.1	0.1	0.0	0.3	2.3	2.8	0.1	0.1	0.0	0.1	0.0
Nepal	-38.1	-13.1	0.0	-24.1	-6.6	-15.2	-25.6	-37.5	0.3	0.3	0.7	0.8	-5.4
GSP+													
Bolivia	0.6	0.0	0.1	0.1	0.0	0.3	2.3	2.8	0.1	0.1	0.0	0.0	0.0
Kyrgyzstan	0.6	0.0	0.1	0.1	0.0	0.2	2.3	2.8	0.1	0.0	0.0	0.0	0.1
Mongolia			0.1	0.1	0.0	0.2	2.3	2.8		0.0	0.0	0.0	0.2
Pakistan	0.7	0.1	0.1	0.1	0.0	0.4	2.4	2.9	0.1	0.1	0.1	0.1	1.5
Philippines	0.6	0.0	0.1	0.1	0.0	0.2	2.3	2.8	0.1	0.1	0.0	0.0	0.1
Tajikistan		0.0	0.0	0.0	0.0	0.2	2.3	2.8	0.1	0.0	0.0	0.0	0.4
EBA													
Other LDC	0.6	0.0	0.0	0.1	0.0	0.2	2.3	2.8	0.1	0.0	0.0	0.0	0.3
Others													
Armenia	0.6	0.0	0.0	0.1	0.0	0.2	2.3	2.9	0.1	0.0	0.0	0.0	0.1
China	0.6	0.0	0.1	0.1	0.0	0.2	2.3	2.8	0.1	0.0	0.0	0.0	0.4
Sri Lanka	0.5	0.0	0.0	0.0	0.0	0.1	2.2	2.7	0.0	0.0	0.0	0.0	0.6
Turkey	0.4	-0.2	-0.1	-0.1	0.0	-0.2	1.9	2.3	-0.1	-0.1	-0.1	-0.1	0.3
UK	0.4	-0.1	0.0	0.0	0.0	0.0	1.7	1.9	0.0	0.0	0.0	0.0	0.0
Vietnam	0.7	0.0	0.0	0.1	0.0	0.2	2.3	2.8	0.1	0.0	0.0	0.0	0.5
Sub-S Africa	0.8	0.2	-0.7	-0.5	0.0	0.4	2.5	2.4	-15.3	0.2	0.1	0.1	-1.0
Other GSP	-53.4	0.1	0.2	-8.6	0.0	-27.1	2.5	-37.2	0.1	0.1	0.1	0.1	-0.3
Rest of world	0.6	0.0	0.1	0.1	0.0	0.3	2.4	2.9	0.1	0.1	0.0	0.0	0.1
Total	-0.2	0.0	0.0	0.0	0.0	0.0	-0.5	-0.8	0.0	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

Table 31: Changes in total exports resulting from EBA graduation of 12 countries, by sector (2029, in % compared to baseline)

Exporter	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	-0.1	0.0	0.0	0.0	0.0	-0.2	-0.4	-0.7	-0.1	-0.1	0.0	0.0	-0.1
Standard GSP													
Bangladesh	-0.7	5.8	8.6	-3.2	12.7	-1.5	-14.5	-10.6	7.9	5.9	11.8	10.5	-8.5
Indonesia	0.2	-0.1	-0.1	0.0	0.0	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0
India	-0.1	-0.1	-0.5	0.0	0.0	0.1	-0.1	1.1	0.0	0.0	0.0	0.0	0.0
Kenya	0.0	0.0	0.0	0.0	0.0	0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Lao PDR	-14.1	0.9	-0.8	-11.3	0.1	-2.2	-7.3	-24.6	-0.3	1.0	1.1	1.0	-0.7
Nigeria	0.1	0.0	-0.2	0.1	0.0	0.2	0.7	0.5	0.0	0.0	0.0	0.0	0.0
Nepal	-10.6	0.3	-1.7	-2.6	0.3	-2.3	-6.2	-15.5	0.2	0.8	0.6	0.8	-1.1
GSP+													
Bolivia	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Kyrgyzstan	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Mongolia		0.0	0.0	0.0	0.0	0.0	0.7	0.7		0.0	0.0	0.0	0.0
Pakistan	-0.1	0.0	-1.3	0.0	0.0	0.1	0.0	1.3	-0.1	0.0	0.0	0.0	0.0
Philippines	0.2	0.0	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Tajikistan	-0.1	0.0	0.0	0.0	0.0	0.4	1.0	2.1	0.0	0.0	0.0	0.0	0.1
EBA													
Other LDC	0.2	0.0	-0.1	0.0	0.0	0.1	0.9	0.3	0.0	0.0	0.0	0.0	0.0
Others													
Armenia	0.2	0.0	0.0	0.0	0.0	0.1	1.0	1.7	0.0	0.0	0.0	0.0	0.0
China	-0.1	0.0	-0.1	0.0	0.0	0.0	-0.2	0.4	0.0	0.0	0.0	0.0	0.0
Sri Lanka	0.0	-0.1	-0.1	0.0	0.0	-0.1	0.3	0.4	-0.1	-0.1	0.0	0.0	0.1
Turkey	-0.2	-0.2	-0.2	-0.1	0.0	-0.4	0.9	1.4	-0.2	-0.2	-0.1	-0.2	0.0
UK	0.4	-0.1	0.0	0.0	0.0	0.0	0.7	1.0	0.0	0.0	0.0	0.0	0.0
Vietnam	-0.6	-0.1	0.0	0.0	0.0	0.1	0.1	0.5	0.0	0.0	0.0	0.0	0.0
Sub-S Africa	0.3	0.1	-0.1	-0.2	0.0	0.2	-0.1	-0.1	-5.2	0.1	0.1	0.1	-0.1
Other GSP	-4.3	-0.2	0.1	-0.4	0.0	-6.6	0.6	-8.0	-0.1	0.1	0.1	0.1	-0.1
Rest of world	-0.5	0.0	-0.1	0.0	0.0	0.1	0.4	1.7	0.0	0.0	0.0	0.0	0.0
Total	-0.4	-0.1	-0.1	0.0	0.0	0.0	-0.6	-0.3	0.0	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

Table 32: Changes in real value added resulting from EBA graduation of 12 countries, by sector (2029, in % compared to baseline)

Region	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services	Total
EU27	0.2	0.0	0.0	0.0	0.0	-0.1	0.9	0.9	0.0	0.0	0.0	0.0	0.0
Standard GSP													
Bangladesh	-0.7	2.1	-0.3	-1.6	0.8	1.1	-5.4	-8.1	2.3	2.8	0.1	-0.6	-0.9
Indonesia	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
India	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Kenya	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lao PDR	-0.1	0.3	0.1	0.1	0.2	-1.1	-3.8	-13.5	-0.2	1.0	0.5	0.2	0.0
Nigeria	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nepal	0.0	0.2	-0.1	-0.1	0.1	-0.4	-3.1	-3.1	-0.1	0.3	0.1	0.0	0.0
GSP+													
Bolivia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kyrgyzstan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Mongolia	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.1		0.0	0.0	0.0	0.0
Pakistan	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	-0.1
Philippines	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tajikistan	0.0	0.0	0.0	0.0	0.0	0.3	0.1	1.9	0.0	0.0	0.0	0.0	0.1
EBA													
Other LDC	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Others													
Armenia	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.7	0.0	0.0	0.0	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Sri Lanka	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.2	-0.1	0.0	0.0	0.0	0.0
Turkey	-0.1	-0.1	0.0	0.0	0.0	0.1	0.6	0.8	0.0	-0.1	0.0	0.0	0.0
UK	0.2	0.0	0.0	0.0	0.0	-0.1	1.1	1.1	0.0	0.0	0.0	0.0	0.0
Vietnam	-0.1	0.0	0.0	0.0	0.0	0.1	0.2	0.4	0.0	0.0	0.0	0.0	0.0
Sub-S Africa	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	-1.0	0.1	0.0	0.0	0.0
Other GSP	0.0	0.0	0.0	-0.1	0.0	-1.4	-0.3	-2.0	0.0	0.0	0.0	0.0	0.0
Rest of world	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: European Commission Modelling Results.

- A reduction of exports to the EU for most sectors is also predicted for **Lao PDR**, where except for services sectors, primary products and manufactures export levels are expected to be up to 45% (rice) lower than without graduation. The impact on total exports is however heavily concentrated on four sectors: apparel (-24.6%), rice (-14.1%), other food (-11.3%) and textiles (-7.3%). Apparel is also the sector most affected in terms of output and value added (-13.5%). However, unlike in Bangladesh, these negatively affected sectors are comparatively small exporters (Table 33), whereas some of the benefitting sectors, notably manufacturing are much more important. As a result, the negative impact is concentrated on small sectors, but impacts are small across the economy.
- Sectoral impacts in **Nepal** closely resemble those in Lao PDR: negative impacts are found in the same sectors, with output of textiles and apparel most affected. Although especially the textile sector is a relatively more important export sector (10.6% of total exports), the overall impact on production in Nepal is neutral, as the (slightly even more important) manufacturing sector is among the benefactors of graduation.
- Sectoral impacts shown for the OGSP region largely reflect **Myanmar**. The strongest impact will be on the rice sector, which benefits from preferences under EBA (although currently subject to safeguards; but these are not reflected in the model simulations) but not under the Standard GSP. Rice exports to the EU (which currently account for about 30% of the country's total rice exports) are expected to be less than half with graduation compared to no graduation. However, due to export diversification, the effect on total sector exports will be less than 5%. The trade impact on apparel, leather and, to a lesser extent, other food products will also be clearly negative, with bilateral exports declining by up to almost 40%. Also, the scope of redirection of garments and leather products is more limited than for rice, and therefore the negative impact on total exports and value added is stronger, for garments at about 8% for exports and 2% for value added (leather slightly lower).
- For **Sao Tomé and Príncipe**, although the country's main export, cocoa beans (HS1801; accounting for 85% of exports to the EU over the period 2017 to 2019), benefits from duty free access to the EU, chocolate preparations (HS1806), the exports of which have steeply grown in recent years, do not; the Standard GSP includes these products but as sensitive ones; and they therefore only benefit from partial tariff reduction; this will negatively affect exports of value added cocoa products and thereby hamper export diversification. Moreover, the other important export to the EU, peppers (HS090411), are not covered by the Standard GSP. Graduation is therefore expected to further increase the already high export concentration.
- For **Solomon Islands**, the main exports – tuna fillets (HS1604) and palm oil (HS1511, 1513) – which account for virtually the totality of exports to the EU, are likewise covered by the Standard GSP but as sensitive products, only providing partial preferences.

Table 33: Sectoral composition of total exports in baseline, Bangladesh, Lao PDR and Nepal

	Rice	Plant oil	Agri-food	Other food	Primary resources	Leather	Textile	Apparel	Chemicals rubber, plastics	Manuf. goods	Transport	Services
Bangladesh	0.0%	0.1%	1.7%	1.7%	0.3%	1.7%	34.1%	46.8%	0.6%	3.0%	0.9%	9.2%
Lao PDR	0.8%	0.4%	6.0%	0.4%	44.1%	0.3%	0.6%	3.7%	1.9%	29.2%	5.6%	6.8%
Nepal	0.2%	0.5%	11.1%	1.2%	2.3%	2.2%	10.6%	4.4%	4.7%	13.5%	7.3%	42.0%

Source: Authors' calculations based on European Commission Modelling Results.

One observation with regard to Angola provides more anecdotal evidence on the impact that graduation can have on export diversification: the negative impact predicted by the model for the chemicals, rubber and plastics sectors for the Sub-Saharan Africa region (bilateral exports down by 15%, total exports down by 5%, value added down by 1%) is

due to graduation's impact on that sector in Angola (value added products based on mineral fuels). Although this is a small sector in the country, it is an illustration of the negative impact of graduation on export diversification: whereas raw materials (i.e., mineral fuels) attract no MFN duties and are therefore not affected, value added products are affected by market access barriers, and therefore graduation fosters the switch of graduating countries to export of raw materials and away from manufactures. The GSP scheme only ameliorates that effect due to the more limited scope of preferences granted when compared to the EBA.

Finally, as mentioned, the CGE model simulations do not consider changes in rules of origin stemming from the graduation of countries out of the EBA. As case study 9 (**Annex C-9**) shows, the changes in rules of origin that accompany graduation from EBA to Standard GSP or GSP+ are likely to be an exacerbating factor in the negative impacts on beneficiaries. Across countries, the extent will vary across companies depending on their sourcing patterns for inputs that count towards "originating" status and the extent to which they already carry out functions that help qualify production processes for "originating" status – or can readily develop those capabilities in-house. For smaller producers that might find it difficult to make adjustments, trade might shift to full MFN, which could lead to exit from the EU market altogether, given the price competition in the more highly protected product groups. Accordingly, the **implication of the tightening of rules of origin under country graduation from EBA to Standard GSP or GSP+ may be a reduction of overall production diversification in graduating EBA countries.**

2.4.2.2 Analysis of Social Impacts

Given the anticipated economic impacts of the move from EBA to the Standard GSP, which are concentrated on some of the graduating countries (and negligible for others, as well as non-graduating countries), the impact on employment levels, as well as wages for skilled and low-skilled workers, and the overall welfare has been assessed only for those countries.

Across the economy, wages of skilled workers in **Bangladesh** are expected to be lower by 3.1% and of low-skilled ones by 2.2% than without graduation. The overall welfare is estimated to be lower by 2.1% (Table B4-2.1 in Annex B4-2). Sectoral employment reallocation of skilled workers (Table B4-2.2 in Annex B4-2) would lead to a shift away from the current leading export industries, i.e., the garment sector (-7.4%) and textiles (-4.8%), to manufactured goods (+4.4%), chemicals, rubber and plastics (+3.5%), plant oil (+3.4%), primary resources (+3.3%) and the leather sector (+2.4%), thereby contributing to a diversification of economic activity. Very similar trends are expected for low-skilled workers (Table B4-2.3 in Annex B4-2): employment reduction in the garment sector (-7.3%) and in textiles (-4.8%), and job creation in manufactured goods (+2.9%), chemicals, rubber and plastics (+3.9%), plant oil (+3.9%), primary resources (+1.7%) and leather goods (+3.0%). Considering the size of garments sector in Bangladesh, which employs between 3.6 million and 4 million, mainly low-skilled, workers, and 80% of them women, the sectoral employment reallocation could require up to 300,000 persons needing to find new jobs in other sectors; accordingly, the need for re-training and covering temporary unemployment is high. More details are provided in case study 1 (**Annex C-1**).

In **Lao PDR**, economy-wide social effects are more limited: Wages of skilled and low-skilled workers, as well as the overall welfare are estimated to fall by 0.2% as a result of graduation from the EBA (Table B4-2.1 in Annex B4-2). Sectoral employment reallocation is expected to be much more concentrated on the textile and especially apparel sector, which would see fewer jobs for skilled workers (-14.2% in apparel, -4.1% in textiles by 4.1%), with some employment reduction also in the leather sector (-1.2%) (Table B4-2.2 in Annex B4-2). On the other hand, graduation would lead to more employment in manufactured goods (+1.0%), transport (+0.5%) and plant oil (+0.4%). Employment effects for low-skilled workers follow the same trends but are expected to be slightly higher

(Table B4-2.3 in Annex B4-2): losses in the garment sector (-15.2%), textiles (-4.5%) and leather (-1.3%), and gains in manufactured goods (+1.0%), plant oil and primary resources (+0.4% each). Although the effects on the garment sector are much higher than in Bangladesh in percentage terms, the absolute effects are much smaller, given the limited size of the sector in Lao PDR, with a total employment in 2015 of 30,000 (i.e., 1% of the corresponding employment in Bangladesh). More details are provided in case study 6 (**Annex C-6**).

The overall social impact of graduation in **Nepal** is estimated by the CGE model to be even slightly lower than for Lao PDR: Wages of low-skilled workers and the overall welfare are expected to decrease by 0.1%, while wages of skilled workers will remain unchanged (Table B4-2.1 in Annex B4-2). Sectoral employment effects are also comparable to Lao PDR but more limited in relative scale (Tables B4-2.2 and 2.3 in Annex B4-2): employment of skilled workers would shift from mostly the garment and textile sectors (-3.2% each) and the leather sector (-0.4%) to manufactured goods (+0.3). For low-skilled workers, the estimated changes will be largely the same.

Determining the social impact in countries not modelled individually is more difficult (and subject to a higher degree of uncertainty). For **Myanmar**, considering the export structure (characterised by a high share, approximately three quarters, of exports to the EU being garments) and relatively high importance of the EU as an export market, relative employment shifts in the textile, garments and leather sectors are estimated to be somewhere between those in Lao PDR and in Bangladesh. Given that the garment sector in Myanmar is important, employing between 500,000 and 1 million persons (i.e., the number of 2019 and the predicted increase in the coming years), the absolute scale of the employment impact might be comparable to the one in Bangladesh. What is different however, is the recent development: whereas exports from Bangladesh to the EU have grown little in recent years, GSP eligible exports from Myanmar to the EU have increased steeply, from €878 million in 2016 to €2 billion in 2018, with the preference utilisation rate of 95.5%; this may mean that in Myanmar the anticipated employment effects translate not into absolute sectoral job losses but only lower job growth than without graduation. More details are provided in case study 5 (**Annex C-5**).

For the other countries where some impact from graduation is expected, we note the following:

- For **Sao Tomé and Príncipe**, some negative effects for cocoa processing cannot be excluded. While the actual scope of these effects is likely to be limited, what is more important is that LDC graduation reduce the likelihood of this sector expanding and therefore limits the future creation of jobs in a non-traditional sector of the country (a similar argument would apply to value added petrochemicals in Angola).
- In **Solomon Islands**, negative employment and/or wage impacts in the tuna-processing industry cannot be excluded.

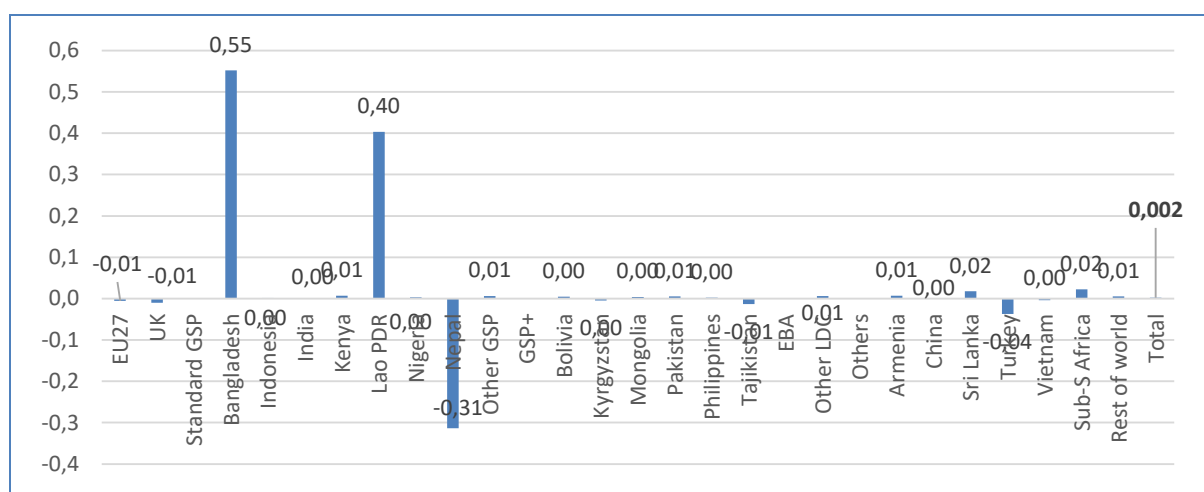
2.4.2.3 Analysis of Environmental Impacts

Globally, the economic model predicts minimal changes in CO₂ emissions resulting from the changes in preferences from LDC graduation (Figure 12). At the same time, changes in emissions by the countries affected by the change vary widely, from relatively large increases in Bangladesh and Lao PDR to a relatively large decrease in Nepal. Due to the regional aggregation, inferences on CO₂ emission changes in the other nine graduating countries are not possible.

Out of the twelve countries (potentially) graduating from the LDC status, the impacts in terms of CO₂ emissions would be the biggest (in relative terms) for **Bangladesh**. The country's move from EBA to the Standard GSP is expected to result in a total increase of 0.55% or 0.66 Mtons of CO₂. This total effect is composed of an increase of emissions from

the productive sectors by 1.2% and a decline of emission from the government and households of about 0.6% due to the negative impact on GDP. Among the productive sectors, the increase is mainly the result of a shift of production from the garment and textile industry to industries with a higher energy and CO₂ intensity such as manufacturing, plantoil production, and chemicals, rubber products and plastics. The expected sectoral reductions in CO₂ emissions in the textile and garment sectors are quite significant (Table B4-3.1 in Annex B4-3): 9.0% for garments and 6.4% for textile. Also emissions reductions in the other food sector are relatively high, at 3.0%. Whereas most sectors would see their CO₂ emissions reduce, these are overcompensated by the increases in manufacturing (1.9%), plantoil production (1.7%) and in chemicals, rubber products and plastics (1.5%). These shifts are in line with Bangladesh's own expectations as included in its national communications reported to the UNFCCC.⁷⁷

Figure 12: Changes in CO₂ emissions due to change from EBA to Standard GSP by LDC graduating countries, by country/region (2029, in % compared to baseline)



Source: European Commission Modelling Results.

The lower levels of GDP resulting from the country's status change (from EBA to Standard GSP) would put further stress on Bangladesh' abilities to address climate change. In its INDC, Bangladesh has included an unconditional contribution to reduce GHG emissions by 5% from 2030 BAU levels in the power, transport and industry sectors. The country also included a conditional target of 15%, depending on international support. Lower GDP could jeopardise Bangladesh's own contribution to target achievement, which is certainly not preferred in a country that is highly vulnerable to climate change.

It should be noted that environmental impacts other than CO₂ emission changes – which are not included in the modelling system – would likely occur as well. For example, the detailed analysis in case study 12 identifies the significant role of the garment industry to wastewater pollution as a result of the effluent from untreated wastewater. A shift away from this industry will likely reduce this challenge. Increase in chemical production and manufacturing however may result in higher emissions of POPs and of hazardous waste (see **Annex C-12**).

In terms of CO₂ emissions **Lao PDR** is the country with the second biggest impact (in relative terms). Lao's move from EBA to the Standard GSP is predicted to result in a total increase in emissions of 0.4%; like in Bangladesh, this is composed of higher increase (about 0.7%) from production shifts, and a decline in emissions from households and government due to the negative impact on GDP. In absolute terms, the increase is quite small, at about 0.02 Mtons of CO₂. As in Bangladesh, the expected increase in CO₂

⁷⁷ Third National Communications of Bangladesh to the United Nations Framework Convention on Climate Change, p. 101. Available at https://unfccc.int/sites/default/files/resource/TNC%20Report%20%28Low%20Resolution%29%2003_01_2019.pdf

emissions from productive activities in Lao PDR is mainly the result of a shift of production, again away from the garment industry (-13.8% CO₂ emissions) and the textile industry (-4.0%). In this scenario, the expected increase in CO₂ emissions are the highest in the manufacturing sector (1.0%) and in transport (Table B4-3.1 in Annex B4-3). As in the scenarios under task B.2, the bigger environmental concern for Lao PDR would come from the expected GDP decline, reduction of jobs and welfare losses. These could set Lao PDR back in terms of efforts to address loss of forestry coverage and overexploitation of natural resources, both of which would put further stress on Lao PDR's rich biodiversity.

Nepal is third in line in terms of relative impacts on CO₂ emissions from EBA graduation. However, unlike in the other two countries, total CO₂ emissions are expected to be 0.3% lower than without the graduation. Reductions take place in all sectors without exception, ranging from virtually no change (in transport) to 3.6% in textiles and apparel (Table B4-3.1 in Annex B4-3). Relative to the major decline in exports to the EU, the CO₂ emission reductions in transport are disappointingly low. Transport has in the last years been the main source of GHG emission increases in Nepal. The transport sector is also one of the main causes of Nepal's increasing struggle to control its levels of air pollution, with current levels largely exceeding levels from WHO guidelines.

For the graduating countries not modelled individually, the environmental impacts are expected to be limited, except for Myanmar. Here, considering the economic and export structure, which is similar to Bangladesh, the anticipated reduction in exports and output from the garment, leather and textile industries would have positive impacts on the levels of water pollution in the country.

2.4.2.4 Analysis of Impacts on Human Rights

The graduation from EBA to Standard GSP is associated with a reduction in preferences for access to the EU market due to the reduced product scope, partial preferences for sensitive goods, and changes in the applicable rules of origin. This, as shown in the economic analysis, would lead to reduced exports and outputs in at least some of the graduating countries. These economic effects, in turn, may trigger social and human rights effects. Table B4-4.1 in Annex B4-4 analyses these potential effects for the countries where some economic impacts have been identified at the level of the overall economy or at sector level, i.e. Bangladesh, Lao PDR, Nepal, Myanmar, Sao Tomé and Príncipe, and Solomon Islands. Other countries are not expected to experience any noticeable economic impact and therefore also no noticeable human rights impact.⁷⁸ In addition, commitments of all GSP countries with respect to human rights are reflected in Table B4-4.2 in Annex B4-4.

The rights considered for the analysis have been drawn from the International Bill of Human Rights: the Universal Declaration of Human Rights (UDHR) and the two Covenants, i.e. the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR), as well as other key human rights instruments (see references to all the instruments in Table B4-4.2). The highest impact from the graduation is expected to be on the economic and social human rights. In this respect, because of the low level of ratification of human rights treaties by Myanmar, which did not ratify the ICCPR and many other core international human rights conventions, it is important to note that all of the graduating countries ratified the ICESCR and, therefore, have legal obligations to ensure protection and progressive realisation of these rights for their citizens.

The analysed potential impact of the graduation from EBA to Standard GSP status on human rights stems from economic effects related to changes in employment which are

⁷⁸ It should be noted that the results of the economic modelling for the countries not modelled individually (i.e., Myanmar, Sao Tomé and Príncipe, and Solomon Islands) provide only limited inputs for the analysis of impacts on the enjoyment of human rights. Therefore, the analysis provided below for these countries is qualitative only.

expected to have a direct impact on such rights as 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 (e.g. textiles and wearing & apparel in Bangladesh and Lao PDR). The right to social security could also be impacted as a result of lost employment. Indirectly, because businesses in negatively impacted beneficiary countries come under pressure from significantly reduced market access, the right to just and favourable conditions at work, but also the freedom of assembly and freedom of association could be negatively impacted as businesses seek to further reduce costs in order to limit the loss in access by offsetting the higher tariffs by producing at lower costs and putting labour rights under pressure. Also, the right to health and the right to education could be negatively affected in an indirect way: One impact channel is the impact on tariff revenues and tax revenues as a consequence of the graduation from EBA – leaving the EBA beneficiary country government with more limited public resources to support public services. A stronger impact channel, however, is the fact that in case out-of-pocket costs are part of the mechanism for citizens to get access to education and healthcare, job losses would lead to decreases in income, making the out-of-pockets too expensive to afford, leading to a loss in access to healthcare and education. Moreover, the impact is expected to be more profound for the most vulnerable groups of the population or persons facing multiple discrimination (e.g. women with disabilities).

The effects for the countries expected to be impacted most are as follows (for details, see Table B4-4.1 in Annex B4-4).

For **Bangladesh**, graduation from EBA to the 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 in Bangladesh overall, people in negatively impacted sectors will lose their jobs and (part of) their incomes. The right to work, the right to just and favourable conditions of work, but also the right to an adequate standard of living and other related rights are expected to be particularly negatively impacted for population groups economically active in sectors like wearing and apparel and textiles. Since these sectors employ a relatively high share of women and are characterised by a large informal economy, women and vulnerable population groups are expected to be affected, in part because labour protection is weakest for these groups. Growing sectors (manufactured goods and chemicals) are expected to create an opposite (positive) but much smaller impact on these rights. Because it is difficult, if not impossible, to move easily between sectors in the immediate aftermath of the shock stemming from the change in GSP status, the skills of the workers that benefit are not the same as those that lose out. The right to a clean environment is expected to be positively affected due to a decrease in production in the polluting textile and leather and apparel sectors. This positive environmental effect is not expected to be large, however, because of the absence of a clear mechanisms to reduce pollution and promote sustainable production in general in Bangladesh (see case studies 1 and 12, Annexes C-1 and C-12).

In **Lao PDR**, the impact on human rights is expected to be less broad (i.e. impacting less sectors) and less deep (i.e. impacting the affected sectors less heavily) than in Bangladesh. However, due to the high concentration of employment in the informal sector, and due to the fact that negatively affected sectors employ a relatively high share of women and are already characterised as having many low-paid jobs, the country's graduation from EBA to the Standard GSP could disproportionately affect human rights of the most vulnerable population groups in Lao PDR, such as women and persons with the lowest incomes. Similar to Bangladesh, the right to work, the right to just and favourable conditions of work, the right to an adequate standard of living and other related rights are expected to be negatively affected in declining sectors and somewhat positively affected in the growing sectors (also see the detailed analysis on human rights in Annex C-6). Because of the lower numbers and less concentrated nature of workers in the wearing and apparel and textile sectors, the effects in absolute numbers are significantly smaller than in Bangladesh.

The impact on human rights in **Nepal** is expected to be in particular noticeable in the affected sectors. A major negative impact is expected on the right to work, right to an adequate standard of living and labour rights in general for the persons employed in the textiles and wearing and apparel sectors. A positive impact on these rights is expected to be in the manufacturing and plantoil sectors. Due to the fact that economic effects are more spread across various sectors rather than concentrated in one or two specific ones, like in the case of Bangladesh and Lao PDR, the focused impact from graduation is not so pointed in the textiles and apparel sectors as in the previous two countries. The impact on other related human rights affected indirectly is expected to be minor.

In Myanmar,⁷⁹ the human rights impact is also expected to be visible in the economically affected sectors. Thus, labour rights and the right to an adequate standard of living are expected to be affected negatively in the apparel, leather and textiles sectors, and positively in the manufacturing, plantoil and transport services sectors. Unemployment is to be expected at least in the short and medium term due to employment reduction in the negatively affected sectors and the need to find jobs in other sectors. Especially women are expected to be affected by this. Given the fact that the female share of employment in the textiles, clothing and footwear sector is 90%, and because women are employed mainly in the low-paid production line jobs,⁸⁰ they are particularly vulnerable also with regard to the right to just and favourable conditions of work. The impact on other related human rights affected indirectly is expected to be minor.

2.4.3 Ratification and Implementation of Annex VIII Conventions by Graduating Countries

2.4.3.1 Human Rights Conventions

2.4.3.1.1 Ratification status

We look at the status of ratifications by graduating countries for the Genocide Convention, the current Annex VIII International Human Rights Treaties, as well as the two conventions proposed for inclusion (see Task B.6, section 2.6). With respect to the present Annex VIII conventions (Table 34), we find that Nepal, Lao PDR and Bangladesh are the only graduating countries that have ratified all conventions and thus meet the ratification criterion. For several countries, ratification gaps are significant: Tuvalu has not ratified five conventions, Bhutan and Kiribati four, and Myanmar, Solomon Islands and Vanuatu three. Ratification of these conventions would be a requirement for being able to access to the GSP+ arrangement upon graduation from the EBA.

Table 34 also shows that the two conventions proposed for addition to Annex VIII (OP-CRC-AC and CRPD) do not pose large problems in terms of their ratification by graduating countries. Two countries are signatory parties to CRPD (but have not ratified) and all others have ratified the convention. For OP-CRC-AC, only Sao Tomé & Príncipe and Tuvalu have not ratified the Optional Protocol, while the Solomon Islands are signatory party but have not ratified it yet.

2.4.3.1.2 Reservations expressed in relation to ratifications

In addition to the ratification overview, it is also important to investigate whether one or more EBA beneficiaries that are set to graduate have expressed reservations with regard to any of the conventions that they have ratified, and in particular whether any of these reservations could be considered as incompatible with the objectives of the convention (which would prevent access to the GSP+). Table 34 above presents an overview, while Table B4-4.2 in Annex B4-4 provides details on the expressed reservations. From this

⁷⁹ Note that due to the fact that Myanmar has not been modelled individually in the economic analysis, the impact on human rights is less accurate.

⁸⁰ <http://www.genderconcerns.org/country-in-focus/myanmar/the-situation-of-women-in-myanmar/>

information, we note that four graduating countries (Bangladesh, Lao PDR, Myanmar and Nepal) have expressed reservations to some of the ratified conventions (sometimes interpretations on definitions, but also sometimes reservations because of incompatibility with – for example – domestic religious laws or the Constitution). In the cases of Bangladesh, Lao PDR and Myanmar, some of these reservations may go against the object and purpose of the respective convention to the degree that they renege on the convention commitments – barring these countries to enter the GSP+ scheme (as they violate the second sustainable development criterion).

Table 34: Overview of ratification status of international human rights treaties by LDC graduating countries (as per Annex VIII plus additional treaties proposed for inclusion)

Country	International Human Rights Treaties and Optional Protocols								
	Genocide Convention	ICERD	ICCPR	ICESCR	CEDAW	CAT	CRC	OP-CRC-AC*	CRPD*
Angola	x	✓	✓	✓	✓	✓	✓	✓	✓
Bangladesh	✓	✓	✓ (res)	✓ (res)	✓ (res)	✓ (res)	✓ (res)	✓	✓
Bhutan	x	S	x	x	✓	x	✓	✓	S
Kiribati	x	x	x	x	✓	✓	✓	✓	✓
Lao PDR	✓	✓	✓ (res)	✓	✓	✓ (res)	✓	✓	✓
Myanmar	✓	x	x	✓ (res)	✓ (res)	x	✓	✓	✓
Nepal	✓	✓ (res)	✓	✓	✓	✓	✓	✓	✓
Sao Tomé & Príncipe	x	✓	✓	✓	✓	✓	✓	x	✓
Solomon Islands	x	✓	x	✓	✓	x	✓	S	S
Timor-Leste	x	✓	✓	✓	✓	✓	✓	✓	✓
Tuvalu	x	x	x	x	✓	x	✓	x	✓
Vanuatu	x	x	✓	x	✓	✓	✓	✓	✓

Notes: *Conventions not currently listed in Annex VIII but proposed for inclusion (see section 2.6); "(res)" means reservations expressed.

Source: <https://treaties.un.org>; see Annexes B5-1 and B6-2.

For example, the reservation of **Bangladesh** to not consider Articles 2 and 16 of CEDAW binding is not permissible as it refers to core provisions of the Convention.⁸¹ The declaration of Bangladesh to apply Article 14(1) of the Convention against Torture (CAT) only in line with domestic laws can be considered as a reservation of general nature as it concerns provisions on redress and compensation for victims of torture which would be essential in the sense of fulfilment of the commitments made under the Convention.⁸² Furthermore, the reservation of Bangladesh regarding Article 14 of the CRC would appear to limit the right of children to freedom of thought, conscience and religion, which constitutes one of the core rights of the Convention.

In the same vein, the reservation of **Lao PDR** to apply Article 22 of the ICCPR only in line with domestic laws does not appear to be in line with the HRC General Comment No. 24.⁸³ The declaration of Lao PDR regarding Article 1(1) of CAT, i.e., to define torture in line with domestic law, is to be considered incompatible with the object and purpose of the Convention as in substance it constitutes a reservation limiting the scope of the Convention. Likewise, the declaration of Lao PDR regarding Article 1 of the ICESCR on the application of the term "self-determination" constitutes a reservation that is not compatible with the object and purpose of the Covenant.⁸⁴

⁸¹ See CEDAW General Recommendation No. 21: Equality in Marriage and Family Relations, 1994, para. 41-47.

⁸² See objections to this declaration made by the governments of France, Finland, Spain, Sweden, Germany and the Netherlands.

⁸³ See in particular para.7 of the Human Rights Committee, General Comment No. 24 on Reservations, CCPR/C/21/Rev.1/dd.6 (November, 1994), republished as HRI/GEN/1/Rev.6.

⁸⁴ See also objections to this declaration by Austria, Portugal, Finland, Germany, the Netherlands, Ireland, Sweden and Latvia.

The declaration made by **Myanmar** regarding the definition of “self-determination” in Article 1 of the ICESCR should also be considered as a reservation of a general scope undermining the object and the purpose of the Covenant by applying its provision only in conformity with the Constitution of Myanmar.⁸⁵

2.4.3.2 ILO Conventions

2.4.3.2.1 Ratification status

As shown in Table 35, out of the 12 graduating countries, five have ratified all eight ILO fundamental conventions. This includes four out of the five countries with a set date for LDC graduation (Angola, Sao Tomé and Príncipe, Solomon Islands and Vanuatu), while Bhutan is not an ILO member and therefore has not ratified any of the conventions. In addition, four countries (three of which with a set date for graduation: Angola, Sao Tomé and Príncipe, Solomon Islands) have also ratified Convention No. 81, which is proposed for inclusion in Annex VIII of the GSP Regulation (see section 2.6 below). The ratification record for other countries varies, from seven ratified fundamental conventions and Convention No. 81 for Bangladesh to one fundamental convention for Tuvalu.⁸⁶

Table 35: Ratification status of ILO fundamental conventions and Convention No. 81 (labour inspection) by EBA beneficiary countries likely to graduate from LDC status, as of July 2020

Country	No. 29 - Forced or Compulsory Labour	No. 87 - Freedom of Association	No. 98 - Collective bargaining	No. 100 - Equal Remuneration of Men and Women	No. 105 - Abolition of Forced Labour	No. 111 - Discrimination	No. 138 - Minimum Age	No. 182 - Worst Forms of Child Labour	Number of ratified ILO fundamental conventions	No. 81 - Labour Inspection*
Angola	✓	✓	✓	✓	✓	✓	✓	✓	8	✓
Bangladesh	✓	✓	✓	✓	✓	✓	✗	✓	7	✓
Bhutan	Not an ILO Member									
Kiribati	✓	✓	✓	✓	✓	✓	✓	✓	8	✗
Lao PDR	✓	✗	✗	✓	✗	✓	✓	✓	5	✗
Myanmar	✓	✓	✗	✗	✗	✗	✓	✓	4	✗
Nepal	✓	✗	✓	✓	✓	✓	✓	✓	7	✗
Sao Tomé & Príncipe	✓	✓	✓	✓	✓	✓	✓	✓	8	✓
Solomon Islands	✓	✓	✓	✓	✓	✓	✓	✓	8	✓
Timor-Leste	✓	✓	✓	✓	✗	✓	✗	✓	6	✗
Tuvalu	✗	✗	✗	✗	✗	✗	✗	✓	1	✗
Vanuatu	✓	✓	✓	✓	✓	✓	✓	✓	8	✗

Note: *Conventions not currently listed in Annex VIII but proposed for inclusion (see section 2.5)

Source: ILO NORMLEX; see Annexes B5-1 and B6-2.

2.4.3.2.2 Reasons for non-ratification

The reasons provided by the countries in question for non-ratification of the remaining ILO fundamental conventions, as well as potential steps towards the ratification are as follows:⁸⁷

- **Bangladesh** (missing Convention No. 138) claims that the country’s large informal economy impedes an effective monitoring of the state of child labour and trends in it, and therefore ratification of Convention No. 138. At the same time, it informs that

⁸⁵ See objections to the declaration by Austria, Portugal, Finland, Germany, the Netherlands, Ireland, Sweden and Latvia.

⁸⁶ For further details concerning ratification of the ILO fundamental conventions by GSP beneficiary countries and plans to ratify the outstanding ones, see Annex B5-1 and Table B5-4.2 in Annex B5-4.

⁸⁷ For a more detailed analysis see section 2.5 (Task B.5) and Table B5-4.2 in Annex B5-4.

measures are being taken to eradicate poverty, improve social protection and ensure education for children up to 14 years of age to withdraw them from work.

- According to **Nepal** (missing Convention No. 87), ratification of the Convention on freedom of association is not a priority for the Government.
- **Timor-Leste** (pending ratification of Convention No. 105 on forced labour and No. 138 on the minimum age for admission to work) assured about the intention to ratify both conventions, and worker and employer organisations in the country support it.
- **Lao PDR** (three conventions to ratify yet, i.e., No. 87 and 98 and 105) provided the same information for all three conventions, i.e., that it had requested ILO technical assistance to understand the scope of the conventions and implications of their ratification.
- **Myanmar** (four conventions to ratify yet) claimed that the analysis of the alignment of the national legislation with each of these conventions was under way and the ratification would be considered in due time in the future.
- **Tuvalu** (only one fundamental convention, No. 182, ratified to-date) informed that ratification of the remaining seven fundamental conventions would be considered in the future, further to revision of the national legislation to ensure alignment with the convention. Employers and worker organisations support the ratification.

To our knowledge, there is no publicly available information which would outline the reasons of the ILO Members for non-ratification of the conventions going beyond the fundamental ones, i.e., Convention No. 81.

There is no comparable information available as to the reasons for non-ratification of conventions going beyond the fundamental ones, i.e., Convention No. 81.

Regarding Bhutan, the country is not an ILO member and therefore has not ratified any of the ILO fundamental conventions, nor Convention No. 81. Case study 10 (**Annex C-10**) provides an analysis of the Bhutanese legislation and the degree of its compliance with the ILO core labour standards, thus giving an indication of an effort required to ensure an effective implementation of these conventions in case the country decides to join the ILO and to ratify them.

In the remainder of the study work, we will aim to seek the ILO's assessment of each case, as well as updated positions of the beneficiary countries regarding prospects for the ratification of the remaining conventions.

Regarding the other requirement for admission to the GSP+ arrangement, i.e., lack of serious violations of the conventions from part A in Annex VIII (it means all eight ILO fundamental conventions), under Task B.5 and B.8 (see sections 2.5 and 2.8), we have carried out an analysis of cases of concern among the current GSP beneficiaries to identify those which may have problems with satisfaction of the new conditionality (effective implementation of the conventions or at least lack of serious violations).

Among the EBA graduating countries, **Bangladesh** and **Myanmar** are involved in an ongoing enhanced engagement with the EU due to serious concerns by the ILO in the implementation of the ratified fundamental conventions and may ultimately face a temporary withdrawal of preferences. Moreover, Bangladesh due to a complaint under Article 26 of the ILO Constitution submitted by worker representatives is under ILO scrutiny, which may lead to the establishment of a Commission of Inquiry. Both countries have also been considered in the last few years as individual cases of concern by the ILO monitoring bodies. One of them (Myanmar, 2019, Convention No. 29 on forced labour) was referred to the ILO Committee on the Application of Standards by the Committee of Experts as a case of serious concern (the so-called "double-footnote") while Bangladesh in 2016 had obtained a special paragraph from the ILO (one of the worst level of violations).

Among the remaining graduating countries, in 2019 **Lao PDR** was considered by the ILO Committee on the Application of Standards as an individual case with regard to Convention No. 182 (the worst forms of child labour).

All these cases will require further monitoring and an assessment of the evolving situation on the ground as well as the position of the government. This will allow to conclude if, at the time of the entry into force of the new Regulation or possibly at later stage, if the state of play of the implementation of the ILO fundamental conventions could be seen as compatible or not with a potential application to the GSP+ arrangement (provided the missing conventions will have been ratified by then).

2.4.3.3 Environmental Conventions

The graduating EBA countries in general already have a good track record on ratification of the environmental conventions currently included in Annex VIII (Table 36). Three of the 12 countries have ratified all of the eight conventions while another six have ratified all but one convention. Among the countries with a set date for graduation from LDC status, Bhutan, Sao Tomé & Príncipe, Solomon Islands and Vanuatu have each signed seven out of the eight Annex VIII environmental conventions, and would still have time to ratify the respective remaining one by the time they graduate from the EBA. Angola has only signed, but not yet ratified the Paris Agreement, which in task B.6 is proposed to replace the Kyoto Protocol in the future GSP regulation (see section 2.6). Timor-Leste, Tuvalu and Kiribati would still need to ratify respectively 4, 3 and 2 environmental conventions in order to be eligible for the GSP+ arrangement, but also have more time as they do not yet have a fixed date for graduation from LDC status.

As a part of the analysis, we have also considered **reservations** made by the graduating countries to the environmental conventions. Table 36 provides an overview while Table B4-3.2 in Annex B4-3 sets out the details. Although five of the graduating countries have expressed reservations to at least one of the conventions, none of these are considered to be “incompatible with the object and purpose of that convention” in the meaning of Article 9(1)(c) of the GSP Regulation.

Table 36: Ratification status of environmental conventions by EBA beneficiary countries likely to graduate from LDC status, as of July 2020

Country	Convention on International Trade in Endangered Species of Wild Fauna and Flora	Montreal Protocol on Substances that Deplete the Ozone Layer	Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	Convention on Biological Diversity	United Nations Framework Convention on Climate Change (UNFCCC)	Cartagena Protocol on Biosafety to the CBD	Stockholm Convention on Persistent Organic Pollutants	Kyoto Protocol to the UNFCCC	Number of ratified conventions	Paris Agreement*
Angola	✓	✓	✓	✓	✓	✓	✓	✓	8	S
Bangladesh	✓	✓	✓	✓	✓	✓	✓ (res)	✓	8	✓
Bhutan	✓	✓	✓	✓	✓	✓	✗	✓	7	✓
Kiribati	✗	✓	✓	✓	✓ (res)	✓	✗	✓ (res)	6	✓
Lao PDR	✓	✓	✓	✓	✓	✓	✗	✓	7	✓
Myanmar	✓	✓	✓	✓	✓	✓	✓	✓	8	✓
Nepal	✓	✓	✓	✓	✓	S	✓	✓	7	✓
Sao Tomé & Príncipe	✓	✓	✓	✓	✓	✗	✓	✓	7	✓
Solomon Islands	✓	✓	✗	✓	✓ (res)	✓	✓	✓	7	✓ (res)
Timor-Leste	✗	✓	✗	✓	✓	✗	✗	✓	4	✓
Tuvalu	✗	✓	✗	✓	✓ (res)	✗	✓	✓	5	✓ (res)
Vanuatu	✓	✓	✓	✓	✓	✗	✓	✓	7	✓ (res)

Note: *Conventions not currently listed in Annex VIII but proposed for inclusion (see section 2.6); “(res)” means reservations expressed.

Sources: <https://treaties.un.org>, <https://www.cites.org/eng/disc/parties/chronolo.php>; see Annexes B5-1 and B6-2.

2.4.3.4 Governance Conventions

2.4.3.4.1 Ratification status

Table 37 show the status of ratifications for the governance conventions⁸⁸ (both those currently included and those proposed for inclusion in Annex VIII; see Task B.6, section 2.6). The five graduating Pacific island states have significant ratification gaps of at least two of the current four conventions. Regarding the proposed UN Convention against Transnational Organised Crime, this has not been ratified by three of the 12 countries, Bhutan, Solomon Islands and Tuvalu.

2.4.3.4.2 Reservations expressed in relation to ratifications

Table 37 also provides an overview of reservations made by the graduating countries with regard to the governance conventions considered, while Table B4-4.2 in Annex B4-4 lists the expressed reservations. Bangladesh, Lao PDR, Myanmar and Nepal have expressed reservations to some of the ratified conventions. However, these mostly refer to the non-application of the dispute settlement mechanisms foreseen in the convention, and are not related to the principles or objectives of the conventions: they would therefore not seem to constitute a barrier for joining the GSP+ arrangement.

Table 37: Ratification status of governance conventions by EBA beneficiary countries likely to graduate from LDC status, as of July 2020

Country	UN Single Convention on Narcotic Drugs	UN Convention on Psychotropic Substances	UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances	UN Convention against Corruption	Number of ratified conventions	United Nations Convention against Transnational Organized Crime*
Angola	✓	✓	✓	✓	4	✓
Bangladesh	✓ (res)	✓ (res)	✓	✓ (res)	4	✓ (res)
Bhutan	✓	✓	✓	✓	4	✗
Kiribati	✗	✗	✗	✓	1	✓
Lao PDR	✓	✓	✓ (res)	✓ (res)	4	✓ (res)
Myanmar	✓ (res)	✓ (res)	✓ (res)	✓ (res)	4	✓ (res)
Nepal	✓ (res)	✓	✓	✓ (res)	4	✓ (res)
Sao Tomé & Príncipe	✓	✓	✓	✓	4	✓
Solomon Islands	✓	✗	✗	✓	2	✗
Timor-Leste	✗	✗	✓	✓	2	✓
Tuvalu	✗	✗	✗	✓	1	✗
Vanuatu	✗	✗	✓	✓	2	✓

Note: *Conventions not currently listed in Annex VIII but proposed for inclusion (see section 2.6); "(res)" means reservations expressed.

Sources: <https://treaties.un.org>, <https://www.cites.org/eng/disc/parties/chronolo.php>; see Annexes B5-1 and B6-2.

2.4.4 Scenario 4a: No Change to the Vulnerability Criteria

The impact of graduation from EBA will depend on whether the graduating countries move to the Standard GSP or the GSP+. The impact assessment undertaken in section 2.4.2

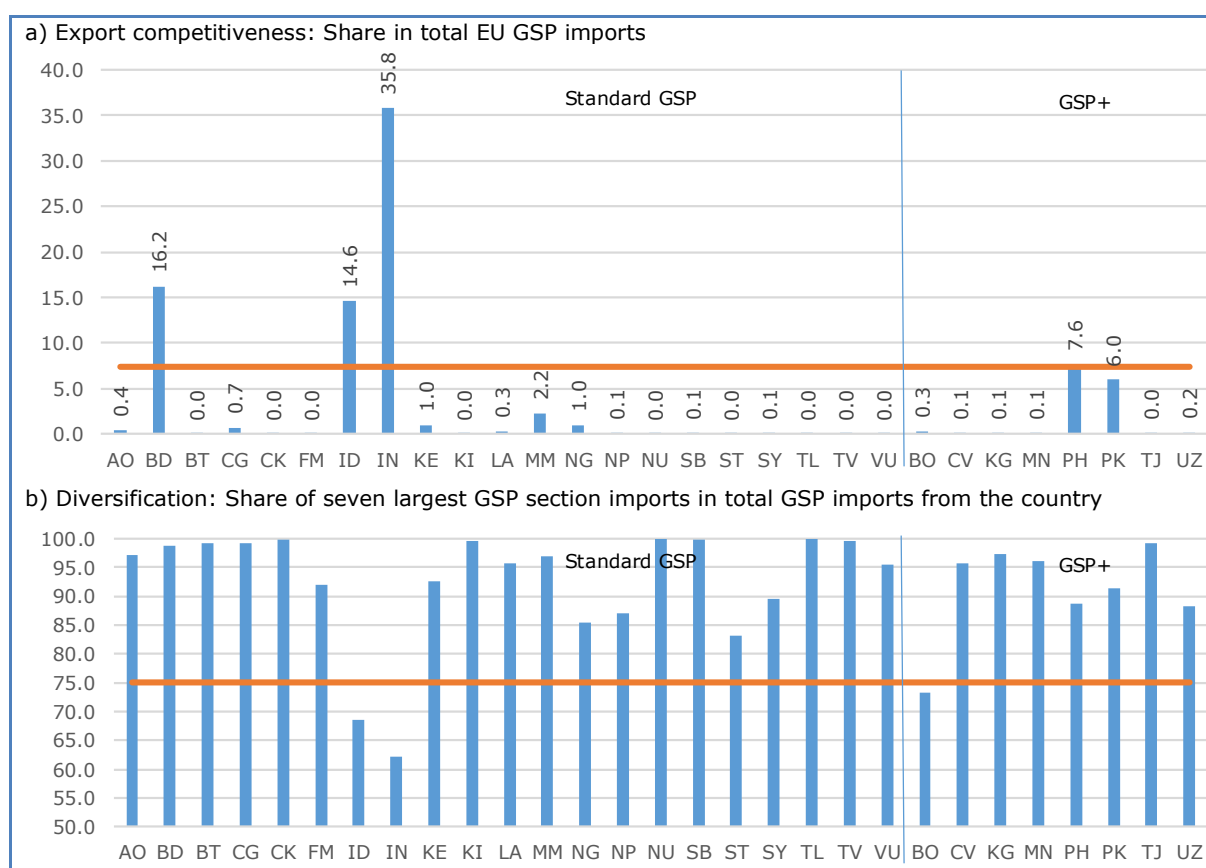
⁸⁸ We refer to conventions not related to human rights, labour and environmental issues as governance conventions. This include four conventions listed in Annex VIII of the GSP Regulation: the United Nations Single Convention on Narcotic Drugs (1961); the United Nations Convention on Psychotropic Substances (1971); the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988); and the United Nations Convention against Corruption (2004). For more details see Task B.5 in section 2.5 below.

assumed the move to the Standard GSP. The negative impacts reported would be cushioned somewhat if the graduating countries could instead join the GSP+. This requires fulfilling a set of criteria, notably, in addition to the ratification and implementation of the international conventions listed in Annex VIII of the GSP Regulation (as addressed in section 2.4.3), economic vulnerability criteria. These are set in Annex VII of the GSP Regulation and are as follows:

- Limited export competitiveness criterion: The share of the EU's imports eligible for GSP+ preferences (i.e. products listed in Annex IX) from the country in total EU imports of these products from GSP countries over the last three years does not exceed 7.4%;⁸⁹
- Lack-of-diversification criterion: the seven largest sections of the GSP-covered imports (as defined in Annex IX of the GSP Regulation) represent more than 75% of total GSP imports by that country over a three-year period.

Applying these criteria to the graduating EBA countries shows that Bangladesh is the only country not meeting them. Specifically, its share in EU imports from all GSP countries, at about 16%, clearly exceeds the 7.4% threshold (Figure 13a). In contrast, all graduating countries, including Bangladesh, meet the lack-of-diversification criterion (Figure 13b).

Figure 13: Compliance with vulnerability criteria by Standard GSP⁹⁰ and GSP+ countries, 2017-19 (%)



Note: The calculation was done on HS chapter basis, i.e. assuming that all imports under HS chapters covered by a GSP product section are GSP imports. As Annex IV does not always include all tariff lines within an HS chapter, the values presented in this figure are only approximations. Imports of HS27 have been excluded.

⁸⁹ Originally, the threshold was set at 2% but has been amended in line with the graduation of GSP countries over time – to 6.5% in 2015, and to 7.4% as from 01 January 2019; see Commission Delegated Regulation (EU) 2020/129 of 26 November 2019 amending the vulnerability threshold set out in point 1(b) of Annex VII to Regulation (EU) No 978/2012 of the European Parliament and the Council applying a scheme of generalised tariff preferences, OJ L 27/8, of 31 January 2020.

⁹⁰ Current LDCs on the path towards graduation are listed as Standard GSP countries.

Source: Author calculations based on EU COMEXT database

Preliminary conclusions and recommendations: Using trade preferences to promote diversification comes with an inherent risk to the beneficiary in that the preferences induce the shifting of global production to the beneficiary in the products facing the highest MFN tariff barrier and the highest degree of substitutability based on price. Bangladesh is a classic example in that price-sensitive production shifted into this country in good measure because of its tariff-free access to developed country markets. Such production is, by the very same token, inherently vulnerable to removal of preferences through graduation. By contrast, production that evolves in a GSP beneficiary for reasons unrelated to trade preferences would, of course, be much less vulnerable to the removal of preferences, even if it too would suffer to some extent.

With the given vulnerability criteria, Bangladesh would not be eligible for GSP+ but rather would enter the Standard GSP arrangement upon graduation from EBA. Thereby, as per the analysis undertaken above (section 2.4.2), 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 and almost 5% in GDP value as Bangladeshi producers are driven to cut prices in order to attempt to preserve market share.

2.4.5 Scenario 4b: Amendment of the Vulnerability Criteria to Make All Graduating EBA Countries Eligible for GSP+

To ensure that all EBA graduating countries meet the GSP+ vulnerability criteria, the diversification criterion would not need to be amended, but the export competitiveness criterion would need to be increased from the current 7.4% to at least 16%.⁹¹ Then, all EBA graduating countries including Bangladesh would become eligible for GSP+ (provided they also comply with the requirements related to ratification and implementation of international conventions). At the same time, an increase in the level of the threshold to 16% (or similar) would mean that all GSP countries except India meet the criterion, which would render it almost useless, and the Commission might as well simply abandon it.

In addition, increasing the threshold value is an ad hoc adjustment of the criterion that is not grounded on defensible economic principles. Introducing a third criterion based on implicit tariff increases faced by a country upon graduation would potentially provide a basis for classifying Bangladesh as vulnerable. For example, the vulnerability criterion could be based on the simple average GSP tariff: if a graduating country's trade-weighted tariff increase is above the simple average, it would clearly be more vulnerable than a country whose weighted tariff is below the simple average. Above-average would identify countries as potentially vulnerable; a suitable margin (perhaps one standard deviation above average) would identify highly vulnerable countries. To illustrate the insights provided by this measure, where the simple GSP tariff is 1.85%, Nigeria faces a trade-weighted tariff in the EU27 of only 0.04% (excluding HS 27, mineral oils, to avoid biasing the calculation), whereas Bangladesh faces a trade-weighted tariff of 9.17%.

Preliminary conclusions and recommendations: Amending the existing vulnerability criteria to ensure that all EBA graduating countries would become eligible for GSP+ could be done through different means. The threshold for the export competitiveness criterion could be increased from the current 7.5% to about 16%. This would however be an ad hoc change not grounded in economic principles, and would render the criterion almost superfluous, because all GSP countries except India would meet the threshold. An

⁹¹ Note that, because the analysis was undertaken at the HS chapter level, this is only an approximation. The actual threshold value would need to be determined based on an analysis covering the exact products listed in Annex IX of the GSP Regulation.

alternative to increasing the threshold would therefore be the elimination of the export competitiveness criterion altogether, and only keep the export diversification criterion.

From a conceptual point of view, the vulnerability criteria as currently framed do not take into account the endogenous vulnerability created by the underlying economics of trade preferences and thus fail to address an implicit moral hazard built into the system of preferences. This could be rectified by incorporating a third criterion (or replacing the export competitiveness criterion with it), which could be based on the implied weighted tariff increase for a graduating country's top export products to the EU. Suitably calibrated, this criterion would identify country cases like Bangladesh that require transitional measures and possibly a permanent grandfathering of a given portion of duty free market access through TRQs to avoid substantial disruption of patterns of industrialisation induced by the GSP scheme. It should be noted that this criterion addresses a different type of vulnerability than is currently addressed in the GSP, i.e. not economic vulnerability per se but vulnerability associated with the graduation from EBA.

2.4.6 Scenario 4c: Options Regarding the Transition Period for EBA Country Graduation

In the consultations carried out for this study, some respondents were in favour of granting 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. Additional points made in consultations that might facilitate transition for the graduating countries include:

- Maintaining the same set of rules of origin for graduating LDCs.
- The adverse impacts of COVID-19 on graduating EBA beneficiaries warrant longer transition periods to help countries to recover economically after the pandemic.
- Graduation may be particularly difficult for countries whose exports are concentrated in a very limited number of sectors and where the EU accounts for a substantial share of their exports, since in such cases graduation and the related change in their terms of trade affects a substantial part of exports.
- Replies by EU importers and users suggested a longer period (of around five years) to ensure predictability and to take account of a timeline related to investment and sourcing decisions.

On the other hand, other respondents believed that the current transition period of three years is long enough or that it should even be shortened given that, in the run up to graduation from LDC status, countries will have been aware of that milestone and – at least theoretically – will 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.

It may be observed that graduation cannot be perfectly predicted due to the normal vicissitudes of the macroeconomic cycle. Moreover, while governments might be fully aware of impending graduation, individual trading firms may not be. Accordingly, the argument that transition periods should be shortened are less persuasive.

The business-oriented argument for a 5-year transition is based on investment and planning horizons and thus is rooted in business realities. This extended grace period for adjustment is geared not so much to the country or official level but to business needs. Given the current uncertain outlook for a post-pandemic recovery, the longer transition period would also provide needed time for economic recoveries to get going before countries face the tariff shock.

At the same time, any “one size fits all” policy is open to the criticism that it is unduly generous by not applying similar treatment to newly graduated countries as to their new peers in the same income brackets, even for products that are not sensitive, while at the same time potentially failing to adequately provide for pressures that particular countries might face with highly impacted product groups. In response, two different options could be thought of: first, a default transition period of three years could be maintained but be shortened or extended case-by-case based on the vulnerabilities (or adjustment necessities e.g. in case the graduating country has applied for GSP+ but needs to ratify and implement international conventions).

Second, product-based phasing in of the less preferential GSP tariffs for graduating EBA countries could be considered. We observe that trade liberalisation agreements typically adopt implementation schedules tailored to the specific circumstances of the partners involved. This provides the basis for a flexible approach like the one raised in the consultations. This would:

- shorten the grace period to one year following the graduation of a country from LDC status for all minimally traded products;
- retain the current 3-year grace period for substantially traded products facing tariff increases that are at or below the simple GSP average tariff;
- an extended 5-year grace period for substantially traded products facing tariff increases above the GSP average to give time for business to prepare;
- a negotiated phase-in of the tariff for high-impact product groups.

Preliminary conclusions and recommendations: While arguments can be brought forward both for a shortening and an extension of the current transition (or rather: grace) period, the business-oriented argument for a 5-year transition is based on investment and planning horizons and thus is rooted in business realities. At the same time, any “one size fits all” appears to be inappropriate to account for differences in vulnerability and adjustments needs across graduation countries, and across sectors within graduation countries. Accordingly, more fine-tuned transition mechanisms such as those suggested above might be considered.

2.4.7 Preliminary conclusions and recommendations

The legal analysis of the implications of graduation from LDC status suggests that the EU has options on how to proceed in addressing specific “needs” of the newly graduated countries. Moreover, these “needs” could be determined on a country basis, or on a product basis. If they are on a country basis, then a wholesale upgrade into a different regime is possible. If not, an ex-LDC might be entitled, in order to avoid discrimination, to continuing LDC-style treatment at least for particular products.

Of the 12 countries expected to graduate in the imminent future, six are predicted to have non-negligible economic impacts: Bangladesh, Lao PDR, Myanmar, Nepal, Sao Tomé and Príncipe, and the Solomon Islands. The economic analysis shows that, for four of these economies, the real GDP impact would be on order of -0.1% or less. For Myanmar, it would be marginally higher at -0.2%. These impacts should be manageable at the macroeconomic level with *status quo* transition arrangements. 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 sectorally-concentrated impacts in sectors such as textiles and apparel and leather/footwear that face a high MFN tariff in the EU and thus face potentially disruptive industrial adjustment. For Bangladesh, graduation threatens to reverse substantial gains made under the EBA arrangement, with consequential harms from employment, gender, and human rights perspectives. With the current vulnerability criteria, Bangladesh would not be eligible for GSP+ but rather would enter the Standard GSP arrangement upon graduation from EBA.

At present, no graduating economy meets all of the criteria for GSP+:

- Graduating countries have not, to varying degrees, ratified all international conventions listed in Annex VIII, and some, Bangladesh, Lao PDR or Nepal, have expressed reservations to ratified conventions that might go against the conventions' principles.
- Bangladesh and Myanmar are two cases of "enhanced engagement" because of serious labour complaints, and also Lao PDR was a case of concern in 2019 with regard to child labour (ILO Convention No. 182).
- Bangladesh also does not meet the vulnerability criterion of limited export competitiveness.

Because status of GSP+ only follows after a successful application, *preceded* by the fulfilment of the entry obligations, none of the graduating countries could be granted GSP+ status upon graduation according to the present rules.

Mitigating actions supporting graduating EBA beneficiaries should be considered. For example, some graduating countries have the option to join an existing trade agreement (Angola has an opportunity to join the Economic Partnership Agreement between the EU and the Southern African Development Community, SADC, while the beneficiaries from the Pacific region may join the Economic Partnership Agreement, EPA, with the Pacific states). While this would put some trade liberalisation pressure on these economies, this is at least understood to be a positive source of stress with long-run benefits.

The vulnerability criteria for eligibility for GSP+ could also be adjusted. One option would be to raise the share of EU GSP imports accounted for by a country that constitutes the threshold for being considered vulnerable. To bring Bangladesh within the scope of such a revised threshold, it would have to be raised from the current 7.4% to about 16%. It could also be contemplated to abolish this criterion altogether and focus the vulnerability concept on limited export diversification, and accordingly only keep the corresponding criterion. An alternative approach would be to add a third vulnerability criterion (or replace the current export competitiveness criterion with it), which could be based on the implied weighted tariff increase facing the graduating country. For example, countries that face a weighted tariff that is above the GSP simple average can straightforwardly be considered to be more vulnerable than those whose weighted tariff would be below the simple average.

A longer transition period could be considered to buy time to make adjustments. For example, the grace period could be extended to five years to give time to:

- implement reforms in the exporting sectors,
- search for alternative export destinations,
- diversify production towards other sectors, and
- take steps to join the GSP+ arrangement by ratification of the remaining conventions and demonstrating their effective implementation or at least lack of serious violations.

At the same time, any "**one size fits all**" policy as regards the transition period is open to criticism that it is unduly generous in not applying similar treatment to newly graduated countries as to their new peers in the same income brackets for products that are not sensitive, while at the same time potentially failing to adequately provide for pressures that particular countries such as Bangladesh might face with highly impacted product groups. A more flexible transition regime could thus be considered, including a phase-in of tariff increases.

2.5 Options regarding conditionalities related to international conventions (Task B.5)

2.5.1 Introduction: Purpose and Options

The GSP Regulation establishes two types of conditionalities for GSP beneficiary countries in relation to ratification of and compliance with international conventions. First, a “positive” conditionality requirement to ratify and implement 27 conventions listed in Annex VIII of the Regulation (see Box 6) applies only to GSP+ beneficiaries,⁹² which are also monitored to check that there is no serious failure to effectively implement the conventions.⁹³ Conversely, Standard GSP and EBA countries can benefit from the preferences irrespective of whether or not they have ratified these conventions.

Second, Article 19 of the GSP Regulation establishes a “negative conditionality” for all GSP beneficiaries across all arrangements to respect human and labour rights. According to Article 19(1)(a), GSP preferences can be withdrawn temporarily in cases of serious and systematic violation of the principles of the human rights and labour rights conventions, i.e., those listed in Part A of Annex VIII of the GSP Regulation.⁹⁴ This negative conditionality does however not apply to environmental or good governance conventions listed in Part B of Annex VIII.

Box 6: International Conventions listed in Annex VIII of the GSP Regulation

PART A Core human and labour rights and ILO Conventions

1. Convention on the Prevention and Punishment of the Crime of Genocide (1948)
2. International Convention on the Elimination of All Forms of Racial Discrimination (1965)
3. International Covenant on Civil and Political Rights (1966)
4. International Covenant on Economic Social and Cultural Rights (1966)
5. Convention on the Elimination of All Forms of Discrimination Against Women (1979)
6. Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (1984)
7. Convention on the Rights of the Child (1989)
8. Convention concerning Forced or Compulsory Labour, No 29 (1930)
9. Convention concerning Freedom of Association and Protection of the Right to Organise, No 87 (1948)
10. Convention concerning the Application of the Principles of the Right to Organise and to Bargain Collectively, No 98 (1949)
11. Convention concerning Equal Remuneration of Men and Women Workers for Work of Equal Value, No 100 (1951)
12. Convention concerning the Abolition of Forced Labour, No 105 (1957)
13. Convention concerning Discrimination in Respect of Employment and Occupation, No 111 (1958)
14. Convention concerning Minimum Age for Admission to Employment, No 138 (1973)
15. Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour, No 182 (1999)

PART B Conventions related to the environment and to governance principles

16. Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973)
17. Montreal Protocol on Substances that Deplete the Ozone Layer (1987)
18. Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (1989)
19. Convention on Biological Diversity (1992)
20. The United Nations Framework Convention on Climate Change (1992)
21. Cartagena Protocol on Biosafety (2000)
22. Stockholm Convention on persistent Organic Pollutants (2001)
23. Kyoto Protocol to the United Nations Framework Convention on Climate Change (1998)
24. United Nations Single Convention on Narcotic Drugs (1961)

⁹² Article 9(1) establishes the requirement to ratify all conventions listed in Annex VIII and not seriously fail to implement them, as well as other related conditions that GSP+ countries must fulfil. Article 10(5) addresses the removal of a country from GSP+ if these conditions are no longer met. Article 15 concerns the temporary withdrawal of preferences for GSP+ countries.

⁹³ For more details on the monitoring mechanism, see Task B.7 (section 2.7) below.

⁹⁴ Article 19 does not clearly specify if the negative conditionality applies to all GSP beneficiary countries or only to those who have ratified the conventions listed in Annex VIII Part A. Practice indicates that the former is the case.

25. United Nations Convention on Psychotropic Substances (1971)
26. United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988)
27. United Nations Convention against Corruption (2004).

Against this background, and building upon MTE considerations, the Commission is considering expanding the coverage of positive conditionality to beneficiaries of the Standard GSP and EBA, and/or expanding the coverage of negative conditionality to environmental and good governance issues. To structure the analysis, the following policy options have been defined:

- Under the **baseline scenario (scenario 5a)**, the current rules are left unchanged: the existing negative conditionality in Article 19 for all GSP beneficiaries continues to apply, i.e., is restricted to the conventions listed in Part A of Annex VIII. For GSP+ beneficiaries, the positive conditionality of ratifying and implementing the conventions in Annex VIII continues to apply and it is not extended to Standard GSP or EBA countries;
- **Scenario 5b** would extend the negative conditionality: the conditions in Article 19(1)(a) would also cover the principles laid down in the conventions related to protection of the environment and good governance (Part B of Annex VIII), as well as any additional conventions proposed to be included in Annex VIII (see Task B.6);
- **Scenario 5c** would add positive conditionality for Standard GSP and EBA beneficiaries: they would have to ratify all conventions listed in Annex VIII (considering all changes in the list; see Task B.6), but not be obliged to effectively implement them; and
- **Scenario 5d** would, in addition to the ratification requirement in scenario 5c, also require effective implementation of all listed conventions by Standard GSP and EBA beneficiaries.

The analysis of these scenarios is closely related to Task B.6, which considers potential changes to the list of conventions in Annex VIII of the GSP Regulation (see section 2.6). The analysis to be done in Task B.6 indeed precedes much of the research to be carried out here, which considers the list of conventions in Annex VIII as given (incorporating the proposed amendments to the list as addressed in Task B.6). It should also be noted that any impacts that might arise from changes in the list of conventions are addressed in Task B.6.

2.5.2 *Scenario 5a: No Change to Conditionalities*

A number of shortcomings have been found in the current regime on conditionalities, both with regard to the effectiveness of negative conditionality and the coverage of positive conditionality being restricted to GSP+ beneficiary countries.

2.5.2.1.1 **Application of positive conditionality**

In the literature, positive conditionality of the GSP+ arrangement is generally found to have a limited but clearly positive impact on human rights through ratification and implementation of human rights conventions (Orbie and Tortell 2009; Beke and Hachez 2015). Various authors note that the GSP+ condition to require beneficiary countries to take steps to *ratify* international conventions has been successful (e.g., in Uzbekistan, Pakistan, Tajikistan) (Bartels 2008; Orbie and Tortell 2009). Various authors note that the impact of the GSP+ arrangement in encouraging beneficiary countries to take steps to *ratify* international conventions has been successful (e.g., in Uzbekistan, Pakistan, Tajikistan) (Bartels 2008; Orbie and Tortell 2009). Several sources report however that implementation of the ratified conventions in practice does not seem to match the ratification success (Beke and Hachez 2015; Wardhaugh 2013). The 2018-2019 Biennial Report of the European Commission (European Commission 2020c) indicates that the GSP+ scheme contributes to effective implementation of the human rights conventions, noting progress in eradicating child labour and in issues related to the right to a clean

environment. However, generally, the impact of the GSP+ scheme on the implementation record is noted to be modest (Gasiorek et al. 2010; Beke and Hachez 2015).

These (limited but) positive effects apply however only to the GSP+ beneficiary countries. The MTE found that the current rules on conditionalities in the GSP Regulation provide no significant incentives for Standard GSP and EBA countries to improve their performance in respecting human rights, including labour rights. In the same vein, the European Parliament resolution of 14 March 2019⁹⁵ emphasises that Standard GSP beneficiaries are motivated to ratify and to effectively implement international conventions only when they expect to be able to join the GSP+ arrangement and receive additional preferences in exchange. In such cases, the EP notes, their record may further improve as a result of regular dialogue with and monitoring by the Commission and other relevant stakeholders exercised as part of application of the GSP+ arrangement (discussed in detail under task B.7, see section 2.7).

The latest two of the Commission's biennial Reports on the application of the GSP scheme outline a mixed picture (European Commission 2018b; 2020a). On the one hand, the prospects of becoming a GSP+ beneficiary may indeed encourage a country to take steps to ratify and to implement international conventions (as seen in the case of Uzbekistan) and, in the GSP+ countries, regular dialogue and the support provided by the EU may bring about concrete results, such as improved performance in the elimination of child labour, promotion of gender equality, actions supporting the rights of women and children, strengthened institutions, improved reporting about implementation of international conventions or adoption of new legislation. On the other hand, there are also cases of concern and a deteriorating situation, both within and outside the GSP+ arrangement, e.g., regarding freedom of association and conditions for civil society operation. One can thus conclude that, while some beneficiary countries may struggle with capacity constraints and challenges in implementation and enforcement that may be overcome only in a long-term, for others (or certain groups therein) the existence of a possibility of losing preferences does not provide a sufficient deterrent from pursuing their own agendas which may not be compatible with the objectives of the GSP Regulation.

Regarding **environmental conventions**, an analysis on the ratification rate of GSP beneficiary countries shows that in general the percentage of ratification is relatively high, as is illustrated in Table 38.

⁹⁵ European Parliament resolution of 14 March 2019 on the implementation of the GSP Regulation (EU) No 978/2012 (2018/2107(INI)), P8_TA(2019)0207, http://www.europarl.europa.eu/doceo/document/TA-8-2019-0207_EN.pdf

Table 38: Share of ratification by GSP countries of environmental conventions listed in Annex VIII (as of June 2020)

Convention	No of ratifications by GSP countries	Percentage of countries that ratified			
		All GSP (N=64)	Standard GSP (N=21)	GSP+ (N=8)	EBA (N=35)
Convention on International Trade in Endangered Species of Wild Fauna and Flora	56	88%	71%	100%	94%
Montreal Protocol on Substances that Deplete the Ozone Layer	64	100%	100%	100%	100%
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	58	91%	81%	100%	94%
Convention on Biological Diversity	64	100%	100%	100%	100%
United Nations Framework Convention on Climate Change	64	100%	100%	100%	100%
Cartagena Protocol on Biosafety to the CBD	54	84%	67%	100%	91%
Stockholm Convention on Persistent Organic Pollutants	52	81%	81%	100%	77%
Kyoto Protocol to the UNFCCC	63	98%	100%	100%	97%
Paris Agreement*	60	94%	95%	100%	91%

Note: * Not currently in Annex VIII but proposed to be included; see section 2.6.

Source: <https://treaties.un.org> and <https://www.cites.org/eng/disc/parties/chronolo.php>; see Annexes B5-1 and B6-2.

The positive conditionality seems to have impacted positively the level of ratification, as this is higher in GSP+ countries than in GSP general arrangement and EBA countries: all eight GSP+ countries have ratified all eight environmental conventions listed in Annex VIII. For beneficiaries of the other GSP arrangements, this is lower: 9 out of 21 Standard GSP countries and 26 out of 35 EBA countries have ratified all environmental conventions currently included. Countries seem to push forward the ratification of these conventions when being part of the GSP+ or in anticipation of applying for GSP+. The latter case was illustrated by Uzbekistan that adopted a law on accession to the Cartagena Biosafety Protocol as part of its agenda to apply for GSP+. The ratification rate varies among the conventions, with a high overall share of ratification for the CBD, the Montreal Protocol, the UNFCCC and the Basel Convention and lower overall shares of ratification for CITES, the Cartagena Protocol to the CBD, the Kyoto Protocol and the Stockholm Convention. No research has been found to explain the differences in ratification but likely explanations are:

- The share of ratification of implementing protocols to an already ratified convention is lower. This is clearly the case for the Cartagena Protocol which is an implementing protocol to the CBD, and for the Kyoto Protocol, which is an implementing protocol to the UNFCCC.
- The share of ratification is higher for conventions that have received high international attention in the last decade or that are more directly linked to short-term environmental concerns of the general public. This may explain why CITES (endangered species) and the Stockholm Convention (persistent organic pollutants) have a lower share of ratification compared to the Montreal Protocol (air pollution) and the UNFCCC (climate change).
- The share of ratification is positively influenced by the direct support provided by international donor organisations to the monitoring and reporting requirements: for example the GEF projects that help fulfil obligations to the CBD, UNFCCC and Stockholm conventions.

Unfortunately, whereas the ratification share of environmental conventions is relatively high, the level of implementation is not at the same level. Many GSP beneficiaries have challenges in implementing environmental conventions, particularly in reporting and in the implementation of standards. This includes some of the GSP+ countries for whom the

positive conditionality currently holds and thus full implementation of these conventions is a mandatory requirement.

One prominent example is the implementation of the Montreal Protocol. Whereas the Protocol has been ratified by all GSP beneficiary countries, many of them have high challenges in implementing the requirements to control air quality. Specific challenges have been found in adopting national air quality standards, and in implementing good air quality monitoring systems. In addition, in many cases national air quality standards do not meet the standards as included in the WHO guidelines or in EU directives for annual average levels of PM emissions. Examples of GSP+ countries not meeting the implementation requirements include Pakistan, which is among the countries with the worst air quality in the world. National PM 2.5 standards have been set, but these are frequently exceeded and are also not in line with WHO guidelines. The Philippines and Mongolia have severe air quality challenges too, mainly in their capital cities. In more general terms, most of the GSP beneficiary countries are facing air quality challenges in metropolises with a high population growth or an increasing urbanisation rate. Annex B5-2 provides information about the implementation of requirements in the areas of climate change (the latest national communications or biennial report on GHG emissions), waste (date of the latest national report to the Basel Convention) and biodiversity (the year of the sixth national report due end 2018, the period of the last NSBAP, how many of the 20 Aichi targets are addressed in the NSBAP and the year of the latest CITES report). It clearly illustrates the many gaps in implementation of the environmental conventions.

In short, positive conditionality has contributed to the spread of ratification of environmental conventions, but its impact on their effective implementation is mixed.

2.5.2.1.2 Effectiveness of negative conditionality

Multiple studies criticise the effectiveness of the withdrawal mechanism (e.g. Beke et al. 2014; also the MTE). In particular, the criticisms point to the infrequent use of the mechanism – exercised only in three cases as discussed below –, the inconsistent application of preference withdrawal, as well as transparency issues accompanying the withdrawal procedure.⁹⁶ These drawbacks, in the critics' view, hamper the scheme's effectiveness and may mean it does not make a difference, given that "strings are not really attached to the preferences" (Beke and Hachez 2015). The MTE conclusion was that the negative conditionality constitutes no effective deterrent preventing the violation of human rights, including labour rights.

The EP resolution of 14 March 2019 on the implementation of the GSP recommends that, while the withdrawal mechanism (Article 19 of the GSP Regulation) should be seen as a measure of last resort, to be used in cases of a serious and systematic violation of international conventions by a beneficiary country that in addition does not engage in a dialogue with the Commission, the latter should not hesitate to use the mechanism to preserve the credibility of the conditionality concept and of the scheme as a whole.⁹⁷ In practice, the potential withdrawal of preferences under the negative conditionality is always preceded by dialogue. The Commission's latest two biennial reports discuss three cases of enhanced engagement with EBA beneficiaries (Bangladesh, Myanmar and Cambodia) that may lead to a decision to launch the withdrawal procedure or the decision to withdraw preferences, as happened in the case of Cambodia⁹⁸ (the enhanced engagement with beneficiary countries is discussed in detail under task B.8, section 2.8).

⁹⁶ This last point is addressed in detail under task B.8, see section 2.8.

⁹⁷ European Parliament resolution of 14 March 2019 on the implementation of the GSP Regulation (EU) No 978/2012 (2018/2107(INI)), P8_TA(2019)0207, http://www.europarl.europa.eu/doceo/document/TA-8-2019-0207_EN.pdf

⁹⁸ "Commission decides to partially withdraw Cambodia's preferential access to the EU market", 12 February 2020, <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2113> [accessed on 18 February 2020]. Commission Delegated Regulation (EU) 2020/550 of 12 February 2020 amending Annexes II and IV to

This preference for the use of dialogue as the main tool to remedy human rights violations instead of activating the withdrawal mechanism has been linked to the limited effectiveness of negative conditionality (Velluti 2016b). While the GSP is a tool intended to enhance human rights standards in the partner countries, beneficiary governments retain full jurisdiction to align legislation with international standards and ensure effective implementation. Some beneficiary countries may struggle with capacity constraints with respect to the administrative process of ratification and existing challenges in implementation and enforcement of international conventions, but others may not have a sufficient incentive/face a sufficient deterrent to do so.

In essence, negative conditionality in the GSP scheme is akin to a sanction. As such, it has been characterised as a blunt instrument (Portela and Orbie 2014; Füllrutter 2019) with many possible side effects. Some authors have argued that, because it affects the country as a whole, spreading the impact across the entire population, it hurts the citizens of that country more than the human rights-violating governments or non-state actors (Portela 2018). Moreover, the withdrawal of GSP preference is reported to display perverse effects because they impact the wrong parties within the country, thereby causing a deterioration of the human rights situation in the country in question for those who are not responsible for the violations (e.g., unfairly penalising workers not only in the sector(s) where human rights violations are committed but also in other sectors) (Portela 2018).

In addition to these conceptual and political issues, there are also practical issues to consider. For negative conditionality to function effectively and systematically, it must be ensured that serious and systematic violations of the conventions listed in Part A of Annex VIII by GSP beneficiaries are detected by the Commission which, in turn, requires the presence of a monitoring mechanism. Such a mechanism is in place for GSP+ countries in the context of positive conditionality, but not for GSP general arrangement countries. The use of monitoring mechanisms established in the context of the international conventions is therefore important. In this context, in relation to ILO conventions, there is a difference between monitoring of ratified and non-ratified ILO fundamental conventions, which in turn results in different levels and accessibility of information about potential violations of ILO fundamental conventions. While ILO members are obliged to report on both ratified and non-ratified fundamental conventions, only ratified conventions are considered by the ILO Committee of Experts and the ILO Committee on the Application of Standards and the implementation evaluated in their annual reports.⁹⁹ Moreover, according to the ILO Constitution, a representation (complaint) under its Article 24 and a complaint under Article 26 (the latter may lead to the establishment of a Commission of Inquiry) can be submitted only against an ILO member who has ratified the convention in question and fails to implement it.¹⁰⁰ Also, apart from the freedom of association fundamental Conventions No. 87 and 98 (cases on which can be considered by the ILO Committee on Freedom of Association irrespectively of whether the defendant ILO member has ratified these conventions or not), there is no process for non-ratified fundamental conventions which would enable the ILO monitoring mechanism to consider individual cases of concern or violations by countries which are not yet Parties to those conventions. That said, there is some annual reporting on non-ratified ILO fundamental conventions, and related summaries are published in the form of country baselines, which are mainly based on information provided by the governments, with limited (or no) comments provided by social partners in the country nor by the ILO Declaration Expert-Advisers.¹⁰¹ The scope of the information provided varies between countries and conventions, from very detailed to nil returns (empty forms). This makes the systematic evaluation of the state of play on

Regulation (EU) No 978/2012 of the European Parliament and of the Council as regards the temporary withdrawal of the arrangements referred to in Article 1(2) of Regulation (EU) No 978/2012 in respect of certain products originating in the Kingdom of Cambodia, C/2020/673, OJ L 127, 22.4.2020, p. 1.

⁹⁹ ILO website, labour standards section, with links to reports of both Committees: <https://www.ilo.org/global/standards/lang--en/index.htm>

¹⁰⁰ See text of the ILO Constitution: https://www.ilo.org/dyn/normlex/en/f?p=1000:62:0::NO:62:P62_LIST_ENTRIE_ID:2453907:NO#A26

¹⁰¹ Country baselines are accessible from <https://www.ilo.org/declaration/info/lang--en/index.htm>

non-ratified conventions (and the related respect for labour rights) more difficult and resource intensive, as the Commission services may need to resort to other sources of information. Limited availability and accessibility of information may also help some countries to hide shortcomings of different types, including (potentially) more serious violations of labour rights covered by the (non-ratified) ILO fundamental conventions. To illustrate the scale of this problem, out of the 64 GSP beneficiary countries (as per the baseline identified in scenario 2a) between five (8%) and 13 (20%) have not ratified ILO fundamental conventions (see Annex B5-1), including three Standard GSP beneficiaries not being ILO members (Bhutan, Micronesia and Niue).

Preliminary conclusions: Research shows that real change in human and labour rights conditions in a country depends on the actual implementation of the relevant provisions and conventions, and an effective monitoring thereof. Positive conditionality established under the GSP+ scheme provides for a constructive process, including with countries that fail to live up to their human rights commitments (also those countries with more limited implementing capacities), that enables avoiding the withdrawal of preferences. While there is room for improvement – including enhancements of transparency and stakeholder involvement in the GSP+ monitoring system¹⁰² – positive conditionality under the GSP+ arrangement seems to be effective in incentivising the GSP beneficiaries to ratify international conventions and work on their implementation. In this context, literature provides examples of Pakistan, Uzbekistan and Tajikistan.

Conversely, the negative conditionality established in the GSP Regulation currently serves only to a limited extent as a deterrent for GSP countries to refrain from violating the principles established in the conventions listed in Annex VIII, Part A, nor does it provide a strong incentive for Standard GSP and EBA beneficiaries to comply with international human and labour rights norms. First, the absence of a detailed monitoring mechanism e.g. of non-ratified ILO fundamental conventions by the ILO, as well as the lack of a possibility to submit a complaint against a country that has not ratified yet a given ILO convention, means that the availability and accessibility of information about a country's performance in such cases is more difficult and resource intensive, the assessment cannot be based on official UN (incl. ILO) reports and thus this situation may help the GSP countries to hide shortcomings. Second, the sometimes low share of GSP eligible exports in the total exports of the country and the relatively rare use by the Commission of the withdrawal procedure may mean that a beneficiary country's risk of losing GSP preferences is low. Third, as discussed more in detail in section 2.8, the process leading to a decision about the withdrawal of preferences would benefit from increased transparency and more clarity about thresholds triggering the Commission's decisions. Finally, according to some authors, the withdrawal of preferences, in particular if wide in scope, may hurt vulnerable sub-groups of the population (e.g. workers in affected sectors) and aggravate the human rights situation in the GSP beneficiary concerned.¹⁰³

Two main conclusions can be drawn from the above analysis. First, as the GSP+ arrangement seems to be more effective in incentivising beneficiary countries to ratify international conventions and work on their implementation, the expansion of positive conditionality to Standard GSP and EBA countries may contribute to a better achievement of the objectives of the GSP Regulation. This aspect is addressed in detail under scenarios 5c and 5d.

Second, because of the conceptual/political and practical challenges identified in the current negative conditionality system, reforms of the negative conditionality clauses and implementation could aid in better achieving the objectives of the GSP Regulation. This would refer to (1) a strengthening of the mechanisms to detect violations of the principles established in the international conventions listed in Annex VIII; (2) the level of dialogue

¹⁰² See the detailed analysis under task B.7 (section 2.7).

¹⁰³ Issues related to the scale and scope of preference withdrawal are discussed more in detail in scenario 8c, section 2.8.4.

with beneficiaries preceding a possible withdrawal of preferences; and (3) the design of the withdrawal measures. Regarding the first issue, options include e.g., establishing an obligation on all GSP beneficiaries to ratify these conventions and thus to undergo a monitoring by the monitoring committees established by the respective conventions (in essence, a switch to positive conditionality related to ratification only; see scenario 5c) or by devising an additional monitoring mechanism and engagement with countries that have not ratified (yet) conventions listed in Annex VIII Part A. This could be included e.g., into an ongoing human rights or policy dialogue or into a technical assistance project funded by the EU or EU Member States providing support in strengthening institutions (e.g., ministries, judiciary, social partners, labour inspection), adopting and implementing legislation, and collecting information and data for reporting purposes.¹⁰⁴ With respect to the second point, while the Commission already engages in such dialogue in practice, e.g., under the enhanced engagement, this has not been set out in the GSP Regulation and thus does not guarantee transparency and predictability (as is discussed further under task B.8, section 2.8). Third, negative conditionality can only work if the use of measures provides a sufficient deterrent to GSP beneficiaries to refrain from violating human and labour rights, and if a preference withdrawal strategy is tailor-made and targeted based on a detailed assessment as to the potential impacts of their application for the country in question.

2.5.3 *Scenario 5b: Expanding Negative Conditionality to All Conventions Listed in Annex VIII*

The analysis under scenario 5b looks at the impacts resulting from extending the negative conditionality of Article 19(1)(a), to also cover the principles laid down in the conventions related to protection of the environment and good governance (Part B of Annex VIII), as well as to any additional conventions proposed to be included in Annex VIII. Specifically, the analysis of scenario 5b focuses on the implications of expanding negative conditionality to:

- the human rights and ILO conventions suggested for inclusion in Annex VIII as per the analysis done under task B.6 (section 2.6). This refers to the International Convention on the Protection of the Rights of Persons with Disabilities (CRPD) and the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict (OP-CRC-AC), as well as ILO Labour Inspection Convention No. 81; and
- the environmental and governance conventions listed in Part B of Annex VIII, including the ones proposed to be added as per the analysis done under task B.6 (section 2.6).

2.5.3.1 Negative conditionality expanded to human rights and ILO conventions suggested for inclusion in Annex VIII

The analysis under this option focuses on the three conventions proposed for inclusion in Annex VIII in task B.6 (section 2.6), i.e. 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, and the Labour Inspection Convention No. 81.

To illustrate the situation that could result from applying the negative conditionality of Article 19 to the CRPD, the ratification status among GSP countries provides an indication about the attention given to the CRPD in these countries (and, hence the potential degree of violation of the convention's principles) – also because countries that have ratified the convention are subject to monitoring procedures. In fact, among the 64 GSP countries as per the baseline defined in scenario 2a, only four have not ratified the CRPD: Eritrea, Niue, South Sudan and Timor-Leste.¹⁰⁵ Three of these countries are conflict affected and might

¹⁰⁴ The ILO 2019-2020 Trade for Decent Work Project and lessons learned from previous similar projects could provide a framework and inspiration for future support; see https://www.ilo.org/global/standards/WCMS_697996/lang--en/index.htm

¹⁰⁵ For more details, see task B.6, section 2.6.4.1 below.

face particular challenges and risks regarding negative conditionality being invoked and preferences temporarily withdrawn, because in conflict-affected countries the issues related to persons with disabilities are potentially larger. Box 7 provides a brief analysis of the potential implications for South Sudan.

Box 7: Expanding negative conditionality to the International Convention on the Protection of the Rights of Persons with Disabilities (CRPD) – possible implications for South Sudan

Decades of conflict in South Sudan, before and after its independence in 2011, poverty and poor health services have increased the rate of disability and left people with disabilities more marginalised and excluded from society (Rohwerder 2018). Continuing (sporadic) fighting contributes to the deterioration of the situation in this respect until today (Human Rights Watch 2020). Official statistics on the number of persons with disabilities is lacking and data of the national census from 2008 is controversial (Rohwerder 2018). Estimates suggest that there are more than 1.2 million people with disabilities in South Sudan. Moreover, studies indicate that the prevalence of patients with symptoms consistent with a diagnosis of post-traumatic stress disorder (PTSD) amounts to 53% (Deng, Pritchard, and Sharma 2015), most of the mental health issues being related to having witnessed violence and killings (Amnesty International 2016). There is no specific legislation relating to the rights of persons with disabilities. The 2011 draft Constitution contains references to people with disabilities and proposes a National Disability and Inclusion Policy and the Inclusive Education Policy but due to lack of funding and for political reasons these have not been implemented. Persons with disabilities face social and political exclusion accompanied with various forms of discrimination, and various forms of verbal, physical and sexual abuse (Rohwerder 2018). Due to widespread exclusion, many are unemployed and as a consequence are 'among the most marginalised in society, with limited or no opportunities for support'.¹⁰⁶ Children with disabilities face many difficulties due to lack of specialised services, difficulties accessing mainstream education, health and other services. Women and girls with disabilities are two other vulnerable groups that are reported to experience high levels of violence and discrimination. According to the UN Report, persons with disabilities, as one of the most vulnerable population groups, are also among the internally displaced persons.¹⁰⁷ Therefore, regarding the current situation on the rights of persons with disabilities, South Sudan could face major challenges in improving its record and therefore risk to become a subject to enhanced engagement and actions under Article 19(1), if the CRPD was added to Annex VIII and be covered by the Article's scope.

With respect to the application of negative conditionality to ILO Labour Inspection Convention No. 81, challenges could exist in the form of monitoring issues. As the analysis of scenario 5a has shown, the limited availability and accessibility of data regarding respect for non-ratified ILO conventions (beyond the fundamental ones) and a lack of incentives for Standard GSP and EBA beneficiaries to ratify outstanding ILO conventions may imply an increased monitoring challenge for the Commission given limited data available regarding their performance in respecting non-ratified additional conventions and a possibility to hide shortcomings which may occur in this context or even more serious violations, thus affecting negatively the effective use of Article 19(1).

ILO Convention No. 81 has been ratified by ten out of 21 Standard GSP beneficiary countries, six out of eight GSP+ beneficiaries (all except Philippines and Mongolia) and 28 out of 35 EBA beneficiaries. In total, 44 out of 64 GSP beneficiaries have ratified it. In addition, while a detailed analysis of the implementation record for the Convention by all GSP countries that have ratified it would go beyond the scope of this study, we have identified – based on a review of ILO documents – some countries from all GSP arrangements which seem to have faced major challenges in implementing this Convention, and could therefore potentially become subject to enhanced engagement and the withdrawal procedure under Article 19. These include:

- India (considered as an individual case by the Committee on the Application of Standards in 2015, 2017 and 2019 with regard to Convention No. 81);
- Bangladesh (against which a complaint under Article 26 of the ILO Constitution was filed in 2019 with regard to Conventions No. 81, 87 and 98, with a decision of the ILO

¹⁰⁶ UN Human Rights Council (2016). Summary prepared by the Office of the United Nations High Commissioner for Human Rights in accordance with paragraph 15 (c) of the annex to Human Rights Council resolution 5/1 and paragraph 5 of the annex to Council resolution 16/21, South Sudan, 24 August 2016, A/HRC/WG.66/26/SSD/3.

¹⁰⁷ UN Human Rights Council (2016). Report of the Special Rapporteur on human rights of internally displaced persons, Mission to South Sudan, 16 June 2016, A/HRC/26/33/Add.3.

Governing Body whether to launch a procedure to set up a Commission of Inquiry expected in June 2020.¹⁰⁸ Bangladesh was also considered in 2014 as an individual case by the Committee on the Application of Standards regarding Convention No. 81);¹⁰⁹ and

- Pakistan (asked in 2019 by the ILO Committee of Experts to provide full reply to questions outside the reporting cycle).

A detailed description of those cases with an analysis of findings and conclusions of the ILO Committees is provided in Annex B5-3.

Based on the analysis of these three cases, we consider that progress made by India, Bangladesh and Pakistan in the implementation of Convention No. 81 would decrease the likelihood of an action under Article 19(1) being triggered against them (if Convention No. 81 was included into Annex VIII). Further efforts are needed to address the remaining shortcomings.

2.5.3.2 Negative conditionality expanded to conventions listed in Part B of Annex VIII

For GSP+ countries, extending the negative conditionality mechanism to environmental and governance conventions listed Part B of Annex VIII will have no impact, because they are already bound to ratify and implement them under the positive conditionality mechanism. For Standard GSP and EBA countries, the extension would not require any additional administrative cost, as *negative* conditionality entails no ratification or reporting requirements. However, the extension would lead to an increased risk for the beneficiary countries of being found to have seriously violated environmental or governance conventions, and then having to enter into enhanced engagement and face the risk of temporary withdrawal of preferences.

For the EU, the administrative burden for monitoring will increase. Given that the extension to Part B of Annex VIII would almost double the number of conventions covered by negative conditionality (from currently 15 to 27), and the fact that systematic monitoring is particularly cumbersome for countries that have not ratified conventions, the additional resource burden on the Commission would be significant – 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. (By implication, the Commission would also be relying on their becoming public without systematic monitoring).

Preliminary conclusions and recommendations: From a human rights perspective, the extension of negative conditionality to conventions related to protection of the environment and good governance (Part B of Annex VIII) could have a positive indirect effect. Good governance is an important pre-requisite for the protection and promotion of human rights. For example, the preliminary analysis of the human rights issues of the GSP countries has indicated that in several cases, despite economic growth, corruption is one of the main bottlenecks to use the resources received from trade on improving human rights situations.¹¹⁰

¹⁰⁸ This decision has been postponed due to covid-19.

¹⁰⁹ ILO, Governing Body (2019), Reports of the Officers of the Governing Body, First Report: Complaint concerning non-observance by Bangladesh of the Labour Inspection Convention, 1947 (No. 81), the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98), made under article 26 of the ILO Constitution by several delegates to the 108th Session (2019) of the International Labour Conference: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_725650.pdf

¹¹⁰ See, for example, UN Human Rights Council (HRC), *Report of the Special Rapporteur on the human rights of migrants on his mission to Angola*, 25 April 2017, A/HRC/35/25/Add.1; UN Human Rights Committee (CCPR), *Concluding Observations on the second periodic report of Angola*, 8 May 2019, CCPR/C/AGO/CO/2; UN Human Rights Council, *Report of the Working Group on the Universal Periodic Review, Summary of Stakeholders' submissions on Angola*, 20 August 2019, A/HRC/WG.6/34/AGO/3; UN Human Rights Council (HRC), *Report of the Working Group on the Universal Periodic Review, Angola*, 11 December 2019,

However, the existing issues with negative conditionality under Article 19(1) highlighted above in the analysis of scenario 5a (section 2.5.2) would give us only limited assurances that extending the negative conditionality (as it is defined and implemented in the current GSP scheme) to the list of Conventions to Part B of Annex VIII can contribute to a better ratification record, more compliance or effective implementation. Positive effects on the ground could be limited.

Based on our analysis of scenario 5a with respect to the issues of the current system of negative conditionality, the expansion of this system to the conventions listed in Part B of Annex VIII (and possibly new conventions to be added to Annex VIII) would bring the environmental (and governance) conventions to the same level as human rights and ILO conventions (and would thus seem to be more coherent with current EU policies), but may not be a sufficient measure to contribute to protection and effective implementation of international conventions. The challenges regarding the negative conditionality as highlighted above also apply to the additional conventions proposed: any positive impact is expected to be limited. If the negative conditionality is used, as per our recommendations and conclusions on the baseline scenario analysis (see above), the withdrawal mechanism will need to be reformed and the system of preference withdrawals will have to be revised and more strongly enforced.

2.5.4 Scenario 5c: Expanding Positive Conditionality to All GSP Beneficiaries – Ratification Only

Scenario 5c concerns the possibility of “partial” extension of the positive conditionality also to Standard GSP and EBA beneficiaries, i.e. extending the obligation to ratify the conventions listed in Annex VIII (including any potential changes in the list) but not the obligation to effectively implement them. The latter obligation is assumed to remain with the GSP+ beneficiaries only.

To analyse the potential impacts of this change, we first assess the effort and cost required for Standard GSP and EBA countries based on their ratification record of these conventions, identifying countries that may require different degrees of effort in order to ratify the conventions.¹¹¹ We then compare this with the (economic) benefits of the GSP scheme for these countries. This helps to estimate if they would have sufficient incentive to take action on improving their ratification record of human rights treaties in order to stay in the GSP scheme.

2.5.4.1 Ratification effort and cost for GSP countries

2.5.4.1.1 Annex VIII conventions ratification record by Standard GSP and EBA countries

Annex B5-1 provides an overview of the ratification record of the conventions listed in Annex VIII by GSP countries, while Annex B6-2 does the same for the conventions proposed to be added to the Annex VIII (Task B.6). Figure 14 summarises this information for the conventions listed in Annex VIII, as well as the proposed two additions, for GSP beneficiaries. In sum:

- **Human rights conventions** (Figure 14a): The only convention ratified by all GSP countries is the Convention on the Rights of the Child (CRC). For most other conventions (CEDAW, ICESCR, ICCPR, CAT, ICERD), the ratification gap is relatively low. The Genocide Convention is the only convention for which the gap remains quite high – 25 out of the 56 Standard GSP and EBA beneficiaries have not ratified it. For the additional conventions proposed, the gap is more limited: six countries have not ratified

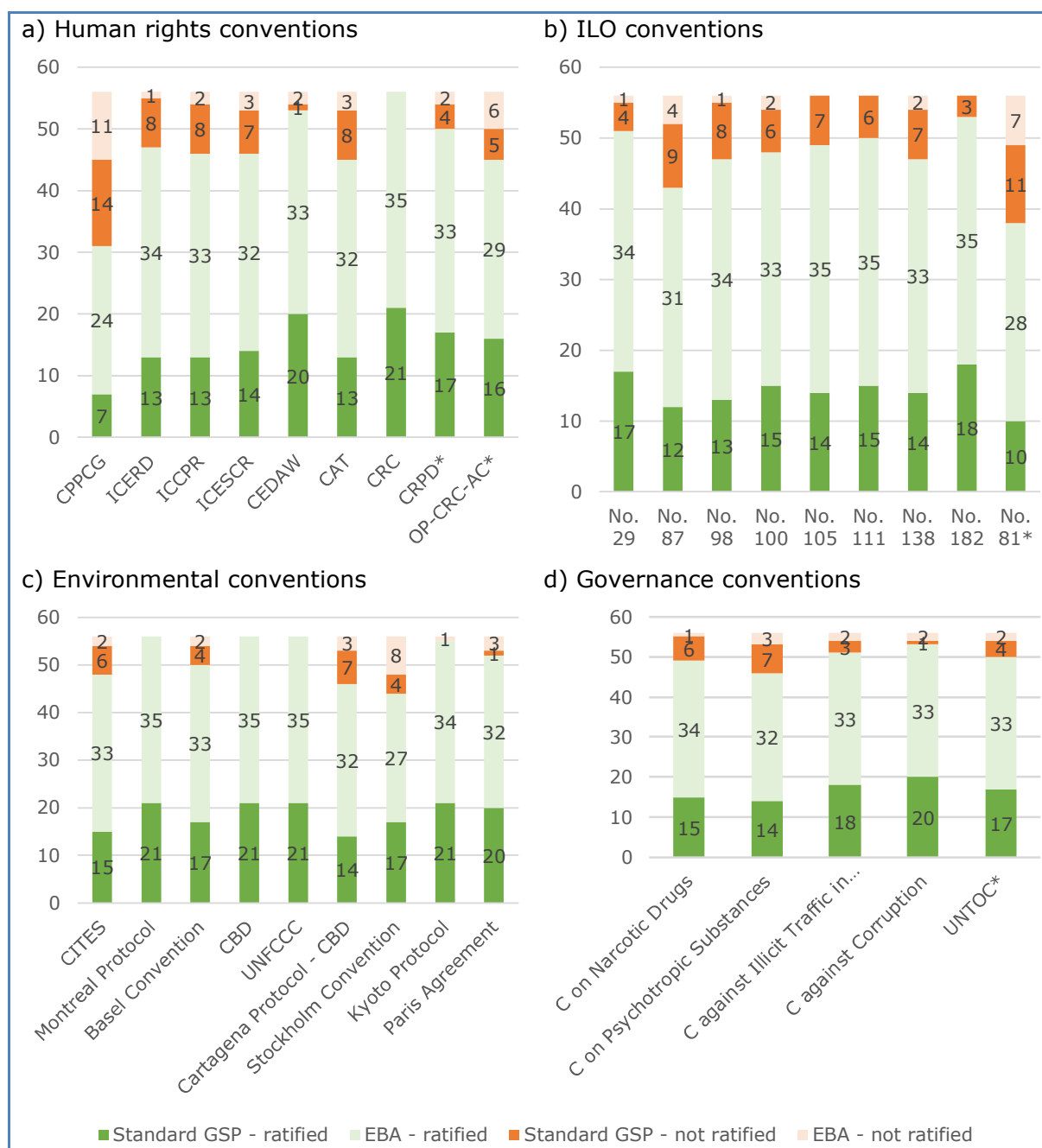
A/HRC/43/11; UN Committee on Economic, Social and Cultural Rights (CESCR), *Concluding Observations on the initial report of Bangladesh*, 18 April 2018, E/C.12/BGD/CO/1.

¹¹¹ The potential effort required by GSP+ countries to ratify conventions proposed for inclusion in Annex VIII is analysed in section 2.6.

the Convention on the Rights of Persons with Disabilities (CRPD), and 11 the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict (OP-CRC-AC).

- **ILO conventions** (Figure 14b): Although none of the ILO fundamental conventions has been ratified by all Standard GSP and EBA members, the ratification rate is generally high – between 3 and 13 countries would have to ratify ILO fundamental conventions if the positive conditionality was extended. EBA countries have a higher ratification share than Standard GSP countries. For Convention No. 81, which is proposed to be added to the list, the ratification record is slightly lower than for the fundamental ones; 18 countries have not yet ratified this convention.
- **Environmental conventions** (Figure 14c): As already indicated above, the ratification record among GSP countries of environmental conventions is also high; three have a 100% ratification rate; at most, 12 GSP countries would have to ratify any convention under this scenario.
- **Governance conventions** (Figure 14c): The ratification rate is similar to those in the other areas, with three to 10 non-ratifications among Standard GSP and EBA beneficiary countries.

Figure 14 Overview of ratifications by GSP beneficiaries of conventions listed in, and proposed to be added to, Annex VIII, number of countries



Note: * Not currently in Annex VIII but proposed to be included; see section 2.6.

Source: Prepared by authors based on <https://treaties.un.org>; see Annexes B5-1 and B6-2.

2.5.4.1.2 Degree of effort needed for ratification of remaining Annex VIII conventions

Extending the ratification requirement to all GSP countries does not seem to pose unsurmountable problems from the perspective of the individual conventions as all of them already have a good ratification record. The administrative burden and cost for individual GSP countries can nevertheless be high, if they would have to ratify many conventions. The higher the number of conventions not ratified, the higher the effort to meet the requirements of the new conditionality.

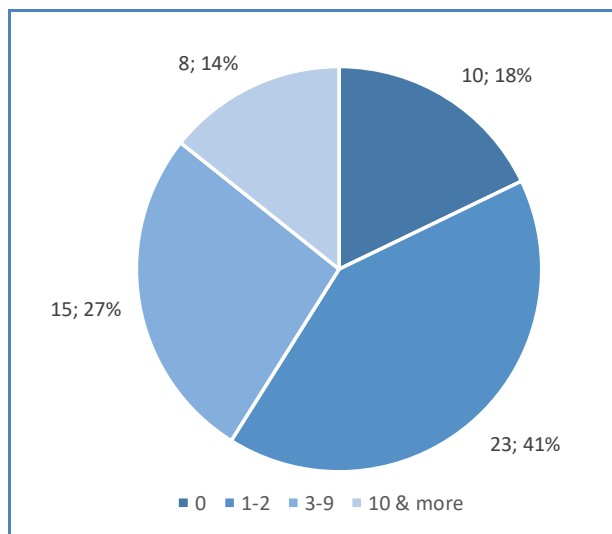
Table 39 shows the cumulative efforts that individual Standard GSP and EBA countries would have to make to ratify all the conventions (both the conventions already included in Annex VIII as well as the additionally proposed conventions). It shows that the number of ratifications required would vary substantially across countries, as also clear in Figure 15: Ten countries have already ratified all conventions and would therefore not face any additional costs from the policy; another 23 would have to ratify one or two conventions, implying a small degree of effort for ratification. At the other end of the spectrum, eight countries would have to ratify 10 or more conventions, requiring a high degree of effort.

On average, Standard GSP countries would need to ratify more conventions than EBA beneficiaries; likewise, human rights and ILO conventions would require more effort than environmental and governance conventions. Some more detailed observations are:

- Five Standard GSP beneficiaries (as per the baseline established in Scenario 2a) – Niue, Tuvalu, Bhutan, Cook Islands, Micronesia – and one EBA country, South Sudan, would have to ratify 16 conventions or more out of the 27 conventions currently listed in Annex VIII and five conventions proposed to be inserted. Considering that all these countries are small and vulnerable economies (and two of the Standard GSP countries, Tuvalu and Bhutan, are only set to graduate from LDC status), such a ratification requirement would be burdensome;
- These same countries, plus Solomon Islands, are also the ones with the lowest ratification record of human rights conventions: each one would have to ratify at least five human rights conventions;
- Three of the Standard GSP countries – Bhutan, Micronesia and Niue – are not ILO members¹¹² and therefore have not ratified any of the ILO conventions: they would need to become ILO members and ratify the fundamental conventions (as well as Convention No. 81, if it was added to the list). Other Pacific island states, like Tuvalu or Cook Islands, would also have to ratified the majority of ILO conventions (8 and 6, respectively), as well as some of the South Asian countries that are important users of the GSP scheme, i.e., Myanmar (5) and Lao PDR (4). Among EBA beneficiaries, the ratification effort in relation to ILO conventions is generally higher: apart from Afghanistan (4), Somalia (3), Liberia and South Sudan (2 each) no EBA country would have to ratify more than one ILO convention;
- With respect to environmental conventions, the effort required would be relatively more limited for most GSP countries. Only for South Sudan (6 ratifications needed), Timor-Leste and Haiti (4 each), and possibly some of the smaller Pacific Island states (2 to 3 ratifications needed) the effort required would be high; all others would have to ratify one convention at most;
- The same pattern prevails also regarding the governance conventions.

The ratification effort required by the countries expected to graduate from LDC status, some of which would have to ratify a significant number of conventions – notably Tuvalu (21 ratifications required) and Bhutan (17), but also Timor-Leste (11), Kiribati (10),

Figure 15: Number of ratifications needed (number and percentage of Standard GSP and EBA countries)



Source: Prepared by the authors, see Table 39.

¹¹² See list of the ILO member states: <https://www.ilo.org/public/english/standards/relm/country.htm>.

Solomon Islands (9), Myanmar (8) or Vanuatu (7) – has been analysed under task B.4 (see section 2.4 above).

Table 39: Ratification effort needed by Standard GSP and EBA beneficiary countries to comply with scenario 5c

Number of Annex VIII conventions not ratified (incl proposed additions)					
Country	Human rights (out of 7 + 2)	ILO conventions (out of 8 + 1)	Environmental (out of 8 + 1)	Governance (out of 4 + 1)	Total (out of 27 + 5)
Standard GSP					
Niue	8	9	2	2	21
Tuvalu	6	8	3	4	21
Bhutan	6	9	1	1	17
Cook Islands	6	6	2	2	16
Micronesia	5	9	2	0	16
Timor-Leste	2	3	4	2	11
Kiribati	4	1	2	3	10
Solomon Islands	5	0	1	3	9
Myanmar	3	5	0	0	8
Vanuatu	3	1	1	2	7
Lao PDR	0	4	1	0	5
Nepal	0	2	1	0	3
India	1	2	0	0	3
Sao Tomé & Príncipe	2	0	1	0	3
Angola	1	0	1	0	2
Kenya	1	1	0	0	2
Conqo	1	0	0	1	2
Bangladesh	0	1	0	0	1
Indonesia	1	0	0	0	1
Syria	0	0	0	1	1
Nigeria	0	0	0	0	0
EBA					
South Sudan	5	2	6	4	17
Somalia	3	3	0	3	9
Haiti	2	0	4	1	7
Eritrea	2	1	1	1	5
Liberia	1	2	1	1	5
Afghanistan	0	4	0	0	4
Comoros	3	0	0	0	3
Mauritania	2	0	1	0	3
Sudan	2	1	0	0	3
Madaqascar	1	0	1	0	2
Sierra Leone	1	0	1	0	2
Zambia	2	0	0	0	2
Tanzania	1	0	0	0	1
Yemen	0	0	1	0	1
Cambodia	0	1	0	0	1
CAR	1	0	0	0	1
Chad	1	0	0	0	1
Djibouti	1	0	0	0	1
Ethiopia	0	1	0	0	1
Gambia	0	1	0	0	1
Guinea-Bissau	0	1	0	0	1
Lesotho	0	0	1	0	1
Malawi	0	0	1	0	1
Mali	0	0	1	0	1
Mozambique	1	0	0	0	1
Niger	1	0	0	0	1
Rwanda	0	0	0	0	0
Benin	0	0	0	0	0
Burkina Faso	0	0	0	0	0
Burundi	0	0	0	0	0
Conqo DRC	0	0	0	0	0
Guinea	0	0	0	0	0
Senegal	0	0	0	0	0
Togo	0	0	0	0	0
Uganda	0	0	0	0	0

Source: Prepared by the authors; see Table B5-4.1 in Annex B5-4.

The administrative and resource burden to ratify conventions varies per country and convention. Each country has to go through a number of procedures in order to approve the ratification of each convention. A detailed assessment is not possible in the framework of the present study. It should be considered in an impact assessment per GSP beneficiary country.

To provide some insight regarding the ratification of ILO conventions, Table B5-4.2 in Annex B5-4 provides information (based on annual Government reports submitted to the ILO) outlining the reasons for non-ratification of these conventions so far, and some steps towards their ratification. Depending on the domestic legal order and practice, the countries assume in principle one of the two approaches to ratification of the ILO conventions: some ratify the convention and subsequently adapt their legislation and practice, while others adapt before ratification, which may imply a substantial effort preceding ratification and therefore a potential delay in meeting new GSP eligibility criteria. Moreover, based on the analysis of country baselines from the last few years, we note that some countries keep repeating the same position for several years, without providing information on whether any progress has been made on the matter or whether any action towards ratification has been taken at all. For example, the Government of Kenya has repeated over the last few years its intention to ratify the outstanding ILO Convention No. 87 (freedom of association) while stressing a need to adopt a tripartite position beforehand and expressing interest in ILO assistance.

Taking human rights conventions as an example, we look at some of the important factors that are relevant for all GSP countries: the time period needed for ratification at both domestic and international levels (time as a resource needed to meet the necessary requirements of this option) as well as the obligations connected with the commitment to ratify human rights conventions.

Time period for ratification (domestic procedures)

The time needed from the moment of starting the domestic process towards ratification of a convention to actually ratifying that convention varies per country. Domestic processes are different for each country, so it is not possible to draw general conclusions. In general terms, however, the domestic progress would include the following steps – all subject to politics in the country and existing legislative gaps, which can cause the ratification process to speed up or delay significantly:

- Preparatory analysis and collection of documentation related to the convention in question, consulting with the government office responsible for issuing ratification instruments;
- Public consultation period;
- Domestic/constitutional requirements and process for approval of ratification at the national level;
- Preparation and signing the instrument for ratification;
- Lodging the instrument with the Depository (e.g., the UN Secretary-General).

On the basis of the literature and consultations with key stakeholders, we note that this period varies per individual state and typically depends on 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.

We also note that there is a difference in the way beneficiary countries ratify human rights treaties. Some countries ratify the convention first and then adopt domestic legislation and start to implement. Other countries adopt legislation domestically and start implementing it and only afterwards proceed to ratify the convention. This difference in approach matters because it affects the time resources necessary for the states to ratify a convention. However, within this project, it is difficult to look at GSP beneficiary countries individually with respect to what time they need internally to ratify a certain convention and what approach they are likely to take. We will investigate this possibility further at a later stage of the project. At this stage, we indicate the approximate time needed for domestic approval of ratification based on stakeholder inputs – from 6 months to 2 years.

Time period for ratification (UN procedures)

After the instrument of ratification has been lodged with the UN Secretary General, depending on the treaty, the time needed for the process of ratification at the UN level generally takes from 1 to 3 months.

Obligations connected with the commitment to ratify human rights conventions

Administration process and resources needed to submit the instrument of ratification to the Depository (almost all conventions in question are UN conventions), are “one-time” costs and are mostly connected with domestic procedures. However, because the ratification of a convention puts obligations on a state with respect to subsequent implementation and reporting procedures, these costs are not one-off but permanent and cover financial as well as human resources. Most of the GSP countries are already members of the United Nations (with the exception of Niue), respectively the ILO (with the exception of Bhutan, Micronesia and Niue), so they are familiar with the procedures and the costs involved. However, it is important to note that, even though scenario 5c does not require implementation of the ratified conventions, the administrative and resource burden of the GSP beneficiary states for this option will not differ from the costs under scenario 5d, which requires ratification and implementation of the treaties. GSP countries will have to bear the compliance costs anyway, and it does not matter if the obligation within the GSP scheme extends to implementation or not. The only difference is that, in addition to the monitoring of implementation by the respective convention’s monitoring body, in scenario 5d also the EU monitors the implementation, linking it to the trade preferences under the GSP Regulation. In other words, in scenario 5c the administrative costs would be cut only on the side of the EU, which will not have to bear the costs of monitoring.

Countries that would need to ratify more conventions under this scenario might require special transition arrangements and EU support to achieve the goal of ratifying all current and potential additional Annex VIII conventions. While for some of them, especially those with fewer conventions to ratify, such assistance could be provided under a specific programme that could be organised as a “one size fits all” approach, countries with more and varied ratification needs are likely to require tailored adjustment programmes based on bilateral dialogue and supported by technical assistance in order to use the advice of experts and make use of best practices to efficiently ratify the conventions in a (relatively) short period of time.

2.5.4.2 Cost-benefit assessment

If scenario 5c were implemented, beneficiary country governments would face the choice between having to ratify the remaining conventions listed in Annex VIII and stay within the GSP scheme – or else not ratify the conventions, exit the scheme and move to the EU’s MFN treatment. GSP beneficiary countries for which the costs associated with ratification are higher (in resource terms, but also in terms of political capital that needs to be spent) than the benefits from the GSP scheme itself may therefore opt to leave rather than go through the ratification processes.

To assess the cost-benefit ratio, ideally one would use the CGE simulation results undertaken in tasks B2 and B4. However, because this does not address many of the GSP countries individually, it does not produce comprehensive results. Instead, therefore, we have used three proxies for the economic effect of leaving the GSP scheme: the share of a GSP country’s exports to the EU in the country’s overall exports; the value of exports to the EU; and the value of exports made under the GSP to the EU.

This analysis is not very precise as it uses rough proxies both for the ratification cost and for the cost of losing preferences. Regarding the former, the cost of ratifying conventions, especially the political cost, may vary substantially across countries and across

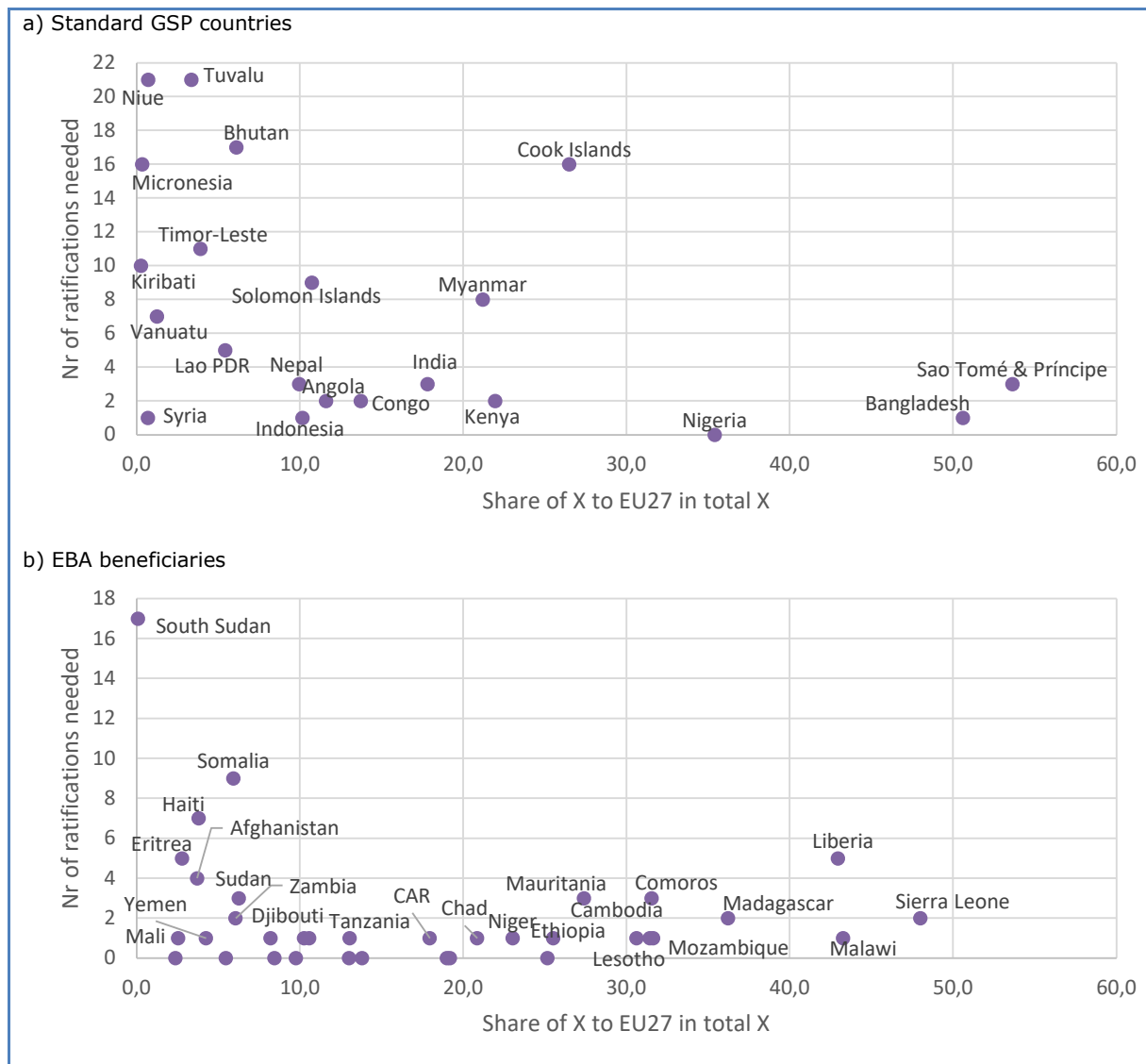
conventions. For example, poor small countries with limited capacity and resources, lack of strong governance and appropriate skills, and likely challenges in implementation and enforcement of conventions that might be overcome only in the long term, will attach a higher price tag to ratifications than larger or more developed ones. Likewise, some conventions might address very sensitive political issues and ratification therefore entail high political costs. Other factors that affect the ratification of human rights treaties and other international conventions include: the fear of unintended consequences, prospect of limited flexibility, necessary policy change (Hathaway 2002; Goodliffe and Hawkins 2006), reluctant views on ratification of certain conventions, regional or cultural peculiarities of specific states or groups of states (Olowu 2006), limited engagement with human rights concepts (Baird 2011) and, finally, the lack of resources. Therefore, while taking into account both the ratification record and the cost and benefit analysis, we observe that potential consequences for the GSP beneficiaries resulting from the new conditionality under this option would vary substantially between the countries due to their peculiarities, complexity of domestic procedure, degree of government will, particular features of the economy, priorities, etc. Many of these factors are difficult to predict and looking at each GSP beneficiary goes beyond the scope of this project. Nevertheless, considering the number of countries covered by the analysis and the available resources, the cost benefit assessment does provide an indication of the cost-benefit calculations that GSP beneficiary countries would (need to) undertake if scenario 5c were to be implemented. In addition, case study 10 on Bhutan (**Annex C-10**) provides a closer look into the issues faced by GSP countries in relation to the ratification of international conventions.

Figure 16 shows the relation between the cost of ratification (number of ratifications needed) and the opportunity cost of non-ratification (proxied by the share of exports to the EU in total exports) for Standard GSP beneficiaries and EBA countries separately. Figures B5-4.1 and 2 in Annex B5-4 provide the equivalent information using the other proxies for the economic cost of non-ratification. As the figure shows, there is already a positive correlation between the number of conventions ratified and the importance and level of exports to the EU. In other words, countries exporting much to the EU would need to ratify fewer conventions. Among Standard GSP countries, Sao Tomé and Príncipe (3 ratifications needed) and Bangladesh (1 ratification needed) are the ones for which exports to the EU are by far most important. For them, the cost of ratification is low, but the cost of non-ratification in terms of the share of exports to the EU at risk of being affected by tariff increases is high; they would therefore most likely decide to ratify the outstanding conventions and remain within the system.¹¹³ Among the EBA beneficiaries, a somewhat larger number of countries including Sierra Leone, Malawi or Liberia but also Madagascar, Mozambique, Lesotho or Comoros would fall into this category.

Conversely, countries in the upper left corner of Figure 16 export little to the EU but would have to ratify many conventions, while the potential economic losses from leaving GSP are limited. Accordingly, for beneficiary country governments the cost-benefit ratio of remaining in the GSP scheme is rather negative, and they would therefore likely decide to lose GSP preferences. This would apply, among the EBA countries, to South Sudan and possible Haiti and Somalia, and among the Standard GSP countries, to Niue, Tuvalu and Micronesia, and possibly also to Bhutan, Timor-Leste and Kiribati. For Bhutan, Micronesia, and Niue, the lack of ILO membership limits monitoring and evaluation possibilities of respect for labour rights by them.

¹¹³ A more detailed analysis of the potential economic and social impact from losing GSP preferences e.g., for Bangladesh has been provided under tasks B.2 and B.4 (sections 2.1 and 2.4 above).

Figure 16: Number of conventions to ratify and importance of EU as an export market for Standard GSP and EBA beneficiaries



Source: Authors' calculations.

In general, for countries with few ratifications, if they were to remain inside the GSP system, the potential for positive effects on human and labour rights as well as environmental conditions could be significant (depending on which conventions remain unratified at present) if all conventions were to be gradually ratified. However, if these countries were to drop out of the GSP system, the economic effects would have some negative social and human rights impacts (especially at sector level, and mostly in the textiles, wearing & apparel and leather sectors). On top of that, the degree of monitoring, dialogue and soft pressure to adhere to the principles of the conventions, which is embedded in the GSP scheme, would no longer apply to the countries dropping out of the scheme, which could be a negative factor from a social and human rights perspective. The countries in this quadrant would benefit most from ratifications, but are also at the highest risk for dropping out – so special attention would need to be given for the impact of the proposed GSP ratification reform to be positive for citizens in these countries.

Countries in the upper right area would face both high costs for ratification and high economic opportunity costs of losing GSP preferences. There are, however, few countries in this category – among Standard GSP countries possibly Cook Islands and, using the

alternative proxies, Bhutan, Solomon Islands and Myanmar; and among EBA beneficiaries possibly Liberia, Haiti or Mauritania.

Finally, for countries in the lower left area, both costs and benefits would be limited. This is in fact the largest group of countries, 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 scheme, or not ratify and forego preferences.

Preliminary conclusions and recommendations: From a human rights perspective, the ratification of Annex VIII human rights conventions (both current and newly proposed ones) only lays the foundation for work towards implementation of the treaties, but although being a necessary condition it is usually not sufficient to ensure promotion of human rights on the ground. At the same time, while ratification does not mean effective implementation, pressure of the international human rights bodies as a result of ratification may slowly work towards the alignment of national legislation with the international human rights standards and contribute to gradual implementation process in the long run. Each of the conventions has a monitoring body at the UN level that evaluates compliance of states with respect to the provisions laid out in the conventions. So, the lack of monitoring within the GSP scheme does not mean there is no monitoring at all. The GSP beneficiary states, upon ratification of the treaties, will still have reporting obligations and the obligation to implement the treaties at the international level. However, international pressure within the UN framework is less effective than pressure linked to the removal of economic benefits. Moreover, current issues with the negative conditionality (see scenario 5a) indicate that leverage linked to trade policy is most needed when it concerns violations of human rights laid down in the conventions already ratified by the countries concerned.

Looking through the lens of the main objectives of the GSP Regulation, human rights create conditions essential for sustainable development. Taking into account the fact that upon ratification, states accept obligations with respect to effective implementation of the conventions and reporting obligations to the UN monitoring bodies, ratification of human rights treaties is an important starting point in advancing sustainable development, marking the beginning of the process. However, in the framework of the GSP Regulation, ratification alone (even without reservations inhibiting the promotion of human rights) is ineffective when states fail to protect the rights enshrined in these conventions in practice. Mere ratification of a human rights treaty or ILO convention in a country with weak governance lacking strong civil society mechanisms and rule of law may bring no difference or can even make things worse (Neumayer 2005), for example, by exploiting the treaty ratification without any change for the better (Hathaway 2002). Finally, ratification without effective implementation does not fit the objective of *promoting* sustainable development as promotion implies active rather than passive role.

From a human rights point of view, it is important to note that requiring all GSP beneficiaries to ratify all Annex VIII and additionally proposed Conventions is expected to support the promotion of human rights. However, as the analysis above has shown, there is a considerable risk that many GSP beneficiary countries would decide to not transit to the new GSP scheme with mandatory ratification of all Annex VIII conventions. In these countries, the human rights, social or environmental situation could actually worsen since the (moderate) GSP incentives cease to apply and *inter alia* their access to trade with the EU could worsen.

From an environmental perspective, extending the positive conditionality to all GSP countries in terms of ratification only would have small effects. Standard GSP and EBA countries would face some costs of ratification of environmental conventions, but these would be relatively small if this does not lead to active implementation. In any case, this should not be taken to imply that the political challenges to ensure ratification would also not be significant. When the positive conditionality is focused on ratification only, the uptake of implementing policies would fully depend on the views of the implementing

country on the net benefits of such uptake. Assuming that the actual uptake would be modest and would take quite some time to take full effect, the expected environmental and economic impacts for all countries would be small to none.

The extension of positive conditionality to all GSP countries is also supported by some consulted stakeholders (e.g., representatives of the EU footwear industry, international trade unions and some NGOs) as a measure to ensure a more level playing field, including respect for labour and environmental standards by the GSP beneficiary countries (written position). Stakeholders are also in favour of a closer alignment between commitments related to TSD in the recent EU FTAs (seen as a condition to be granted preferential access to the EU market) and the conditionality under the GSP scheme opening the way to grant preferences. In their view, GSP beneficiaries should be asked to do more in this area in order to be able to export to the EU on a preferential basis. Nevertheless, other stakeholders warn that the extension of such requirements could overburden the capacity especially of the smallest and least developed GSP beneficiaries.

2.5.5 Scenario 5d: Expanding Positive Conditionality to All GSP Beneficiaries – Ratification and Implementation

Compared to scenario 5c, which considers an extension of the requirement to ratify the conventions listed in Annex VIII to all GSP beneficiaries, in scenario 5d, the requirement would not only comprise ratification but also effective implementation of the conventions. In the case of some beneficiary countries this could potentially mean a need to ensure the relatively high level of compliance within a shorter time than in a case of ratification and implementation of a convention being driven by domestic factors. This in turn could lead to compliance costs being cumulated over a shorter period of time, however, the overall costs should be comparable. Therefore, the main additional cost factor would be the costs for the European Commission, related to monitoring implementation by the beneficiary countries and engaging with them into a dialogue (e.g. a similar one as is now the case for GSP+ countries).

Conversely, the cost of leaving the GSP scheme remains largely the same in both scenarios, except for a long-term “dividend” from the effective implementation of conventions in terms of the human rights, social and environmental situation (with positive feedback into economic development). For example, from a human rights perspective, extending the positive conditionality (including implementation) to all GSP beneficiary countries would in the long run contribute to meaningful implementation of human rights treaties and meaningful change for the populations in GSP countries. In this context, the MTE noted the positive impact of the GSP+ arrangement on state compliance with the UN human rights conventions – positive conditionality seems to provide sufficient incentives for the beneficiaries to ratify and effectively implement them. Further dialogue as a part of the GSP+ monitoring mechanism seems to have a more favourable impact on human rights than measures under the negative conditionality. The GSP scheme can allow for some degree of pressure on the governments of GSP countries to work towards implementing human rights conventions, ensuring that vulnerable groups receive a sufficient level of protection and enjoy their rights.

Taking into account the findings from the analysis carried out under scenario 5c regarding ratification of conventions by GSP beneficiaries, we note that there are clear gaps in ratifications, with significant shares of Standard GSP and EBA beneficiaries not having ratified a range of conventions. Also, there is a difference in the way countries ratify treaties. Some countries ratify the convention first and then adopt domestic legislation and start to implement. Other countries adopt legislation domestically and start implementing it and only afterwards proceed to ratify the convention. In any case, after ratification states need to take measures to ensure progress on implementation of the ratified conventions. This also requires resources and time. The analysis in this section mainly focusses on the administrative and resource burden of ratifying and implementing conventions by Standard

GSP and EBA beneficiaries – time resources necessary for transition of implementation and reporting obligations per convention – as well as the additional staff resources that would be required for the EU administration to monitor implementation. We do so taking into account the existing monitoring systems.

2.5.5.1.1 Time necessary for ratification and initial reporting on implementation

In the context of time resources needed for ratification and implementation, we look at the legal text of each of the conventions on the list of Annex VIII as well as the additionally proposed conventions. Each of the human rights conventions specifies the time necessary for the convention to come into force (period between time the instrument of ratification was submitted to the depository and the time the convention comes into force) and the periodicity of reporting. Based on this information, we can estimate the time needed for GSP beneficiary countries to ratify the conventions, to take steps towards implementation and, subsequently, to be evaluated by the human rights monitoring bodies on the level of implementation of these conventions. States that already ratified the conventions in question should be allowed time to demonstrate progress on their implementation efforts before being evaluated by the EU on the issue of whether they could remain in the GSP scheme under scenario 5d. For simplification/efficiency reasons, it may be reasonable to evaluate these countries also after the reporting round to the UN monitoring bodies.

Table 40 provides information regarding the time that is needed for the countries – from the date they have submitted the ratification instrument to the UN Secretary General – in order to be able to demonstrate that they meet their reporting and implementation obligations for each of the conventions.¹¹⁴ As not all countries are being reviewed at the same time by the UN monitoring bodies, the time needed for the transition period to demonstrate implementation depends on how much time has already elapsed since the last review by the time the expanded scope of the positive conditionality enters into force (thus obligating Standard GSP and EBA beneficiary countries to ratify and implement).

Table 40: Overview of the approximate timeline to be considered for the transition period (for current and proposed Annex VIII human rights conventions)

Human rights instrument (1)	Time to enter into force (2)	Time of the first review * (3)		Review time needed (4)	Total time needed for the transition period (5)
Genocide Convention	90 days	N/A		N/A	90 days
ICERD	30 days	New state parties	1 year	2 years	3 years and 30 days
		Existing state parties	2 years	2 years	4 years
ICCPR	3 months	New state parties	1 year	2 years	3 year and 3 months
		Existing state parties	3,4,5,6 or 7 years**	2 years	6 years**
ICESCR	3 months	New state parties	2 years	2 years	4 years and 3 months
		Existing state parties	5 years	2 years	7 years
CEDAW	30 days	New state parties	1 year	2 years	3 year and 30 days
		Existing state parties	4 years	2 years	6 years
CAT	30 days	New parties	1 year	2 years	3 year and 30 days
		Existing state parties	4 years	2 years	6 years
CRC	30 days	New state parties	2 years	2 years	4 years and 30 days
		Existing state parties	5 years	2 years	7 years
CRPD*	30 days	New state parties	2 years	2 years	4 years and 1 month
		Existing state parties	4 years	2 years	6 years
OP-CRC-AC*	1 month	New state parties	2 years	2 years	4 years and 1 month
		Existing state parties	with next report under CRC (reporting periodicity – 5 years)	2 years	7 years

¹¹⁴ For further analysis, also see section 2.7.5 on reporting cycles below.

*for existing state parties, we provide the maximum time needed in case their reporting period has just past (taking the time of regular reporting periods)

** In line with A/71/40 (para.75).

Source: own compilation based on legal texts of the conventions.

We note that the time needed for the UN treaty monitoring bodies to finalise the review processes (the time from the moment the state party submits the report until the concluding observations are issued, not taking into account any follow-up procedures) also varies per country and per convention. Based on the data from the OHCHR UN Treaty Body Database, which specifies dates of publication of state reports and concluding observations per country and per convention, the rough estimate of the average time can amount to 2 years.¹¹⁵

If we look at the convention proposed for inclusion into Annex VIII, the Convention on the Rights of the Persons with Disabilities (CRPD), it enters into force on the 30th day after the deposit of the country's instrument of ratification (Art.45 of the CRPD) as shown in column (2) of Table 40. The first report (upon ratification) on the measures taken towards the implementation of the Convention is due only within a period of two years from the entry into force of the Convention for the new state parties concerned (Art. 35 of the CRPD). Subsequent implementation evaluations happen each 4 years or less (depending on how much time has already elapsed since the last review by the time the expanded scope of the positive conditionality enters into force) as shown in column (3). We estimate the review itself to take 2 years on average (see reasoning above) (column 4). Therefore, a transition period would need to be envisaged for countries having ratified the CRPD convention to demonstrating work on implementation via a formal review of a maximum of 6 years (see column (5)). Because most GSP beneficiary countries have already ratified this convention, the latter transition time element matters. Some GSP beneficiary countries, however, have not ratified the CRPD convention. For these countries, a transition period for ratifying the convention is also needed. The Commission could consider to either tailor the transition period to the specific country situation or to set a one-time period for all, in order to give the countries that need to ratify the CPRD convention and to countries that have already ratified and implemented sufficient time to work on the quality of the implementation of the convention.

With regard to ILO conventions, according to the ILO rules a ratified convention enters into force for the country in question one year after ratification, and the first reporting obligation follows two years after ratification. Therefore, a transition period would need to be envisaged for countries having to ratify any remaining ILO conventions listed in Annex VIII, for them to complete the ratification and reporting obligations and subsequently to give time for the ILO monitoring bodies and the Commission Services to evaluate implementation of the newly ratified conventions by the countries in question, based on the first Government reports submitted to the ILO.

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. To address this possible setback, it may be useful to look at phased-in implementation (noting progress/no progress over a period of several evaluation moments). Also, for those countries with large gaps in ratification and implementation of human rights treaties, the EU could consider to offer technical assistance and sharing of best practices from other GSP countries to help the countries with the big gaps also ratify and progressively implement the conventions. Furthermore, technical assistance could be linked to commitment, in order to ensure that in a transition phase these countries can ratify the conventions and comply with the positive conditionality.

¹¹⁵ Based on a random check, https://tbinternet.ohchr.org/_layouts/15/TreatyBodyExternal/Countries.aspx

2.5.5.1.2 Reporting obligations per convention

In addition to time, countries require administrative resources to fulfil their obligations under the conventions. Each convention establishes a monitoring body made up of independent experts mandated to monitor state parties' compliance with their treaty obligations (Table 41).

Once a state has ratified a human rights treaty, it is required to submit an initial report within one or two years after the entry into force of the treaty. After that, they need to submit periodic reports at intervals specified in the treaties, which varies across treaties (Table 40).

Table 41: Overview of the monitoring mechanism per convention

Human Rights Instrument	UN monitoring body	Reporting obligations
Genocide Convention	N/A	N/A
ICERD	Committee on the Elimination of Racial Discrimination (CERD)	State report
ICCPR	Human Rights Committee (CCPR)	State report
ICESCR	Committee on Economic, Social and Cultural Rights (CESCR)	State report
CEDAW	Committee on the Elimination of Discrimination against Women (CEDAW)	State report
CAT	Committee against Torture (CAT)	State report
CRC	Committee on the Rights of the Child (CRC)	State report
CRPD	Committee on the Rights of Persons with Disabilities (CRPD)	State report
OP-CRC-AC	Committee on the Rights of the Child (CRC)	State report, part of report for CRC

Source: Own compilation based on legal texts of the human rights instruments

Reports are expected to reflect on measures taken towards implementation of the convention in question. Almost all conventions listed in Annex VIII (including both current and additional conventions) require states to submit reports. As indicated in scenario 5c, many small states find it challenging to fulfil their reporting obligations for each of the conventions and hesitate to proceed with their ratifications.

Table 42 provides an overview of reporting obligations by GSP beneficiary countries. It shows that only a few countries are up-to-date on their reporting obligations; most GSP beneficiaries face challenges to submit their reports in time. In this context, it should be noted that five of the current eight GSP+ countries – which are already subject to the effective implementation requirement – have a number of overdue reports: Kyrgyzstan and Pakistan one each, Bolivia two, Philippines three, and Cabo Verde four.

Table 42: Overview of reporting obligations on human rights conventions by GSP beneficiary countries

Nr of overdue reports	Standard GSP countries*	EBA countries*
10	Nigeria	-
9	-	Guinea-Bissau; Lesotho
8	-	Mali
7	Congo; Indonesia; Sao Tome & Principe	Burundi; Chad
6	-	Afghanistan; Central African Republic; Djibouti; Eritrea; Sierra Leone; Tanzania
5	Syria	Comoros; Gambia; Liberia; Madagascar; Malawi; Mozambique; Uganda; Yemen
4	Timor-Leste	Benin; Cambodia; Guinea; Togo; Zambia
3	Lao PDR; Micronesia; Myanmar; Nepal; Solomon Islands; Vanuatu	Burkina Faso; DR Congo; Haiti; Mauritania; Rwanda; Somalia
2	India	Ethiopia; Sudan
1	Bangladesh; Cook Islands; Kenya; Niue	Niger; South Sudan; Tuvalu
0	Angola; Bhutan; Kiribati	Senegal

* GSP arrangements as per the baseline scenario (2a).

The shock for countries in this scenario can be softened if the two aspects – ratification and implementation – are viewed as a gradual process. First, ratification of human rights instruments could be seen as the starting point, allowing Standard GSP and EBA countries to already enter the GSP+. Implementation would then come afterwards as the ultimate goal. That way, the shock from the change of the GSP Regulation could be less for the Standard GSP and EBA countries in the long run – and they would be more likely to meet the requirements of the GSP scheme in a shorter period of time.

Some stakeholders consider the burden of ratification and implementation for the GSP countries as two-fold. On the one side, the countries require efforts in meeting their obligations under human rights conventions. On the other side, the GSP scheme allows them to enjoy tariff reductions under the GSP Regulation, and may assist them in improving their human rights obligations through special programmes. Programmes and assistance of the scheme can help the GSP beneficiary states bear the costs and benefit from best practices. However, that would depend also on EU capacity and resources.

2.5.5.1.3 Resources required for the EU administration to monitor implementation

Scenario 5d would extend the conditions currently applied to the GSP+ in terms of international conventions to all GSP countries. Here, we assess the resource requirements for the Commission if it applied the same monitoring of GSP beneficiaries' compliance with the positive conditionality, as is currently done for the GSP+ countries.

Based on information provided by the Commission, the resource requirements for the current monitoring of 12 countries is 13 full-time equivalent (FTE) professional staff (across various DGs and the EEAS; administrative staff input not included), and travel costs of about EUR 80,000 per year. Applying these costs to a situation where all GSP countries need to be monitored shows that the resource requirements are substantial (Table 43): instead of 12 countries, 64 would need to be monitored, requiring almost 70 full-time staff and mission costs of almost EUR 430,000 per year. Even if there are some "economies of scale", administrative costs would quintuple. If the requirement were to be applied instead only (e.g.,) to all Standard GSP countries, the increase in resources required would be more limited due to the lower number of countries.

Nevertheless, as mentioned in the previous section, it is unlikely that all current Standard GSP and EBA countries would remain in the scheme. As a result, the actual resource requirements for the Commission would be lower than indicated in the table, which provide an upper limit. As it is impossible to determine how many and which countries would remain in the GSP scheme, a more precise estimate of administrative resource requirements for the Commission's and EEAS' monitoring is not possible.

Table 43: Administrative costs for EU of expanded monitoring in scenario 5d

Scope of 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

The EU already uses the ongoing periodic reviews of the UN and the ILO for each of the conventions to monitor implementation. Engaging these monitoring mechanisms allows shifting some of the burden of monitoring from the GSP scheme to these bodies. However, taking into account the long periodicity of UN reporting, other alternatives 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 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;
- experience of joint committees on Trade and Sustainable Development (TSD) and Domestic Advisory Groups (DAGs) used within FTA monitoring could be taken up for that purpose too (see Task B.7 for more detail).

Another cost item for the Commission would be the additional technical assistance and support that GSP countries would need to ratify and implement Annex VIII conventions. While quantification is impossible without much a more detailed research than is possible in the present study, it can be estimated that these costs would also be significant.

2.5.5.1.4 Implementation requirement and likelihood of countries remaining in the GSP scheme

The analysis above has already shown that a number of GSP countries struggle with the implementation of human rights conventions in terms of monitoring. Here, we add to this by looking at the effective implementation of ratified ILO conventions. The aim is to estimate whether the requirement to effectively implement conventions could drive governments of countries with serious implementation issues away from staying in the scheme (or lead to withdrawal of preferences by the EU).

Due to the high number of countries and conventions in question, it goes beyond the scope of this study to carry out a detailed analysis of the state of implementation of each of the ILO conventions listed in Annex VIII (currently and proposed) and for each of the Standard GSP and EBA beneficiaries. Hence, we apply a different approach looking at countries singled out as cases of concern. For example, a complaint under Article 26 of the ILO Constitution (which may trigger the establishment of a Commission of Inquiry) was submitted against Bangladesh in 2019, with regard to Conventions No. 81, 87 and 98. Moreover, we have identified individual cases of GSP beneficiaries considered in the last few years by the ILO Committee on the Application of Standards,¹¹⁶ including those referred to it by the ILO Committee of Experts as cases of a serious concern (the so-called double footnotes already mentioned).¹¹⁷ There was also a case of the so-called “special paragraph” of the Committee on the Application of Standard in 2016 with regard to Bangladesh and Convention No. 87 (freedom of association), which is a way for the Committee to highlight cases of serious concern, where the country in question does not cooperate or has failed to address previous conclusions of the Committee. Annex B5-5 provides an analysis of such cases.¹¹⁸

¹¹⁶ For example, Cabo Verde in 2019 for Convention No. 182, Ethiopia (2019, No. 138), India (2019, 2017, and 2015, No. 81), Lao PDR (2019, No. 182), Myanmar (2019, No. 29), Philippines (2019, No. 87), Tajikistan (2019, No. 111), Yemen (2019, No. 182), Eritrea (2018, No. 29), Myanmar (2018, No. 87), Nigeria (2018, No. 98), Cambodia (2018, No. 105), Samoa (2018, No. 182), Mauritania (2017, No. 29), Bangladesh (2017, 2016 including special paragraph, and 2015, No. 87), Cambodia (2017 and 2016 No. 87), Zambia (2017, No. 138), Afghanistan (2017, No. 182) and Congo DRC (2017, No. 182).

¹¹⁷ Ethiopia (2019, No. 138), Myanmar (2019, No. 29), Cambodia (2018, No. 105), and Eritrea (2018, No. 29).

¹¹⁸ The analysis of all cases listed in this section has been carried out based on conclusions of the ILO Committee of Experts and the Committee on the Application of Standards, published originally in their annual reports and recorded in the ILO NORMLEX database.

In light of this analysis, we conclude that several GSP beneficiaries would face serious challenges in effective implementation of the ILO fundamental conventions. The composition of the group of those countries which in the future might fall out of the GSP scheme (or might decide to not join the reformed scheme in the first place) due to not meeting the new implementation-related criterion would depend on the exact formulation of the new requirements, i.e., whether they will require effective implementation at the entry point to the renewed scheme or whether they will replicate the current GSP+ conditionality, i.e., the lack of serious failure to implement with a binding commitment to effectively implement in the future. Equally important will be how the situation in the countries concerned will evolve in the next few years, notably whether their governments will address the conclusions of the ILO monitoring bodies, so that despite serious problems it will be possible to report progress and commitment for further improvement. Based on the ILO reporting to date, the list of countries which may struggle to meet the new conditionality could include Afghanistan, Yemen, Congo DRC, Myanmar, Eritrea, Cambodia and Bangladesh (depending also on the outcome of the discussion at the Governing Body about the complaint under Article 26 of the ILO Constitution) and Nigeria (given its failure to comply also with the reporting obligations). It can be noted that the Philippines, a GSP+ country, would also have to be considered at risk. Regarding other countries, e.g., Ethiopia or Zambia, the ILO reports suggest that, while they face challenges related to a large scale of child labour, the respective governments have been taking measures to address them and report progress, while a full resolution of the problem will be possible only in the long term.

Preliminary conclusions and recommendations: Scenario 5d extends scenario 5c by also including the requirement of effective implementation of the ratified conventions. It thereby addresses the conceptual shortcoming of scenario 5c that ratification alone does not necessarily lead to any actual improvements in the human rights, social or environmental situation in a given GSP country.

Extending the obligation to ratify and implement the current Annex VIII conventions involves additional resources both on the side of the GSP beneficiaries and on the side of the EU. Analysis related to time resources necessary to meet the requirements indicates a substantial amount of time necessary to ratify and demonstrate efforts of implementation with respect to Annex VIII conventions. Administrative resources are needed to fulfil a country's obligations under the ratified conventions. Many GSP beneficiaries are known to find the regular reporting requirements challenging. Only a very small number of states is up-to-date with their reporting obligations. Scenario 5d therefore carries a higher risk of beneficiary country governments to leave the GSP scheme than scenario 5c, unless accompanied by other incentives, such as technical and financial support to comply with convention implementation. Therefore, in line with our recommendation under the previous option, a transition period would need to be envisaged for countries having to ratify and to implement any remaining conventions listed in Annex VIII in order to give them time to complete the ratification, to fulfil the reporting obligations, and to ensure a sufficient level of compliance in law and practice. Subsequently, the monitoring bodies and the Commission Services will need time to evaluate the implementation of the newly ratified conventions by the countries in question, based on the government reports submitted to the international monitoring organisations and their relevant bodies.

For the EU, resources required for monitoring will also increase with the number of countries to be monitored. If all GSP beneficiaries were to remain in the scheme (which seems unlikely, given the cost-benefit ratio of scenario 5d in a number of GSP countries), the resource requirements could increase five-fold, requiring up to almost 70 full-time staff and more than EUR 400,000 per year in mission costs. At the same time, the EU uses ongoing periodic reviews of the UN to support monitoring implementation of the conventions under the GSP scheme. This not only ensures impartiality of the assessment but also allows shifting of some of the administrative burden for the EU onto the UN monitoring bodies. Because the monitoring happens with significant intervals (of up to 7

years), extensive alternative ways need to be explored (with the use of the existing mechanisms under the GSP+ monitoring).

2.5.6 Preliminary conclusions and recommendations

The analysis regarding the various scenarios defined regarding the use of conditionality in the GSP scheme leads to a number of preliminary conclusions and recommendations.

The analysis of the **baseline scenario (scenario 5a)** suggests that, despite several positive achievements, a continuation of the conditionality regime as established in the current GSP Regulation might not sufficiently leverage Standard GSP and EBA beneficiaries, unless they consider joining the GSP+ arrangement, to ratify and effectively implement human rights, ILO, environmental and governance conventions.

The withdrawal mechanism laid down in Article 19(1) poses, on paper, a credible threat to create EU leverage to encourage GSP beneficiary countries interested in GSP benefits to improve their human rights situations. In practice, however, the Article does not seem to serve as a sufficient deterrent from violation of human rights or labour rights.

There are two main reasons for Article 19(1) having less leverage than intended. The first one is the limited use of the Article by the EU: the EU has preferred the dialogue mechanism over withdrawing preferences, since there may be no or limited nexus between the parties bearing the brunt of the costs of withdrawal, including the associated social and human rights consequences, and the parties responsible for the violations. The second reason is that there are some issues with the withdrawal mechanism (see section 2.8).

Provided that additional improvements are made, the positive conditionality of the GSP Regulation seems to be more effective in achieving the objectives of the scheme that are related to sustainable development and human rights than negative conditionality.

Considering the shortcomings of negative conditionality, **scenario 5b**, an expansion of its application to also cover the conventions listed in Part B of Annex VIII, as well as to the conventions potentially added, is recommended because of policy coherence considerations. At the same time, however, it would require addressing the conceptual and practical weaknesses of negative conditionality identified above. Otherwise, the impact of this extension for improvements on the ground will likely be limited. Nonetheless, for some GSP beneficiary countries, a widening of the scope of the negative conditionality to all Annex VIII conventions could lead to some improvements.

Extending the requirement of ratifying all conventions listed in Annex VIII of the GSP Regulation to all GSP countries (i.e., to Standard GSP and EBA beneficiaries, in addition to GSP+ countries), **scenario 5c**, could help to contribute to attaining the GSP objectives regarding promotion of sustainable development understood also as improved respect for human rights, labour and environmental standards and good governance, and act as a motivation for partner countries to address these issues more seriously in cases where political will might have been missing. Based on the analysis carried out so far, the lack of respect for workers' rights, equal treatment for women as workers, and decent working conditions seems to be a persistent and widespread problem, not only linked to the development level of a country. Therefore, the extension of positive conditionality could be relevant and important to balance economic, social, environmental and human rights considerations as enshrined in the definition of sustainable development. However, this could only happen if a substantial number of Standard GSP and EBA beneficiaries remained in the scheme. As the analysis in this section has shown, this is by no means certain – for a number of countries the ratio between administrative (and possibly political) costs of a ratification requirement and direct benefits from the GSP scheme is tilted towards costs, especially where the importance of exports to the EU is low and the number of conventions to be ratified is high. Such countries could decide not to transit to the new GSP scheme

with mandatory ratification of all Annex VIII conventions, which could lead to negative developments in the human rights, social or environmental situation. Therefore, a staged approach is proposed for scenario 5c, to be adapted to the circumstances of individual beneficiary countries (including their post-COVID-19 situation), to ensure that the countries showing commitment and cooperating in addressing issues related to conventions not yet ratified will not be forced to leave the GSP scheme. This staged approach would involve sufficiently long transition periods as well as EU technical assistance to support ratification processes.

There are two shortcomings of scenario 5c. First that ratification alone (even without reservations inhibiting the promotion of human rights) is ineffective when states fail to protect the rights enshrined in these conventions in practice: mere ratification of a convention in a country with weak governance lacking strong civil society mechanisms and rule of law may bring no difference or can even make things worse, for example, by exploiting the treaty ratification without any change for the better. Second, given Article 19(i) it is impossible to only emphasise ratification, implying that effective implementation does not matter to maintain GSP status, and stakeholders as well as the UN and ILO would consider this undermining the periodic review work that also looks at implementation.

Scenario 5d therefore envisages the extension of positive conditionality – understood as ratification *and* implementation of the conventions listed in Annex VIII – to all GSP beneficiaries. Compared to scenario 5c, this further increases the administrative compliance costs for both GSP countries and the European Commission. At the same time, the direct benefits of the scheme (i.e., the value of trade preferences) remain the same. This may lead some GSP country governments to decide that leaving the scheme is preferable, which could in turn have undesired impacts on the longer-term development of the human rights, social and environmental situation. This could be addressed through an even more carefully staged introduction of the implementation requirement, which would become applicable only after the application of the ratification requirement in scenario 5c. The analysis above has shown that a period of several years between ratification and the possibility to monitor effective implementation is required in any case.

In sum, making changes to the conditionalities requires a careful balancing of potential positive and negative impacts. In this sense, extending negative conditionality to all conventions listed in Annex VIII is a first step but without any enhancements of the way negative conditionalities are applied (see the separate analysis in task B.7) would rather be a symbolical levelling of the different conventions listed in Annex VIII.

Extending the positive conditionality brings benefits in terms of attention to the human rights, ILO, environmental and governance conventions in the beneficiary countries and therewith potentially fosters sustainable development. However, it also involves additional costs, and may drive some countries – in particular the “worst performers” regarding these conventions – out of the scheme altogether, especially when the requirement comprises not only ratification but also effective implementation. While some of these costs may be covered by access to financial instruments that are part of or associated with the conventions, additional support by the EU is likely to also be required.

The policy scenarios defined in this task are analysed as ‘either-or’ options, but in order to achieve an optimal balance between positive and negative impacts, some variations could be considered, for example, by extending the positive ratification conditionality to the Standard GSP countries but not to EBA countries. The difference with GSP+ would be that implementation would be required but a phase-in of the implementation requirement (that is immediate in GSP+) could be considered.

Finally, we suggest that the Commission’s work on a new GSP regulation is combined with a timely engagement with beneficiary countries, as well as their sector and trade union

representatives and an information campaign signalling the possibility of changes to the conditionalities being introduced, thus giving the beneficiary countries time to prepare.

2.6 Options for updating the list of international conventions in Annex VIII (Task B.6)

2.6.1 Introduction

2.6.1.1 Purpose and Options

Parts A and B of Annex VIII are at the core of one of the objectives of the GSP, “to promote sustainable development and good governance” (recital 7 in the preamble to the GSP Regulation). The Conventions currently covered in the Annex are listed in Box 6 above.

Although all these conventions remain in force, the MTE study considered that the list was outdated and incomplete, and recommended that a detailed review be undertaken to update the list. This Task addresses such recommendation.

To facilitate the analysis, the following policy options/scenarios have been defined:

- **Baseline (scenario 6a):** Annex VIII of the GSP Regulation is not changed;
- Under **scenario 6b**, the list of international conventions in Annex VIII would be reduced by removing those conventions that could be regarded as no longer relevant for the objective of GSP+¹¹⁹ in promoting sustainable development and good governance (e.g., have a limited impact on sustainable development, are obsolete, have been superseded, etc.);
- **Scenario 6c** would expand the list of conventions by including additional conventions that can be considered to be particularly relevant for the objective of GSP+¹²⁰; and
- **Scenario 6d** would combine the previous two policy options.

In the public consultations for this study, some respondents supported the idea of including international conventions on environment protection, climate change and good governance into GSP conditionality, thus enabling withdrawal of preferences also in cases of serious and systematic violations of these conventions. They argued that some industries in developing countries inappropriately benefit from GSP preferences while not respecting environmental standards (e.g., in the garment and textiles sector). If this is not the case, it undermines the EU’s efforts to protect the environment and introduces an illegitimate comparative advantage. 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. Other respondents noted the challenge that implementation of those conventions represents for GSP beneficiaries, in particular for LDCs. In their view, developing countries need to make progress in awareness, knowledge and technical capacity to be able to comply with environmental conventions, before the related conditionality can be introduced. Similarly, divided views were provided regarding climate change and related conventions. While 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 were of the view that the EU should use all available tools to enforce the fight against climate change globally, while others believed that withdrawal of preferences is not the right measure to address such a problem in developing countries, as many of them are already confronted with consequences of climate change and addressing it and losing preferences would weaken their economic capacity to act. In this context, some respondents suggested that additional conditionality (a possibility to withdraw preferences if the country violates

¹¹⁹ This would be extended to the Standard GSP and EBA in certain policy scenarios under Task B.5 (section 2.5 above).

¹²⁰ Again, an extension to the Standard GSP and EBA is foreseen in certain policy scenarios under Task B.5 (section 2.5 above).

conventions on environment protection or climate change) could be applied to countries benefitting from the Standard GSP arrangement, as being economically stronger and therefore more capable of meeting additional conditions and complying with higher environmental standards.

In the following sections, we assess for each of the scenarios 6a to 6d mentioned above and for each of the 'type' of convention – for human rights, labour, environmental and governance conventions – to what extent maintaining or adapting the list of conventions would further contribute to the objectives of the GSP. We focus on the conventions' relevance for attaining the objectives of the GSP scheme, i.e., supporting sustainable development, good governance and poverty eradication in beneficiary countries, while also considering administrative cost issues. In doing so, as mentioned in the inception report, the assessment considers the following criteria:

- 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;¹²¹
- 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 considered¹²²);
- 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.

2.6.1.2 Legal considerations

From a legal perspective, as noted, in *EC – Tariff Preferences*, the Appellate Body also said that not all tariff preferences were permitted under WTO law: because of paragraph 3(c) of the Enabling Clause, they needed to be a *positive response* to the identified development needs. Two key questions are therefore how to identify the "needs" of developing countries, and how to determine whether the *granting* of preferences is a 'positive response' to those needs. Further, the Appellate Body emphasised that 2(a) and footnote 3 of the 1979 Enabling Clause only permit preferences that are "described" in the 1971 GSP Decision, namely, those that are "generalized, non-reciprocal and non discriminatory", and this meant that those developing country GSP beneficiaries with *similar* "development, financial and trade" needs had to be treated equally.

2.6.1.2.1 Identifying "development, financial and trade needs"

The term "development, financial and trade needs" originated as the standard according to which the principle of "non-reciprocity" was to be measured. Thus, the Note to Article XXXVI:8 of the GATT, introduced in 1966 as part of its new Part IV, states that

It is understood that the phrase 'do not expect reciprocity' means, in accordance with the objectives set forth in this Article, that the less-developed contracting parties should not be expected, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs, taking into consideration past trade developments.

¹²¹ A number of "conventions" proposed by stakeholders do not comply with this criterion. Examples are the UN Guiding Principles on Business and Human Rights, or the EU Readmission Agreements.

¹²² The openness for ratification has been applied both on a *de iure* and *de facto* basis. For this reason, conventions with a regional or sectoral scope (e.g. conventions related to the fishing sector) have been excluded from the list of candidates.

This concept of non-reciprocity originated in the Ministerial Declaration launching the Kennedy Round in 1963, where it was said that “the developed countries cannot expect to receive reciprocity from the less-developed countries” and that the contribution of these countries to the overall objectives of trade liberalization should be considered “in the light of the trade and development needs of those countries.”¹²³

In other words, in its original context the “development, financial and trade needs” of developing countries were a reason for retaining their import tariffs, thereby justifying *protection against imports*. It is perhaps significant that the phrase does not appear in the 1971 GSP Decision, even though this Decision lists some relevant objectives, namely promoting trade, promoting industrialisation, accelerating rates of economic growth and increasing export earnings. This might be an indication that, at least in 1971, the term “development, financial and trade needs” was still understood as relating to import restrictions, not export promotion. This changed in 1979 when the term was included in paragraph 3(c) of the Enabling Clause. Now, the term “development, financial and trade needs” represented the standard for determining the permissibility of *promoting exports* of developing countries. This means, for example, that the “financial needs” of developing countries, in this context, mean not tariff revenue, but rather export earnings.

Subsequently, the meaning of the term “development” also evolved from one focused on macro-economic development to one focused on human development, and then further to a concept of “sustainable” development, in which environmental considerations also play a part (O’Brien and Zandvliet 2012). Significantly, in *EC – Tariff Preferences*, the Appellate Body accepted a notion of “development need” in paragraph 3(c) that extended beyond a merely economic concept. All that was required was that the “need” be objectively determinable. It read:

In our view, a ‘need’ cannot be characterized as one of the specified ‘needs of developing countries’ in the sense of paragraph 3(c) based merely on an assertion to that effect by, for instance, a preference-granting country or a beneficiary country. Rather, when a claim of inconsistency with paragraph 3(c) is made, the existence of a ‘development, financial [or] trade need’ must be assessed according to an *objective* standard. Broad-based recognition of a particular need, set out in the *WTO Agreement* or in multilateral instruments adopted by international organizations, could serve as such a standard.¹²⁴

Concretely, the Appellate Body endorsed the EU’s identification of a particular developing need as “the problem of illicit drug production and trafficking in certain GSP beneficiaries.”¹²⁵ The purpose of the trade preferences in this example was to encourage crop diversification.

2.6.1.2.2 Positive response to a “development, financial or trade need”

The Appellate Body was insistent that the Enabling Clause only authorised trade preferences that were also a positive response to a “development, financial or trade need.” In addition, the view of the Appellate Body was that non-trade development needs also counted as “needs” under this paragraph.

Two questions arise. The first concerns causality, namely, how close a nexus there must be between the preferences and addressing the development “need”. Preferential market access operates by increasing a beneficiary’s exports, which generates foreign exchange earnings, supports access to imports that meet the country’s full spectrum of needs, and more generally promotes industrial development and job creation. An increase in exports benefiting from tariff preferences may also directly and indirectly address specific non-trade-related development needs. For example, if promoting minimum labour standards is

¹²³ GATT Secretariat, Rules and procedures for the Dillon and Kennedy Rounds, MTN/W/8, 25 February 1975, para 25.

¹²⁴ Appellate Body Report, *EC – Tariff Preferences*, para 163.

¹²⁵ Appellate Body Report, *EC – Tariff Preferences*, para 180.

a development need, it follows that preferences granted to products made according to those standards will be a direct positive response to that development need. More generally, the increase in export earnings might enable a beneficiary government to implement labour standards even in industries that do not export products benefitting from preferences and thus indirectly support this development objective. Moreover, granting preferences might be a sufficient incentive to a beneficiary government to ratify and implement the relevant international conventions, which would also contribute to addressing this development need. Accordingly, the granting of preferences can be linked both directly and indirectly to the meeting of both trade-related and non-trade related development needs, which in turn provides wide latitude for the framing of the GSP Regulation.

A second question pertains to the non-discrimination condition in paragraph 2(a) of the Enabling Clause. Developing countries differ in their comparative advantages, resource endowments, and technological sophistication. They differ as regards their trade-related and non-trade-related development needs. They also face differing challenges in accessing the EU market because of immutable differences in economic geography – distance, logistics (land-locked vs. coastal or islands), language, culture, legal systems and so forth, all of which exert an important influence on the strength of trade relationships. Equal, non-discriminatory access to unequal players in unequal circumstances necessarily results in unequal benefits and unequal leverage of a given preference scheme in meeting development needs.

1. The narrower the range of preferences, the more likely that a given preference scheme will effectively exclude some developing countries, particularly those with narrow export palettes. This consideration supports the EBA framing of providing the widest possible range of preferences without conditionalities for the lowest income countries, given that these tend to have very narrow export capabilities.
2. Moreover, given the established relationship between economic development and industrialization, providing the broadest possible range of preferences for *industrial* products to countries that have reached a higher level of income, for which further development depends on industrialization, supports the more focussed framing of preferences for the Standard GSP countries.
3. Further, the differing non-trade development needs of beneficiaries, interpreted in terms of governance, supports a broad range of conditionalities as per the GSP+ scheme in terms of accession to international conventions that can be plausibly linked to good governance from a development perspective in order to address development needs while at the same time providing “similar” treatment to countries in “similar” circumstances interpreted in terms of governance needs. At the same time, given the implicit differences in the burden of meeting all the conditionalities means that this scheme should be supported by technical assistance.

2.6.2 Scenario 6a: *Unchanged List of Conventions in Annex VIII*

2.6.2.1 Human Rights Conventions

Currently, Annex VIII includes 15 human rights conventions (see Box 6 above): the Genocide Convention (Convention on the Prevention and Punishment of the Crime of Genocide, (C)PPCG), six out of nine core international human rights treaties,¹²⁶ and eight core ILO Conventions (addressed separately below).

¹²⁶ The three remaining core conventions on human rights not on the list of Annex VIII are the International Convention on Protection of the Rights of All Migrant Workers and their Families 1990 (ICMW), the

The Genocide Convention is the first human rights treaty that was adopted in 1948 and that continues to be relevant in the quest for accountability for the gravest international crimes. The prohibition of genocide is considered as a peremptory norm of international law. The other human rights conventions listed form the core of international human rights instruments that are crucial in the protection and promotion of human rights worldwide.

To illustrate the relevance of the human rights conventions listed in Annex VIII¹²⁷ for the objectives of the GSP scheme and, in particular, for GSP+ (promotion of sustainable development, good governance and poverty eradication in developing countries), Figure 17 links each of the conventions to the Sustainable Development Goals (SDGs). The added value of the conventions is clear. Many targets of the SDGs correspond to the essential dimensions covered in human rights treaties. The principle of “ensuring that no one is left behind” is embedded in Articles 2 and 3 of the ICCPR and ICESCR that include the principle of non-discrimination and promotion of equality between men and women. Other human rights treaties aim to protect particularly vulnerable groups, persons who are at risk of being left behind: women, children, national, ethnic and racial minorities, persons in detention, persons with disabilities, or indigenous populations.¹²⁸

It should be noted that, because the Genocide Convention and the Convention against Torture (CAT) are only linked to SDG 16, that does not mean they are less important. SDG 16 stands for peace, justice and strong institutions. It is aimed at promoting peaceful and inclusive societies for sustainable development, providing access to justice for all and building effective, accountable and inclusive institutions at all levels.¹²⁹ Armed violence, conflict, insecurity, torture have an overall destructive impact on the development of a country, undermining human rights. Peace, stability, effective governance based on the rule of law are a basis for the development of human rights.

All of the human rights conventions currently listed in Annex VIII present unquestionable relevance for sustainable development and promotion of human rights. From a wider human rights perspective, however, the current list is rather incomplete as it only represented a subset of the core international human rights conventions and none of the Optional Protocols: this is addressed in more detail in scenario 6c below.

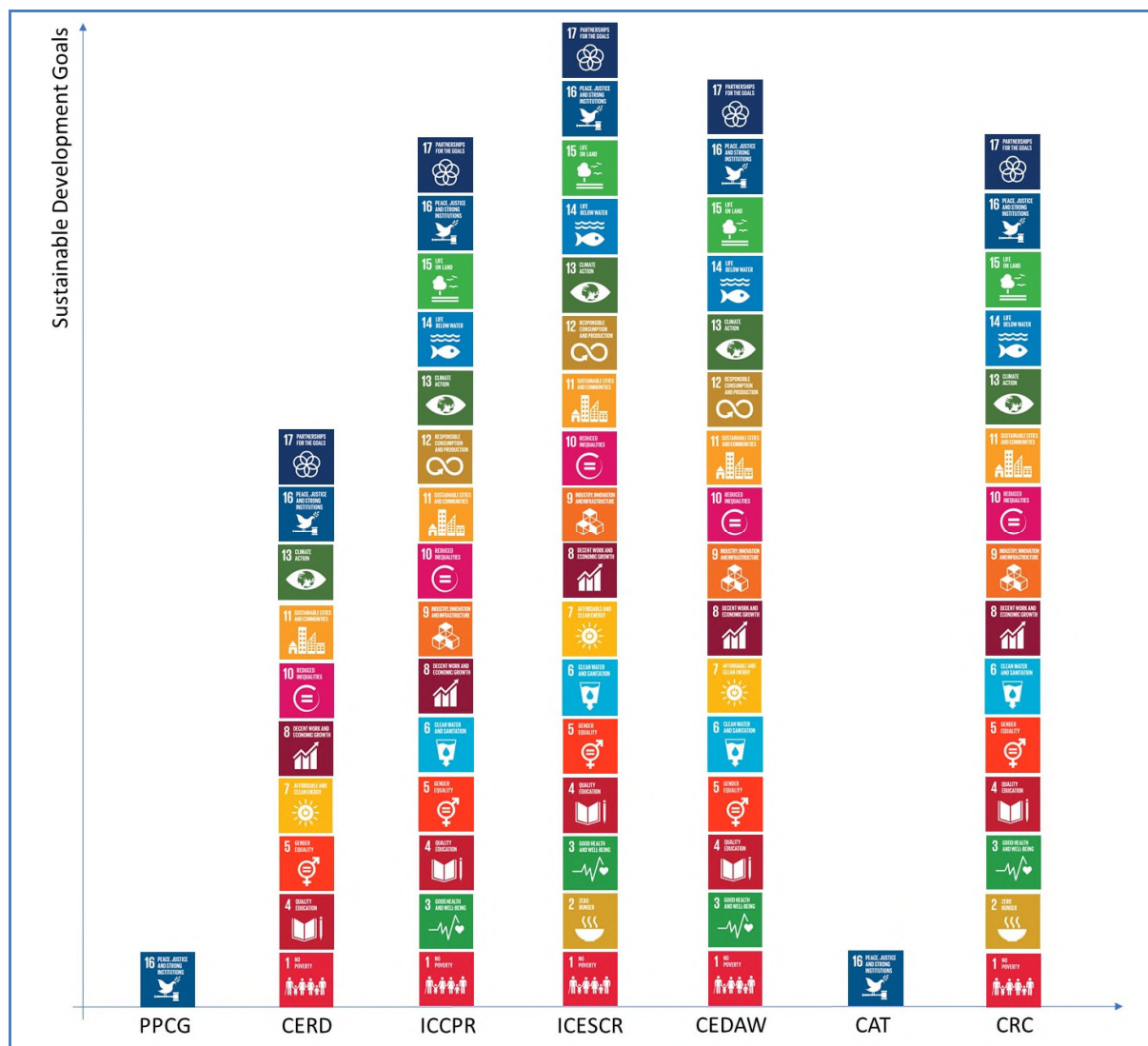
International Convention for the Protection of All Persons from Enforced Disappearance 2006 (CPED), and the International Convention on the Rights of Persons with Disabilities 2008 (CRPD).

¹²⁷ As mentioned, the ILO Conventions are considered separately below.

¹²⁸ See Human Rights Treaty Bodies and SDGs, available at: <https://sustainabledevelopment.un.org/index.php?page=view&type=30022&nr=201&menu=3170>

¹²⁹ SDG 16 of the 2030 Agenda, UN Doc. A/RES/70/1.

Figure 17: Relevance of human rights conventions included in Annex VIII for the SDGs



Source: own compilation based on data from the Human Rights Guide to the Sustainable Development Goals by The Danish Institute for Human Rights, <https://sdg.humanrights.dk/>

2.6.2.2 ILO Fundamental Conventions

As mentioned earlier, Annex VIII of the GSP Regulation currently includes all eight ILO fundamental conventions. As of early July 2020, these conventions remain in force and constitute a set of core labour standards and universal human rights listed in the ILO 1998 Declaration on Fundamental Principles and Rights at Work,¹³⁰ which together with the ILO Constitution and the 2008 Declaration on Social Justice for a Fair Globalisation¹³¹ lays down foundations of the ILO and is binding upon all ILO members, irrespective of whether they have ratified or not the ILO fundamental conventions.¹³² In addition, the ILO 2008

¹³⁰ ILO 1998: Declaration on Fundamental Principles and Rights at Work: <https://www.ilo.org/declaration/thedeclaration/textdeclaration/lang--en/index.htm>

¹³¹ ILO 2008: Declaration on Social Justice for a Fair Globalisation: https://www.ilo.org/wcmsp5/groups/public/-ddgreports/---cabinet/documents/genericdocument/wcms_371208.pdf

¹³² According to the ILO 1998 Declaration, all ILO Members, even if they have not ratified the ILO fundamental conventions, have an obligation arising from their ILO membership to respect, to promote and to realize, in good faith and in accordance with the ILO Constitution, the principles concerning the fundamental rights which are the subject of those conventions, namely: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation.

Declaration reiterates the need for a strong social dimension of globalisation and identifies decent work, including respect for the fundamental principles and rights at work, as a central objective of relevant national and international policies and development strategies. More recently, the Agenda 2030 has renewed the commitment of the international community, including developing countries, to design and implement their policies, law and practice in a way that supports the attainment of the objectives of the ILO fundamental conventions, such as eradication of forced labour and the worst forms of child labour, protection of labour rights and achievement of decent work for all and equal pay for work of equal value. These commitments have been enshrined in SDG 8. Therefore, the objectives of the ILO fundamental conventions and SDG 8 are mutually supportive, and efforts towards ratification and effective implementation of the ILO fundamental conventions globally and among GSP beneficiary countries are also contributing to achieving SDGs. Moreover, in the 2019 Centenary Declaration for the future of work,¹³³ the ILO Conference underlined the importance of the previous Declarations and stressed that in further development of human-centred approach to the future of work, the ILO will focus its efforts *inter alia* on promoting worker rights with a focus on freedom of association and the right to collective bargaining, achieving gender equality at work and ensuring equal opportunities and treatment at work for persons with disabilities and workers in vulnerable situations, eradicating forced and child labour and promoting decent work for all. The Declaration therefore made a reference to **all** core labour standards as equally important for the future of work. It also highlighted that sustainable economic growth and decent work for all will be promoted, among others, through macroeconomic policies and trade. The commitment to promote, protect and realise the ILO core labour standards and to ratify and to effectively implement the eight ILO fundamental conventions has also become a permanent element of EU TSD chapters in FTAs, thus confirming the relevance of the ILO fundamental conventions for trade policy instruments and the promotion of sustainable development.

The ILO fundamental conventions are inseparable, interrelated and mutually reinforcing. They remain vital for securing respect for basic labour rights in all countries and provide the foundations on which equitable and just societies are built, as confirmed in the ILO General Conference 2017 resolution on fundamental rights and principles at work,¹³⁴ and the ILO Integrated Strategy on Fundamental Rights and Principles at Work 2017-2023.¹³⁵ The latter also emphasises that without the ILO fundamental conventions and their realisation in law and practice, the ILO Decent Work Agenda and the 2030 Sustainable Development Agenda could not be achieved. The ILO promotes universal ratification of its eight fundamental conventions by all ILO members and assists those having difficulties in their ratification, implementation or enforcement, to overcome them.

In August 2020, fundamental Convention No. 182 (on the worst forms of child labour) achieved universal ratification by all 187 ILO members.¹³⁶ The conventions related to elimination of forced labour (No. 29 and 105), non-discrimination at work (No. 100 and 111) and the minimum age for admission to work (No. 138) have all exceeded 170 ratifications globally. A slightly lower level of ratifications (155 and 167) relates to the freedom of association and the recognition of the right to collective bargaining conventions No. 87 and 98.¹³⁷ Among the GSP countries, the ratification share ranges from 80% (51

¹³³ ILO 2019: Centenary Declaration for the future of work: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_711674.pdf

¹³⁴ ILO 2017: Resolution concerning the second recurrent discussion on fundamental principles and rights at work: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_561873.pdf

¹³⁵ ILO 2017: Integrated Strategy on Fundamental Principles and Rights at Work 2017-2023: https://www.ilo.org/wcmsp5/groups/public/@ed_norm/@ipecc/documents/publication/wcms_648801.pdf

¹³⁶ Tonga, a current Standard GSP beneficiary but anticipated to graduate in the baseline, was the last member to ratify the Convention in August 2020.

¹³⁷ ILO NORMLEX database: https://www.ilo.org/dyn/normlex/en/f?p=1000:10011:::NO:10011:P10011_DISPLAY_BY,P10011_CONVENTION_TYPE_CODE:1,F

out of 64 countries for No. 87, freedom of association) to 95% (61 countries, for No. 182), and all GSP+ countries have ratified all eight fundamental conventions (see Annex B5-1).

To evaluate the implementation of the fundamental conventions, the ILO has in place a comprehensive monitoring system with government reports on ratified and non-ratified conventions being submitted at regular intervals. The reporting schedule for each country is published on the ILO website (every three years for ratified fundamental conventions and annually for non-ratified ones, every three years for ratified priority conventions and every five years for the remaining technical conventions). The ILO has also established dedicated bodies, i.e., the Committee of Experts on the Application of Conventions and Recommendations, the Conference Committee on the Application of Standards and the Committee on Freedom of Association, overseeing in a transparent manner the performance of ILO members. Each of these Committees has its specific mandate, composition and ways of working. The Committees' reports are published on the ILO website, ensuring accessibility of findings and conclusions to all interested parties, including for the purpose of monitoring performance in the context of the GSP Regulation.

2.6.2.3 Environmental Conventions

Annex VIII to the GSP Regulation currently includes eight environmental conventions. Table 44 provides an overview of them, identifies the key environmental matter addressed by each one, and presents the main elements with respect to the period of validity. The table also indicates the relevance of the eight environmental conventions to the SDGs. With the SDGs being interlinked and the environmental conventions having direct as well as indirect impacts, the relations between the conventions and the SDGs are many, but for simplicity and clarity only the main, direct relations are indicated.

Table 44: Environmental conventions included in Annex VIII of the GSP Regulation

Environmental convention (order as listed in Article VIII)	Key environmental matter addressed	Main elements regarding validity	Relevance to SDGs (main relation)
Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973)	Biodiversity	Framework agreement, accords varying degrees of protection to more than 37,000 species of animals and plants. No expiry.	14- Life below water 15 – Life on land
Montreal Protocol on Substances that Deplete the Ozone Layer, 1987	Air pollution	Convention aiming to protect the ozone layer by phasing out the production of numerous substances that are responsible for ozone depletion. Has had nine amendments since entry into force. No expiry.	3 – Good health and well-being 11 – Sustainable cities and communities
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, 1989	Waste	Convention designed to reduce the movements of hazardous waste between nations, and specifically to prevent transfer of hazardous waste from developed to LDCs. No expiry.	6- Clean water and sanitation 12 – Responsible production and consumption
Convention on Biological Diversity, 1992	Biodiversity	Framework agreement with main objective to develop national strategies for the conservation and sustainable use of biological diversity. No expiry.	14- Life below water 15 – Life on land
United Nations Framework Convention on Climate Change, 1992 (UNFCCC)	Climate change	Framework convention calling for amendments and protocols to address further action. No expiry.	13- Climate action
Cartagena Protocol on Biosafety to the CBD, 2000	Biodiversity	One of the two amendments to the CBD, aiming to ensure the safe handling, transport and use of living modified organisms resulting from modern biotechnology. No expiry.	14- Life below water 15 – Life on land
Stockholm Convention on Persistent Organic Pollutants, 2001	Environmental quality/ Water/ Waste	Convention that aims to eliminate or restrict the production and use of persistent organic pollutants (POPs) or 'forever chemicals'. No expiry.	9 – Industry, innovation and infrastructure

Environmental convention (order as listed in Article VIII)	Key environmental matter addressed	Main elements regarding validity	Relevance to SDGs (main relation)
			12 – Responsible production and consumption
Kyoto Protocol to the UNFCCC, 1997	Climate change	Targets expired in 2012; Doha amendment taking targets to 2020. Succeeded by Paris Agreement	13- Climate action

The overview provided in Annex B5-1 shows that the share of ratification of these eight environmental conventions is already very high across all GSP countries. This ranges from 52 out of the 64 GSP countries (as per the baseline) that have ratified the Stockholm Convention (81%) to all countries having ratified the Convention on Biological Diversity, the Montreal Protocol and the UNFCCC. All eight GSP+ countries have ratified all eight environmental conventions.

Scenario 6a describes the baseline situation of not making changes to the list of environmental conventions in Annex VIII of the GSP. Based on a more detailed assessment of the agreements of the conventions and – in case study 12 (**Annex C-12**) – the needs for Bangladesh to address environmental aspects, we conclude for the wider group of GSP countries that:

- The current list of conventions seems largely suitable as it addresses most – but not all – of the main environmental challenges that GSP countries are facing and that meet the selection criteria for inclusion of conventions as included in the methodology (see section 2.6.1).
- Keeping the list of conventions in its present form, is not the most optimal scenario since the main element to the Kyoto Protocol – the targeted GHG reductions to be achieved by 2020 – has expired and climate change is one of the main environmental risks for many GSP beneficiaries.
- The current list also does not sufficiently address some of the major environmental concerns of GSP countries such as high levels of air pollution, challenges and rapidly expected growth of dealing with hazardous waste, and challenges with respect to water quality.

It is important to realise that some environmental challenges are mutually influencing each other. For example, the loss of forestry coverage and land use changes have a significant impact on biodiversity, but may also have a significant impact on climate change or water availability. It may therefore be the case that although a specific convention is not ratified or effectively implemented this does not mean that the specific environmental challenge that this convention addresses is left entirely unaddressed, but that it is addressed via other types of policies or implementation of indirectly linked conventions.

2.6.2.4 Governance Conventions

Annex VIII of the GSP Regulation currently includes four conventions on good governance, namely the UN Convention against Corruption and three UN conventions seeking to control illegal drugs, i.e., the UN Single Convention on Narcotic Drugs, the UN Convention on Psychotropic Substances (1971), and the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988). These conventions had already been included in the current Regulation's predecessor (Regulation 732/2008).

All of these conventions are considered as relevant to the scope and objectives of the GSP. Specifically, they all have a direct link with trade, and their objectives and scope are directly related to the SDGs, and therefore also the GSP's objective to contribute to sustainable development. Specifically:

- Corruption is an issue in trade, as corruption at customs is a pervasive problem in many countries, and could therefore neutralise any potential positive effects of the GSP preferences. The fight against corruption is also directly addressed in the SDGs, where for example SDG target 16.5 aims at substantially reducing corruption and bribery in all their forms;
- The three narcotic drugs conventions address issues in the illicit trade in drugs, which by definition is trade-related. They also correspond – both directly and indirectly – to the achievement of the SDGs. For example, SDG target 3.5 is dedicated to the strengthening of the prevention and treatment of substance abuse, including narcotic drug abuse. Indirect links exist with a number of the SDGs, including Goal 1 (end poverty), Goal 2 (end hunger), Goal 5 (achieve gender equality), Goal 15 (protect the environment, and Goal 16 (protect peaceful and inclusive societies).¹³⁸

The conventions have also provided added value to the GSP+. For example, when Bolivia (a GSP+ beneficiary country) withdrew from the UN Single Convention on Narcotic Drugs to make a reservation to the convention which allows the traditional use of coca leaves in the country, follow-up by the EU based on the GSP+ requirement to ratify the Convention was an element in Bolivia's re-accession to the Convention in 2013.¹³⁹

Preliminary conclusions for scenario 6a: Based on the analysis undertaken so far, all current human rights conventions in Annex VIII contribute to the goals and objectives of the GSP scheme. Likewise, the eight ILO fundamental conventions remain valid for achieving the objectives of the GSP Regulation and should be seen as a whole set, within which they are inseparable, equally important and mutually reinforcing. Therefore, they should stay in Annex VIII to the GSP Regulation. The same applies to the governance conventions, as well as the environmental conventions except for the Kyoto Protocol, which has been superseded by the Paris Agreement.

2.6.3 Scenario 6b: Removing conventions no longer relevant

The analysis of the baseline scenario 6a has already addressed the continued relevance of conventions listed in Annex VIII and therefore needs not be repeated here.

Preliminary conclusions and recommendations: The analysis undertaken in scenario 6a above shows that:

- The current set of **human rights conventions** continues to be relevant, and therefore we suggest that none of them are removed from Annex VIII as long as they remain up-to-date (and are not replaced by other updated legal instruments that cover the same or highly similar content).
- The **ILO fundamental conventions** continue to be relevant for attaining the objectives of the GSP Regulation, and therefore none of them should be removed from Annex VIII, as long as they remain in force and are not replaced by a new instrument.
- Regarding **environmental conventions**, the main element to the Kyoto Protocol, the targeted GHG reductions, has expired, and has been superseded by the Paris Agreement. It is therefore recommended to delete the Kyoto Protocol from Annex VIII (and instead replace it with the Paris Agreement; see below).
- All of the **governance conventions** currently included in Annex VIII also continue to be relevant and should therefore remain in the list.

¹³⁸ For a detailed description of the links between drug policies, as supported by the UN Conventions, and the SDGs, see e.g., Health Poverty Action (2015).

¹³⁹ As reported in the MTE (p. 103f)

2.6.4 Scenario 6c: Expanding the list of conventions in Annex VIII

2.6.4.1 Human Rights Conventions

To determine whether other human rights conventions or human rights related conventions are particularly important and add to attaining GSP+ objectives, and should therefore be added to Annex VIII, we first give an overview of the potential Conventions that could be included and then apply the selection criteria to determine whether any of these should be included or not.

The starting point for considering candidates among human rights conventions to be included in Annex VIII are those core international human rights treaties and optional protocols that are not currently listed in the Annex. We also studied 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.¹⁴⁰ All the conventions proposed for addition are legally recognised as conventions and are open to ratification by all members of the international community. Table 45 lists the 14 conventions considered; Annex B6-1 provides a concise overview for each of them.

Table 45: Overview of human rights instruments considered for inclusion in Annex VIII

No	Convention name	Abbreviation
1	Optional Protocol to the International Covenant on Civil and Political Rights	ICCPR-OP1
2	Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty	ICCPR-OP2
3	Optional Protocol to the Covenant on Economic, Social and Cultural Rights	ICESCR-OP
4	Optional Protocol to the Convention on the Elimination of Discrimination against Women	OP-CEDAW
5	Optional Protocol to the Convention against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment	OP-CAT
6	Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict	OP-CRC-AC
7	Optional Protocol to the Convention on the Rights of the Child on the sale of children, child prostitution and child pornography	OP-CRC-SC
8	Optional Protocol to the Convention on the Rights of the Child on communications procedure	OP-CRC-IC
9	International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families	ICMW
10	International Convention for the Protection of All Persons from Enforced Disappearance	CPED
11	Convention on the Rights of Persons with Disabilities	CRPD
12	Optional Protocol to the Convention on the Rights of Persons with Disabilities	OP-CRPD
13	ILO Convention No. 169 on Indigenous and Tribal Peoples	ILO No. 169
14	Rome Statute of the International Criminal Court	Rome Statute

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). Almost all of these protocols entail some level of oversight over the implementation of the core human rights instruments. 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. These Protocols also create inquiry mechanisms which allow international monitoring bodies to investigate and report on grave and systematic violations occurring within the

¹⁴⁰ European Parliament (2019). *Report on the implementation of the GSP Regulation (EU) No 978/2012 (2018/2017(INI))*, 26 February 2019, A8-0090/2019.

borders of states parties and subsequently make recommendations to the state. 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. 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.

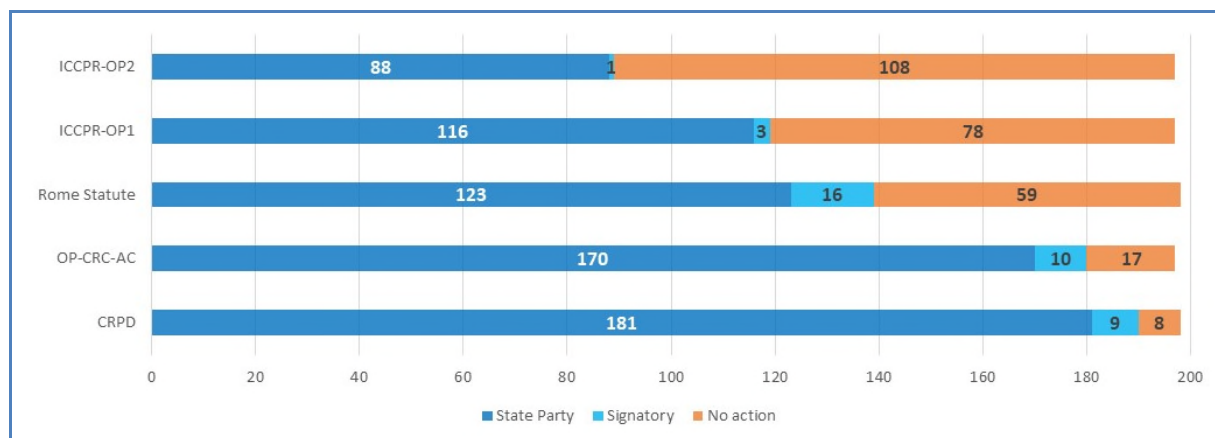
Of the 14 conventions considered, only five have been ratified by all EU Member States (Table B6-2.1 in Annex B6-2):

- 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 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, we will not include this convention into the list, but we note 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) and recommend it for further consideration. All the other human rights instruments considered are not ratified by at least two EU Member States.

Among these, only two human rights instruments show a high degree of ratification internationally, i.e., the Convention on the Rights of Persons with Disabilities (CRPD), which is ratified by 181 countries (including 56 of the 64 GSP countries as per the baseline) and the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict (OP-CRC-AC), ratified by 170 countries, including 53 GSP countries (Figure 18; Table B6-2.2 in Annex B6-2 shows the ratification status in GSP countries).

Figure 18: Degree of ratification of selected human instruments by the international community



Source: Prepared by the authors based on <https://treaties.un.org>

Therefore, we look at these instruments in more detail and discuss their relevance in light of the main objectives of the GSP Regulation, i.e., to contribute to poverty eradication and to promote sustainable development and good governance, as well as their overlap with the conventions already on the list of Annex VIII.

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 came into force in 2008 following the 20th country's ratification. It is intended to protect the rights of people with disabilities, to ensure full enjoyment of human rights by people from this vulnerable group.¹⁴¹ The CRPD's guiding principles are: 1) respect for inherent dignity, individual autonomy, including the freedom to make one's own choices, and independence of person; 2) non-discrimination; 3) full and effective participation and inclusion in society; 4) respect for difference and acceptance of persons with disabilities as part of human diversity and humanity; 5) equality or opportunity; 6) accessibility; 7) equality between men and women; 8) respect for the evolving capacities of children with disabilities and respect for the right of children with disabilities to preserve their identities (Art. 3, CRPD). In the trade framework of the GSP, this convention 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.

To illustrate the relevance of this convention to sustainable development, we note that disability is particularly closely linked to SDG 10 which strives to reduce inequality within and among countries by empowering and promoting the social, economic and political inclusion of all, including persons with disabilities.¹⁴² But there are also other SDGs that are related to the rights of persons with disabilities, their employment, education, and life in a community: Goal 4 on ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all, also relates to persons with disabilities; Goal 8 on promotion of sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, including for persons with disabilities; Goal 11 on making cities and human settlements inclusive, safe, resilient and sustainable, providing safe and accessible public spaces, transport system for all gives special attention to such vulnerable groups like persons with disabilities; and Goal 17 on strengthening the means of implementation and revitalizing the global partnership for sustainable

¹⁴¹ GA resolution A/RES/61/106.

¹⁴² Transforming Our World, Goal 10.2.

development, in particular related to collecting reliable data which is also disaggregated by disability.¹⁴³

In terms of added value, although several provisions of the ICCPR, ICESCR, CEDAW and CRC are of direct relevance for persons with disabilities (and their rights can indirectly be derived from them), there is no explicit reference to persons with disabilities mentioned in other human rights instruments.¹⁴⁴ 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. Therefore, this convention does not overlap with the existing conventions from Annex VIII, but rather strengthens the rights of persons 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 Convention is monitored by the Committee on the Rights of Persons with Disabilities. The Committee is a body of eighteen independent experts who serve in their individual capacity and not as government representatives. They are elected from a list of persons nominated by the state parties for a four-year term with a possibility to be re-elected once. All state parties are obliged to submit regular reports to the Committee, reporting on the implementation of the Convention. In line with the general practice of the UN treaty bodies, the Committee then examines each report and makes suggestions and recommendations on the report in the form of Concluding Observations and forwards them to the state party concerned. Upon ratification of the Convention, the state parties must submit reports every two years and after that every four years (Arts. 33-37). The Conference of States Parties meets at an annual basis to consider any matters with regard to the implementation of the Convention (Art. 40).

Of the eight GSP+ countries in the baseline for the study, two, Tajikistan and Uzbekistan, have signed but not yet ratified the CRPD, and would have to do so in case the CRPD was added to Annex VIII. Uzbekistan has indicated that this Convention is already in the process of ratification (see case study 11 on Uzbekistan, **Annex C-11**). Tajikistan has also taken some steps at the national level towards ratification of the Convention (2017-2020 National Action Plan).

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 was also adopted by the UN General Assembly. It is aimed at the protection of children from recruitment and use in hostilities. Articles 38 and 39 of the CRC already address the involvement of children in armed conflict by providing that state parties “shall take all feasible measures to ensure that persons who have not attained the age of fifteen years do not take part in direct hostilities” (Art. 38 (2), CRC). However, it fails to meet the so-called “straight 18 approach” (Drumbl and Tobin 2019, 1506) that is followed in a number of other important instruments pertaining to the use of children in armed conflicts, e.g., the ILO Convention on the Worst Forms of Child Labour, which defines a child as a person under 18 years of age and forbids “forced or compulsory recruitment of children for use in armed conflict” (C182, Art. 3(a)). The Optional Protocol prohibits compulsory recruitment of children below the age of 18 by government forces and raises the minimum age for direct participation from 15 to 18 years (see Art. 38 of the CRC and Art. 2, OPAC). The 2018 UNICEF report points to particularly grave violations of children’s rights that result

¹⁴³ *Ibid.*

¹⁴⁴ Not directly in the legal text of the conventions - e.g., CESCR General Comment No. 5.

from their involvement in armed conflict - children living in countries at war are often killed, used as human shields and recruited to participate in military hostilities.¹⁴⁵ For some countries within the GSP scheme that are still exposed to conflict and violence, this situation is familiar, e.g., South Sudan, DR Congo, Somalia, and Yemen.

To illustrate the relevance of this protocol to sustainable development, we note that the OP-CRC-AC is linked to a number of SDG goals. Goal 8, in particular, target 8.7 aims to eradicate all recruitment and use of child soldiers. Goal 16 on peace, justice and strong institutions, in particular, target 16.2 focuses on ending abuse, exploitation, trafficking and all forms of violence and torture against children. Moreover, the Optional Protocol is relevant for the EU commitment to integrate children's rights into EU external policies.¹⁴⁶

The Optional Protocol is monitored by the Committee on the Rights of the Child. The Committee is a body of eighteen independent experts who serve in their individual capacity and not as government representatives. They are elected from the list of persons nominated by the state-parties for a four-year term with a possibility to be re-elected (Art. 43, CRC). All state parties are obliged to submit regular reports to the Committee, reporting on the implementation of the provisions of the Protocol, including the measures taken to implement the provisions on participation and recruitment (as part of its reporting obligations under the Convention on the Rights of the Child). In line with the general practice of the UN treaty monitoring bodies, the Committee examines each report and makes suggestions and recommendations on the report in the form of Concluding Observations (Art. 8, OPAC, Art. 44, CRC). Upon ratification of the Protocol, the state parties must submit reports within two years following the entry into force of the Protocol. After that, the periodicity of reporting is every five years (Art. 8, OPAC).

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 (see the analysis under Task B.5 in section 2.5), 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.

The additional staff resources required for the EU administration to monitor the implementation of the CRPD and of the OP-CRC-AC are considered to be limited. As the Operational Protocol can be monitored within the framework of the CRC, the number of conventions to be monitored increases by one; in any case, the administrative resource burden needs to consider all conventions jointly (see section 2.6.6).

Preliminary conclusions and recommendations: Among the initial list of human rights conventions to be considered for potential inclusion in Annex VIII, two conventions remained for more in-depth analysis are proposed to be added to Annex VIII, as they clearly promote the achievement of GSP objectives:

- the Convention on the Rights of Persons with Disabilities (CRPD), as it plays an important role in the protection human rights of such 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.

¹⁴⁵ UNICEF (2018). How the World Failed Children in Conflict in 2018, available at: <https://www.unicef.org/stories/how-world-failed-children-2018>

¹⁴⁶ 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.

Other important human rights conventions are not suggested for addition because they are not ratified by all EU Member States (e.g., CPED, ICMW, ICESCR-OP, OP-CAT) or/and because the degree of ratification is low (e.g., ICCPR-OP2, ICCPR-OP1, or the Rome Statute).

The ratification record of both conventions is high (the CRPD has not been ratified by five GSP countries, the OP-CRC-AC by eight; and all GSP+ countries have ratified both). Therefore, the administrative burden for GSP countries of adding the conventions to Annex VIII would be limited.

Although the listing of additional conventions in Annex VIII means an additional monitoring burden for the Commission services, we expect this not be very high because it concerns mainly only one convention, the CRPD. The Optional Protocol can be monitored within the framework of the Convention on the Right of the Child.

As a general comment, 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.”¹⁴⁷ 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 perfectly 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 regularly update and review the list of conventions in Annex VIII to continuously increase human rights standards within the scheme.

2.6.4.2 ILO Conventions

For the potential inclusion of additional ILO conventions in Annex VIII, we considered protocols to the fundamental conventions, the ILO governance (priority conventions), as well as selected ILO technical conventions (i.e. ILO conventions other than fundamental and priority ones).¹⁴⁸ In particular, the following ones were considered:

Table 46: Overview of ILO conventions analysed for potential inclusion in Annex VIII

No	Convention name
1	Labour Inspection Convention No. 81 (ILO priority convention)
2	Employment Policy Convention No. 122 (ILO priority convention) ¹⁴⁹
3	Labour Inspection (Agriculture) Convention No. 129 (ILO priority convention)
4	Minimum Wage Fixing Convention No. 131 ¹⁵⁰
5	Tripartite Consultation Convention No. 144 (ILO priority convention)
6	Indigenous and Tribal Peoples Convention No. 169
7	Promotional Framework for Occupational Safety and Health Convention No. 187 ¹⁵¹
8	Work in Fishing Convention No. 188
9	Violence and Harassment Convention No. 190 ¹⁵²
10	2014 Protocol to the Forced Labour Convention No. 29

¹⁴⁷ United Nations (2015). Resolution adopted by the General Assembly on 25 September 2015, Transforming our World: the Agenda 2030 for Sustainable Development (A/RES/70/1), Preamble, available at: <https://sustainabledevelopment.un.org/post2015/transformingourworld>

¹⁴⁸ 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::>

¹⁴⁹ Conventions No. 122 and 129 are considered for consistency of approach, i.e., to analyse all ILO priority conventions.

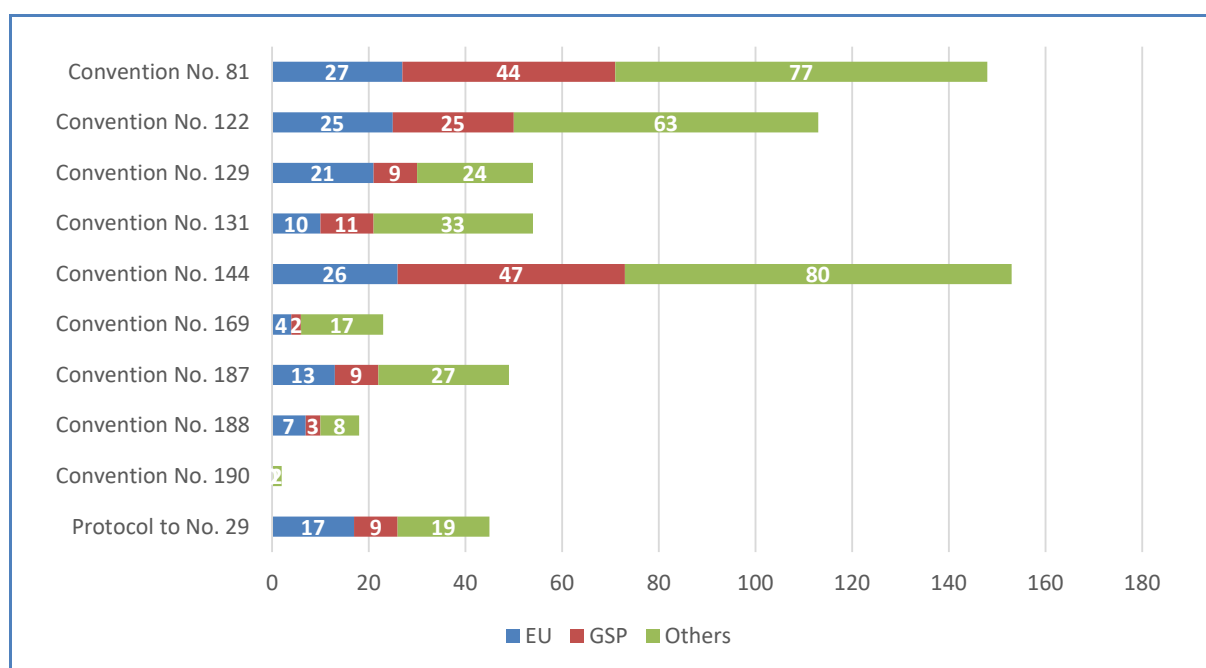
¹⁵⁰ Conventions No. 131, 169 and 188 were suggested for analysis by stakeholders responding in online public consultations.

¹⁵¹ Some respondents suggested also the ILO Occupational Safety and Health Convention No. 155.

¹⁵² Consulted stakeholders, e.g., international trade unions and NGOs, suggested consideration of ILO Convention No. 190. It aims at protecting all workers, irrespective of their contractual status, from violence and harassment (including gender-based violence) at the workplace, during travelling to work and in places and situations related to work, e.g., in an accommodation provided by the employer, during breaks in work (e.g., for meal or rest) when the worker is paid, during work-related trips, training and social activities, and work-related communication (irrespective of the communication method and technology used). Given the

In the first step, the analysis reviewed the ratification rate of the above-listed conventions globally, as well as among EU Member States and GSP beneficiary countries (Figure 19).

Figure 19: Ratification rate of analysed ILO conventions



Source: Prepared by authors based on ILO NORMLEX database.

The overview shows that 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 (see Table B6-2.3 in Annex B6-2).

Further to this first screening, the justifications and impact of including conventions No. 81 and/or No. 144 have been analysed in more detail, as described in the following paragraphs. Other conventions initially considered in the analysis, which have been found to support the GSP objectives, could be reviewed at a later stage. For example, Convention No. 190 has only recently been adopted, with the first two ratifications (by Fiji and Uruguay) only done in June 2020. Similarly, Convention No. 188 has been ratified only by 18 countries globally. Moreover, as it refers to the fishing sector, it may not be equally relevant for all GSP beneficiary countries.

ILO Labour Inspection Convention No. 81

Convention No. 81¹⁵³ plays an important role in the operation of the international labour standards system.¹⁵⁴ 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. The convention emphasises that the primary goal of labour inspection is to ensure enforcement of legal provisions

reports about harassment at workplaces in GSP beneficiary countries, notably affecting women, this convention merits due attention.

¹⁵³ https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO:12100:P12100_INSTRUMENT_ID:312226

¹⁵⁴ 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.

related to working conditions and protection of workers, while further objectives include providing information and advice to employers and workers about compliance with the existing legislation and reporting to the competent authorities about abuses not covered by the legal provisions. Hence, 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 action¹⁵⁵ 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.

At the same time, setting up and ensuring an appropriate operation of the labour inspection service requires a significant administrative effort and a significant provision of funds for staff and equipment, as well as good management and reporting capacities, which may represent a challenge for some developing countries as acknowledged by the ILO (see Box 8). Therefore, the inclusion of Convention No. 81 into Annex VIII would need to be considered jointly with the efforts required for its effective implementation and, in this context, e.g., potential technical or financial assistance (if needed) or extended timeline for compliance for the GSP beneficiary countries for them to be able to meet the new conditionality.

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 2020¹⁵⁶), 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 countries¹⁵⁷). 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.¹⁵⁸

Box 8: Capacity constraints and support for labour inspection services

In the 2011 resolution and conclusions, and the following action plan on labour inspection, the ILO recognised the importance of labour inspection for an effective implementation of labour rights, with its two complementary functions, i.e., dissuasive sanctions and providing advice. It also acknowledged challenges faced by many countries, notably developing ones, in ensuring a proper set up and operation of inspection services. It emphasised a need of a will from governments to cooperate and to develop capability of all relevant institutions, e.g., through legislation, recruitment and training plans for inspectors, their employment stability and personal security, as well as adequate equipment, including an increased use of modern communication and information technologies enhancing transparency, reducing costs and facilitating collection and analysis of data. Labour inspection structures should cover in each case territory of the whole country and inspectors should have access to all types of workplaces, including in informal economy, agriculture, export processing zones and those where employment relationship is specific, such as domestic work. Encouraged is also cooperation and exchange of information and best practice between countries and their inspection services and providing support through assistance projects or Decent Work Programmes.¹⁵⁹ An evaluation of the ILO work on labour inspection advised also a more tailored support for individual countries, providing more precise advice e.g., regarding the number of inspectors needed to ensure effectiveness of the inspection service, frequency of inspections, etc. and inclusion (in addition to governments) also trade unions in shaping the labour inspection system. Moreover, embedding provisions on labour inspection in law and an improved collection of data regarding inspections would help to improve sustainability of adopted solutions and display trends (ILO 2015).

¹⁵⁵ 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

¹⁵⁶ 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

¹⁵⁷ Based on the breakdown of GSP countries as per the baseline (scenario 2a).

¹⁵⁸ 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).

¹⁵⁹ ILO 2011: Resolution and conclusions on labour administration and labour inspection: https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---lab_admin/documents/meetingdocument/wcms_167749.pdf; ILO 2011: ILO action plan on labour administration and inspection: https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---lab_admin/documents/meetingdocument/wcms_167435.pdf

Regarding Philippines, the ILO flagged some challenges in the enforcement of labour rights in the country while acknowledging the progress made, e.g., the issuance of a new regulation and recruitment of labour inspectors.¹⁶⁰ To address the needs, the ILO and the Department of Labour and Employment have implemented a project to strengthen labour inspection's capacity, incl. new job descriptions, training, development of new information management system and an online application used by inspectors in the field work and inspections at workplaces. The activities undertaken should help to align the legal and institutional framework of labour inspection in the Philippines with requirements of Convention No. 81.¹⁶¹

Monitoring the Convention's implementation in law and practice is based on government reports submitted to the ILO Committee of Experts every three years, while cases of concern requiring attention are considered by the Committee on the Application of Standards (for details on the latter, see section 2.5).

The administrative cost burden for the Commission services to ensure monitoring of the implementation of Convention No. 81 appears limited. Based on data provided by the Commission, we note that the current monitoring system requires involvement of three full time equivalents (FTEs) in DG Employment (to follow implementation of the eight ILO fundamental conventions) and six FTEs in DG TRADE (for the whole monitoring system). The addition of one more convention would require a fraction of those in case the monitoring remains restricted to the GSP+ arrangement only, and potentially 2 FTEs in DG Employment¹⁶² if it is extended to all GSP beneficiaries.

Based on these considerations, we suggest considering the ILO Labour Inspection Convention No. 81 for addition to Annex VIII.

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 (Table B6-2.4 in Annex B6-2). Among EU Member States, it has been ratified by all but one (Luxembourg). Therefore, we will be able to recommend it for inclusion into Annex VIII, in line with the analysis provided below as soon as it has been ratified by Luxembourg, as the only remaining EU Member State.

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). Worker and employer organisations should also be consulted in relation to texts to be considered by the Conference and proposals for conventions and recommendations to be discussed by the Conference, with a view of their adoption as international legal instruments. As outlined in Table B5-4.2 in Annex B5-4, in some countries having an outstanding ratification of an ILO fundamental convention (e.g., Kenya and Sudan), social partners requested adoption of a tripartite position on the respective convention before moving towards ratification. In Afghanistan, the establishment of a

¹⁶⁰ ILO, *Labour inspection in the Philippines*: https://www.ilo.org/manila/areasofwork/WCMS_382777/lang-en/index.htm

¹⁶¹ ILO (2019), *Building the Capacity of the Philippines Labour Inspectorate*: https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-manila/documents/publication/wcms_522328.pdf

¹⁶² It remains to be clarified with the Commission Services if the number of FTEs means personnel engaged in monitoring throughout the whole GSP life cycle or whether it is limited to a certain period, e.g., the year of preparation and publication of the biennial GSP Report.

tripartite High Labour Council was envisaged as a step preceding ratification. In other countries (e.g., Lao PDR or Cook Islands), awareness raising among tripartite partners or building their capability to understand and implement the convention was requested. This suggests that a genuine tripartite dialogue, as foreseen by Convention No. 144 and supported by the ILO if necessary, could facilitate work towards ratification of the ILO fundamental conventions and their implementation. It could also support progress in the domestic agenda, including consensus on employment and social security policy, skills development, health and safety at work, gender equality and other elements of the Decent Work Agenda and the social pillar of sustainable development. Therefore, Convention No. 144 clearly contributes to the objectives of the GSP Regulation and complements the other two conventions relating to social partners, No. 87 and No. 98.

However, as noted by the ILO, the ratification of this convention while being an important step, may not be sufficient to guarantee a meaningful dialogue between the Government and social partners. As noted by the ILO guide on tripartite consultations (ILO 2013), their success often depends on the existence of certain pre-conditions. These may include: democracy; a climate for engagement free from violence, threat and pressure on the sides of the dialogue; the acceptance for exercising freedom of association and the right to collective bargaining; the existence of strong, legitimate, independent and representative organisations of employers and workers with the technical capacity to discuss and negotiate with the Government; political will; and a sense of responsibility and commitment among all parties to engage in social dialogue. Therefore, the inclusion of this convention in Annex VIII would represent a step further in creating an environment supporting social development (as part of sustainable development) and dialogue between tripartite partners. However, for its successful implementation, similarly as for fundamental Conventions No. 87 and 98, there will be an interplay between the frameworks set up by each of these conventions, i.e., conditions of free establishment and operation of employer and worker organisations and their respect by governments. In our view, the GSP beneficiaries should be encouraged to ratify (unless they have already done it) all three conventions and implement them in parallel as they are mutually supportive.

A short analysis of countries that have ratified Convention No. 144 and other ILO fundamental conventions, including those on freedom of association and the right to collective bargaining, provides examples of at least four situations. First, some countries which have ratified Convention No. 144, such as Kenya, Cook Islands or Lao PDR, have not ratified one of the conventions on freedom of association and requested assistance in elaborating tripartite position on the ratification, as well as capacity building for the tripartite partners. Second, others, e.g., Bangladesh, Nigeria or Philippines, have ratified Convention No. 144 and Conventions No. 87 and 98, however, record issues (with a varying degree of seriousness) with implementation of the latter (see section 2.5). Third, some countries (e.g., Nepal, Myanmar, Sudan, South Sudan, or Guinea Bissau) having issues either with ratification or implementation of the freedom of association conventions, have not ratified Convention No. 144. Finally, a large group of countries have ratified all three Conventions and have not recorded issues with implementation that would be serious enough to be captured by our study. Even though this analysis does not go deeply into details, it seems to confirm findings from the preceding paragraphs, i.e., that ratification and implementation of Conventions No. 144 and 87 and 98 may converge. However, ratification of Convention No. 144 may not be of help if serious problems with freedom of association persist, which should be solved first to build trust among the tripartite partners and a climate for a dialogue.

Inclusion of Convention No. 144 in Annex VIII would imply that Bolivia has to ratify and implement it to remain a beneficiary of the GSP+ arrangement. If positive conditionality were expanded beyond GSP+ countries, up to 16 additional countries would have to ratify it (see the analysis in section 2.5).

Monitoring the Convention's implementation in law and practice is based on government reports submitted to the ILO Committee of Experts every three years and cases of concern requiring attention are considered by the Committee on the Application of Standards (for details on the latter, see section 2.5).

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. It would require a fraction of the current three FTEs in DG Employment and equally of the six FTEs in DG TRADE, if the scope of monitoring remains restricted to the GSP+ arrangement only; and potentially 2 FTEs in DG Employment¹⁶³ if it is extended to all GSP beneficiaries.

Based on these considerations, we suggest considering the ILO Tripartite Consultation Convention No. 144 for eventual addition to Annex VIII as soon as it has been ratified by all EU Member States.

Preliminary conclusions and recommendations: The analysis of ILO documents regarding value of labour inspection for ensuring respect for other labour rights, as well as analysis of information and data related to ratification and implementation of **Convention No. 81** by GSP beneficiary countries enables us to recommend that convention for inclusion in Annex VIII.

However, given that – for various reasons – some GSP beneficiary countries struggle with its effective implementation and finding solutions to some problems, such as capacity building or improved collection and analysis of data will be possible in medium- to long-term, the inclusion of Convention No. 81 into Annex VIII would ideally be combined with a conditionality mirroring the current GSP+ arrangement, i.e., the lack of serious failure to implement at the entry point and a commitment (expressed e.g., in an action plan) to ensure an effective implementation in the years to come. Depending on the conclusions drawn by the Commission related to Task B.5, such a conditionality could either be extended to the whole GSP scheme or remain limited to the GSP+ arrangement.

Based on the analysis carried out to-date, we note that two current GSP+ beneficiaries who are otherwise likely to remain in the scheme, i.e., Philippines and Mongolia, have not yet ratified Convention No. 81 and therefore would face a move to the Standard GSP if this convention became part of the conditionality. At the next stage, we will therefore seek to determine the effort and time required for Philippines and Mongolia to ratify this convention. Moreover, under Task B.5, we have estimated impacts resulting for them and for a few more countries from a departure from the GSP scheme if they do not ratify this convention or any of the ILO fundamental conventions (in case the requirement of ratification is extended onto all beneficiaries).

Given the already high number of ratifications of **Convention No. 144**, as well as an important role played by the tripartite dialogue in social development and respect for labour rights, including in the work of the ILO, we propose considering this convention as a candidate for addition to Annex VIII in the future, as soon as the last EU Member State (Luxembourg) will have ratified it. However, we note that for it to be effective, pre-conditions, such as respect for the rule of law and freedom of association need to be fulfilled by the GSP countries.

2.6.4.3 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. While comparing the possibilities for and potential

¹⁶³ We will need to clarify with the Commission Services if the number of FTEs means personnel engaged in monitoring throughout the whole GSP life cycle or whether it is limited to a certain period, e.g., the year of preparation and publication of the biennial GSP Report.

impacts of options to expand the list of conventions in Annex VIII, we recall that a balance should be sought between efforts and results. Task B.5 has illustrated that 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 latter, in terms of meeting all corresponding requirements and designing and implementing effective policies to achieve targets that are adhered to in the specific environmental convention, and the former since it has a commitment to effectively monitor ratification and effective implementation of the conventions. Consequently, 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.

Following the detailed analysis, priority could be given 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 also 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;
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; see Table B6-2.6 in annex B6-2), 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. The UNFCCC is an international environmental treaty adopted in 1992 and entering into force in 1994. The UNFCCC objective is to “stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.” As the title indicates it is a framework convention that does not set binding targets nor defines enforcement mechanisms. Instead, the framework convention outlines how specific further international treaties – protocols or agreements – may be negotiated to specify further action towards achieving the overall UNFCCC objective.

The Kyoto Protocol was one of the main agreements following the framework convention, and was adopted in 1997, among others setting binding country-specific targets for the reduction of GHG emissions to be achieved by 2012. Another agreement was 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. Given the proximity of the expiration of the Doha agreement and therewith of the Kyoto Protocol, it is recommended to replace the Kyoto Protocol in Annex VIII with the Paris Agreement. 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;
- Many developing countries have a high population growth and a significant part of them are experiencing increasing level of industrialisation which may lead to a steep increase in GHG emissions;
- 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 current share of ratification of the Paris Agreement among GSP countries is already very high (only four out of 64 have not ratified it, but even these have signed it; see Table B6-2.6 in annex B6-2) and many countries are actively reporting their progress. Reports are actively monitored by the UNFCCC. Addressing GHG emissions globally has a very high potential impact. Consequently, we conclude adding the Paris Agreement to the list of Annex VIII conventions is proportional to its efforts;
- 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 (including Bangladesh as is shown in case study 12, **Annex C-12**). 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). Lack of attention for HFC emissions could pose significant environmental problems as with a growing population and expected further increase in GDP and industrialisation, high growth in HFC emissions from increased use of refrigerators and air-conditioning systems could result. 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.

The question then remains what route would be most appropriate to address HFC emissions. Increased trade opportunities would not directly result in a high increase of HFC emissions. It could, however, indirectly lead to higher HFC emissions as increased levels of income and turnover would likely lead to higher welfare and higher use of products such as refrigerators and air-conditioning systems that generate HFC emissions. Alternatives to commonly used HFCs are available for each type of refrigeration and air-cooling activity in each sector, as well as for other production activities resulting in HFC emissions. These alternatives include natural refrigerants, HFCs with lower global warming potential (GWP), such as R32, hydrofluoroolefins (HFOs) and HFC-HFO blends.¹⁶⁴ An alternative – and potentially more effective option to requiring ratification of the Kigali Agreement could be to stimulate such climate-friendly alternatives to HFC by expanding product coverage in the GSP to such products.

Another related matter is which challenge to reducing air pollution should be addressed first. An increasing body of research shows that in terms of air pollution a major concern is that, while many developing countries have ratified the Montreal Protocol, they are facing significant challenges in effective implementation. They for example face challenges in implementing and meeting air quality standards. Many developing countries – including Bangladesh, as shown in the case study – are not meeting their national standards for ambient air quality and indoor air quality, which in itself are much higher than the recommended WHO standards. In addition, monitoring and reporting of PM emissions and other air polluting emissions is not at the level as agreed. It is recommended to give priority to providing support to trade in monitoring equipment as well as exchanging expertise in monitoring, implementation of effective air pollution policy measures and good governance. This is expected to lead to better results than demanding to put efforts in ratification of another agreement for which monitoring and reporting challenges will be faced.

International law on (transboundary) air pollution other than the Montreal Protocol is quite fragmented and is in most cases not agreed at global level. For example, transboundary air pollution includes the Convention on Long-Range Transboundary Air Pollution (CLRTAP) that is agreed by the 56 countries of the United Nations Economic Commission for Europe in Europe, North America and Asia, whereas the Association of Southeast Asian Nations (ASEAN) has adopted an Agreement on Transboundary Haze Pollution. Following the list of selection criteria as formulated in the methodology, these conventions are not further considered for inclusion in Annex VIII due to their lack of global approach.

¹⁶⁴ European Commission, Directorate-General on Climate Action, Climate-friendly alternative to HFCs. Available at https://ec.europa.eu/clima/policies/f-gas/alternatives_en

Energy and transport

Energy and transport has strong direct relations with SDG 7 – affordable and clean energy and with SDG 11- sustainable cities and communities. In addition, it also has a strong relation to other SDGs such as 12 – responsible consumption and production, and 13 – climate action.

The list of environmental conventions analysed does not include specific conventions that address energy or transport. The sectors energy and transport both are indirectly addressed in various international environmental conventions, especially in terms of their emissions. For example, one of the main policies to address greenhouse gas emissions is energy transition from fossil fuelled energy to renewable energy. And one of the main policies to address air pollution is greening urban transport, for example via modal shift or increased electrification in road transport. This is covered in the paragraphs above on climate change and air pollution.

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 and the Stockholm Convention are currently included in Annex VIII of the GSP Regulation, while the Rotterdam Convention is not. This set of 'waste conventions' has a direct link to SDG 6- clean water and sanitation, SDG 11- sustainable cities and communities, and SDG 12 – sustainable consumption and production, as well as an indirect relation to several other SDGs, including SDG 1 – no poverty, SDG 3 – good health and well-being, and SDG 9 – industry, innovation and infrastructure.

The Basel Convention 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.¹⁶⁵

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 Convention creates legally binding obligations for the implementation of the Prior Informed Consent (PIC) procedure.¹⁶⁶

The Stockholm Convention aims to protect human health and the environment from persistent organic pollutants (POPs). It requires its parties to take measures to eliminate

¹⁶⁵ 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>

¹⁶⁶ Website Rotterdam Convention. "Overview" Available at <http://www.pic.int/TheConvention/Overview/tabid/-1044/language/en-US/Default.aspx>

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. The detailed assessment in case study 12 (**Annex C-12**) shows that in Bangladesh the main drivers to this problem are the increase in population and the levels of production, which is the case for most of the developing countries. In Bangladesh, this is aggravated by the lack of landfilling and the common use to burn all waste.

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. At the same time there is a very direct relation to the increase in production as a result of improving trade relations and the amount of waste generated. And improved quality of information and prior consent procedure could be seen as a responsibility for exporters to provide importers of products including hazardous waste or hazardous chemicals to decide on a well-informed basis if they want to pursue such imports. As further industrialisation is expected in many developing countries, this is likely to result in further growth in hazardous waste or use of hazardous chemicals. Bangladesh and other developing countries, for example, are already highly concerned on the increasing amount of e-waste in the country and the resulting environmental impacts.

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. Table 47 lists other environmental conventions addressing water and the conclusions from our analysis on whether these conventions would be good candidates to be included in Annex VIII of the GSP. All environmental conventions, with exception of the Stockholm Convention, are considered not suitable for inclusion in Annex VIII of the GSP.

Table 47: Environmental Conventions addressing water and their relevance to be included in Annex VIII of the GSP

Environmental Convention	Reason(s) for recommended inclusion (or not) in Annex VIII
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Stockholm Convention on Persistent Organic Pollutants, 2001	Currently included and highly relevant. Recommended to maintain inclusion in Annex VIII.
Convention on the Protection and Use of Transboundary Watercourses and International Lakes, 1992 (Water Convention)	Currently adopted by 44 parties. Therewith considered not suitable for inclusion in Annex VIII.
Convention on the Law of the Non-Navigational Uses of International Watercourses, 1997	Currently adopted by 37 parties; 13 EU countries have ratified this protocol. Considered not suitable for inclusion in Annex VIII.
United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa, 1994	Signed by 197 Parties and implemented e.g. by means of developing national action plans to combat diversification and by a Committee on Science and Technology for collection, analysis and review of data and promotion of cooperation to combat diversification and mitigating the effects of drought. Given the high acceptance, already active cooperation and limited relation to GSP not recommended for inclusion in Annex VIII.

Note: Status as of 01 July 2020.

Source: Prepared by the authors; see Tables B6-2.5 and B6-2.6 in Annex B6-2.

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. However, the detailed analysis for Bangladesh shows that the country is facing significant problems with respect to increased water pollution, including among others increased levels of salinity and the high level of arsenic in the drinking water. The analysis points to a significant role of the RMG industry to water pollution as a result of its high amount of effluent from untreated wastewater. The analysis also shows that the quality of inspection by Bangladesh' Department of Environment is poor. A quick check for other GSP countries shows that this situation corresponds to that of many other countries.

Changes in international trade can significantly impact the levels of water pollution and therewith aggravate existing problems. In addition, many countries are already struggling with water access and increased international trade could also further aggravate that environmental challenge. For example, in Bangladesh the potential increased export from agricultural products with a high water need or continued high import of textiles could pose significant challenges. The case study for Uzbekistan also shows significant challenges in water access (see **Annex C-11**). Since the analysis concludes that expanding Annex VIII is not the right path to address these challenges, other options should be considered. This could for example be the 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.

Biodiversity

With biodiversity being addressed in three out of the current eight environmental conventions included in Annex VIII, 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, we conclude 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. Moreover, the additional benefits of ratification of these two protocols are considered to be of lower added value than the potential environmental benefits of addressing other environmental matters.

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.

It is concluded to be more appropriate to address land use challenges by using international trade opportunities to help improve sustainable development in terms of cooperation in green production. This can for example be taken up by exchange of information and expertise in technology to improve land productivity, such as efficient irrigation techniques or stress-tolerant seeding that have a higher resistance to flooding, drought and high levels of salinity.

Preliminary conclusions and recommendations: Using the defined screening and selection criteria, out of the 54 environmental conventions and amendments that are most relevant for the GSP beneficiary countries, four that are not currently covered by Annex VIII of the GSP Regulation are in principle proposed to be included:

- The Paris Agreement, 2015;
- The 2016 Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer (Kigali agreement on reduction of HFCs);
- The Amendment to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (Ban Amendment), 1995; and
- Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, 1998.

Nevertheless, with the exception of the Paris Agreement, such inclusion should take place at a time when the ratification rate has further increased. Table 48 identifies the ratification status for each of the environmental conventions mentioned in the proposed changes and well as the expected opportunities resulting from these proposed changes for the EU and for GSP beneficiary countries.

Table 48: Environmental conventions relevant to proposed changes, their ratification status and opportunities for EU and GSP beneficiary countries resulting from proposed changes

Environmental Convention	Ratification status	Opportunities EU	Opportunities GSP countries
Paris Agreement, 2015	Ratified by 189 Parties	Continuing and strengthening global support to one of the EU's key environmental dossiers. Lays the foundation for addressing mitigation and adaptation efforts, therewith incentivising high opportunities for clean technologies (for example renewable energy)	Continued attention to address climate change; access to international funding to support mitigation and adaptation projects. Good balance versus limited effort for ratification and reporting (as for most already ongoing).
Kigali Agreement on reduction of HFCs, 2016	Ratified by 98 Parties.	Opens large market of consumers for modern, cleaner AC equipment and home and industrial refrigerators.	Avoiding strong increase HFC emissions and therewith further increase in air pollution and related health risks. Air pollution being one of the main environmental issues in many developing countries.
Ban amendment to the Basel convention, 1995	Ratified by 99 Parties.	Opens large market for (hazardous) waste treatment technologies and is fully aligned with the EU's overarching policy of the circular economy.	Helps addressing increase in (hazardous) waste which has a direct relation to economic growth and increased wealth. May provide good local business opportunities as illustrated by case example in Bangladesh.
Various conventions addressing water quality (see later section)	High for Stockholm Convention (186 ratifications); low for other conventions	Opens large market for waste water treatment technologies, efficient irrigation techniques, technologies for flood control, etc.	Helps addressing challenges in water supply and water quality, food security, and several other key challenges.

2.6.4.4 Governance Conventions

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** 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.¹⁶⁷ In addition, monitoring of the implementation of the Convention would 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 as well as the Palermo Protocol were considered in the context of identifying human rights conventions for the potential inclusion in Annex VIII, but are not suggested to be added to the list. 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 (see Tables B6-2.7-8 in Annex B6-2). 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.¹⁶⁸

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. For example, the UNODC 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.”¹⁶⁹ 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.

¹⁶⁷ Although the EU’s New Pact on Migration and Asylum calls for the contribution of trade and investment policies to address the root causes of migration, this would seem to refer rather to the creation of jobs (including in GSP countries), which is an area not addressed by the Convention.

¹⁶⁸ For the European Commission’s view on this, see the Staff Working Document in response to the MTE (European Commission 2018c).

¹⁶⁹ UNODC: “UNODC and the Sustainable Development Goals”, available at https://www.unodc.org/documents/SDGs/UNODC-SDG_brochure_LORES.pdf

Preliminary conclusions and recommendations: Among the international governance conventions considered for potential inclusion in Annex VIII of the GSP Regulation, the **UN Convention against Transnational Organized Crime** fulfils all established criteria: it has been ratified by all EU Member States as well as a large majority of GSP countries (as well as countries world-globally), it directly contributes to the attainment of the GSP overarching objectives, is directly relevant for international trade, and has been recommended for inclusion by a number of stakeholders. It is therefore recommended to add it to the list.

2.6.5 Scenario 6d: Combining scenarios 6b and 6c

Based on the analysis of scenarios 6a to 6c, there is nothing that would present an obstacle to a combination of scenarios 6b and 6c. A further assessment of such combination is therefore not required.

2.6.6 Preliminary conclusions and recommendations

The overall conclusion (and corresponding recommendation) from the analysis regarding potential changes to the conventions that GSP+ (or all GSP countries; see Task B.5) would need to ratify and implement, is as follows:

First, the current list of conventions remains relevant and up-to-date, with the exception of the Kyoto Protocol, which we recommend be removed from Annex VIII and be replaced with the 2015 Paris Agreement.

Second, the attainment of GSP objectives, notably the sustainable development objective, could be further advanced by adding the following conventions to the list in Annex VIII:

- 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;
- The UN Convention against Transnational Organized Crime.

Other conventions, which contribute to GSP objectives but are not recommended for addition to Annex VIII now – mainly due to the limited ratification status – could be considered for inclusion at a later stage, once the ratification rate has increased. Examples are:

- ILO priority Convention No. 144 on tripartite consultations;
- The Kigali Agreement on reduction of HFCs;
- The Amendment to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (Ban Amendment), 1995; and
- The Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, 1998.

Third, given the limited number of conventions proposed to be added to Annex VIII, the additional administrative resource burden for the Commission is considered limited. The list would be expanded from the current 27 conventions to 31, corresponding to an increase of 15%. We assume that the administrative costs for the Commission would increase proportionately. Note also that inclusion of the OP-CRC-AC would only marginally increase the monitoring burden as the monitoring takes place in the framework of the CRC itself, which is already included in Annex VIII.

Fourth, recognising that some GSP+ countries (and more Standard GSP and EBA beneficiaries, if positive conditionality was extended; see Task B.5) would need to ratify some of the additional conventions, a transition period might be considered. Also, Annex

VIII would ideally be combined with a conditionality mirroring the current GSP+ arrangement, i.e., the lack of serious failure to implement at the entry point and a commitment (expressed e.g., in an action plan) to ensure an effective implementation in the years to come.

Fifth, in addition to the time needed for ratification, GSP countries may face capacity constraints in the ratification and implementation of additional conventions. Therefore, the EU might consider providing technical assistance to support ratification and implementation of added conventions based on capacity needs assessments in GSP countries.

2.7 Options regarding the GSP+ monitoring process, including transparency and inclusiveness (Task B.7)

2.7.1 Introduction: Purpose and Options

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. Its effectiveness in this regard is dependent on whether the benefits of the scheme can serve as a sufficient incentive for developing countries to ratify and implement the international conventions, and whether the threat of the withdrawal of benefits is a sufficient deterrent to not meeting ongoing requirements. A robust monitoring system is crucial to ensure effective dialogue and support towards implementation for beneficiary countries,¹⁷⁰ as well as to ensure that the possibility of withdrawal is seen as a likely outcome for failing to meet the GSP+ requirements.¹⁷¹

The purpose of the analysis here is to explore and assess reforms which would foster transparency and improve current monitoring practices. The importance of transparency was also highlighted by former Trade Commissioner Hogan.¹⁷² We discuss and assess four scenarios:

- **Scenario 7a (baseline):** The existing GSP+ monitoring process as provided for in the GSP Regulation and as implemented by the Commission is maintained without change.
- **Scenario 7b:** Putting into place, beyond existing practices by the Commission and the EEAS for consulting civil society as part of the GSP+ monitoring process, further practical implementation measures to improve transparency and involvement of civil society (e.g., through use of websites and social media to provide information on the GSP+ monitoring process more systematically, and to allow for more structured input from civil society).
- **Scenario 7c** would go beyond scenario 7b by introducing formal structures for the involvement and consultation of civil society, particularly from beneficiary countries, in GSP+ monitoring; and
- **Scenario 7d** would extend the current two-year GSP+ monitoring cycle to three or four years.

How the different scenarios will influence the level of compliance of beneficiaries with the commitments included in the 27 conventions under GSP+ in the future is difficult to assess. There are two issues to be considered. First, measuring the level of compliance with the requirements under GSP+ is difficult. Lebzelter and Marx (2020) detail some of the methodological challenges related to measuring compliance with GSP+. Secondly, the level of compliance with international conventions for beneficiary countries is a function of several interrelated domestic and international factors (Hafner-Burton 2013; Marx and

¹⁷⁰ 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).

¹⁷¹ The temporary withdrawal of GSP preferences is analysed in more detail in section 2.8.

¹⁷² Announcement by former Trade Commissioner Hogan of a new transparency package. <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2117>

Soares 2016; Marx, Soares, and van Acker 2015; Neumayer and Soysa 2006; Mosley 2010; Simmons 2009), including their integration in the GSP+ scheme. Isolating the net effect of a change in one of these factors, i.e. increased monitoring under GSP+, on compliance is impossible to do. However, in theory, more enhanced monitoring systems can lead to higher levels of compliance with rules, *in casu* international commitments (Ostrom 2005). This would mean that under scenario 7a, all things equal, the level of compliance will remain the same; while under scenarios 7b and 7c, the level of compliance might increase. For scenario 7d one might expect that the level of compliance remains the same if the monitoring procedures under scenario 7a are maintained.

2.7.2 Scenario 7a: Keeping the current GSP+ monitoring mechanism

The first option is to maintain the GSP+ monitoring mechanism as outlined in Article 13 and Article 14 of the GSP Regulation and as currently implemented by the Commission. The baseline scenario involves maintaining the publication of GSP reports at intervals of two years. The MTE considers that such monitoring frequency has increased the leverage that the EU has in the GSP+ beneficiary countries. The MTE also resulted in the setting up of a dedicated GSP website (GSP Hub) which provides more information on compliance with GSP+ requirements and which aims to increase transparency.¹⁷³

The monitoring mechanism was reformed in 2012, as the one in force at the time was considered insufficient in fostering sustainable development, good governance, and human rights protection in beneficiary countries (Development Solutions 2018, 21).

To assess a country's implementation of a convention, the Commission is to examine the conclusions and recommendations of the relevant international monitoring bodies established by the conventions included in GSP+ such as the United Nations and the ILO. The beneficiary country must cooperate in this process by providing necessary information with regard to its effective implementation of the conventions and its fulfilment of requirements. There is significant emphasis on the engagement of stakeholders throughout the process. First, in preparing the biennial reports for the European Parliament and Council, 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 GSP 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 (European Commission 2018a, 8). The Commission also organises special Civil Society Dialogue sessions on the GSP.¹⁷⁴

The restructured monitoring mechanism consists of two primary tools: the "list of issues" for each beneficiary country and an ongoing "GSP+ dialogue" with each country.

- The list of issues¹⁷⁵ is prepared annually by the Commission and the EEAS, and contains an overview of the progress made by the country as well as a list of the most significant shortcomings in the country's effective implementation of the 27 conventions (Democracy Reporting International 2017). Lists of issues typically include 20 to 50 items. The input for the lists of issues is mainly based on the recommendations in reports by monitoring bodies of the relevant conventions (such as the UN or the ILO). Yet, since the entry into force of the reform in 2014, the European Commission is more independent in its monitoring missions and can add its own conclusions on beneficiary countries' compliance. The list of issues is not public and is 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). Additionally, the beneficiary country is expected to make improvements on

¹⁷³ <https://gsp-hub.eu/>

¹⁷⁴ See the CSD meetings related to the GSP at <https://trade.ec.europa.eu/civilsoc/meetlist.cfm>.

¹⁷⁵ The list of issues was formerly referred to as "scorecard."

each of the points of attention identified in the list of issues – the country's progress on these points is evaluated in the next list of issues and in the biennial GSP report (Democracy Reporting International 2017).

- The GSP+ dialogue tool is anchored by the GSP+ monitoring missions, which consist of meetings and field visits by the Commission and EEAS officials as well as workshops with a variety of stakeholders in the beneficiary country. The missions are designed for "direct and high-level contacts" with authorities at both national and local levels, business and civil society representatives, and local offices of international organisations. The involvement of local stakeholders is considered a critical component of the dialogue function (Development Solutions 2018) – as direct beneficiaries of tariff preferences of the GSP+ scheme, they are expected to support their government in fulfilling the scheme's requirements (European Commission 2018a, 9).

GSP+ preferences can be suspended if the Commission determines that a country is no longer meeting the GSP+ requirements. In particular, if the monitoring body of a relevant convention has identified a serious failure to effectively implement the convention, if the country is no longer cooperating with reporting procedures and monitoring bodies, or if the country has formulated a reservation for a convention that is incompatible with the object and purpose of the convention. Decisions to temporarily withdraw GSP+ preferences must be re-evaluated every six months. In the withdrawal procedure, information may also be provided by third parties, including civil society, social partners, the European Parliament or the Council through questions and replies. The 2012 reforms have improved the inclusion of civil society and social partners in the monitoring process; yet, the subject remains controversial. Richardson et al. (2017, 37) have for instance pointed out that the 2016 GSP biennial report acknowledges input from only six CSOs, with only three from the GSP+ beneficiary countries.

The MTE found the reformed GSP+ monitoring mechanism to be considerably strengthened and better able to accurately and more quickly evaluate beneficiary countries' compliance with the GSP+ requirements. Another report, carried out in 2017 at the request of the European Parliament's Subcommittee on Human Rights, found evidence that "efforts were undertaken by governments to demonstrate that the conventions were not just ratified but effectively implemented too" (Richardson, Harrison, and Campling 2017, 34). The dialogue process, too, has appeared to have had success in fostering dialogue with a wider range of stakeholders and drawing attention to actual and potential shortcomings in implementation of the conventions, even, in some cases, leading to new legislation (Richardson, Harrison, and Campling 2017, 39). The report also finds that these mechanisms appear to be somewhat successful in engaging local levels of government and non-state actors.

However, the same report also shows that the monitoring mechanism has a few shortcomings. First, country-level analysis of GSP+ beneficiaries demonstrated that the monitoring mechanism is less effective than the admittance procedure in influencing a country to implement reforms. In the case of Sri Lanka, for instance, it was only after the country was re-admitted to the GSP+ scheme that the European Commission announced that Sri Lanka must do more to protect freedom of association and labour rights (Richardson, Harrison, and Campling 2017, 35). The report suggests that, in part because this demand came after the country was already admitted, the country has been slow to address these concerns and that had these conditions been made part of the admission process, the necessary reforms would likely have taken place sooner (Richardson, Harrison, and Campling 2017, 35).

Furthermore, the report finds that occasionally conclusions made in the Commission's report are not always fully supported by the evidence provided in the report, or examples are selected to demonstrate a country's progress, but which may not fully represent the situation on the ground. For example, the Commission's 2018 report to the European Parliament and Council praised progress made in Pakistan with regard to female

participation in the textile industry as evidence of the GSP's "noteworthy impact" (European Commission 2018a, 5) and the country was found to be in compliance with the ILO conventions (Richardson, Harrison, and Campling 2017, 37). However, a report prepared by the Pakistan Workers Confederation suggests that the country is "seriously lagging in realising the goals of labour compliance" and appears to be putting off effective implementation of several ILO conventions (Pakistan Workers Confederation 2017, 3, 14). Moreover, some CSOs point out that some beneficiary countries have not met their GSP+ reporting and implementation obligations and, in some more serious cases, have been accused of repressing journalists and members of civil society (Richardson, Harrison, and Campling 2017). This illustrates that different conclusions are drawn from different sources with reports prepared by CSOs being more critical.

Lastly, a list of recommendations for reforming the GSP prepared by the GSP Platform – a consortium of non-governmental organisations and trade unions – points to a number of limitations of the GSP monitoring mechanism. One such limitation is the lack of an individualized roadmap for each beneficiary country that spells out "specific and time-bound human and labour rights benchmarks" (The GSP Platform 2018, 3; GSP Platform (written input) 2020, 4-5). Additionally, the group points to the non-public nature of the list of issues as an example of the lack of transparency within the monitoring mechanism (The GSP Platform 2018, 3). Other shortcomings as identified by the GSP Platform include the absence of a complaint mechanism and body by which interested parties can "submit petitions on alleged labour and human rights violations of companies or states benefiting from the duty-free access to the EU", the absence of a secure space for CSOs and trade unions to participate without fear of reprisal, and a lack of consequences for beneficiary countries that fall behind on targets (The GSP Platform 2018, 3-4). These issues are further discussed in the following sections.

Preliminary conclusions and recommendations: The Commission has found the reformed monitoring procedure to be successful and points to beneficiary countries' continued improvement in effectively implementing the relevant conventions as evidence for its success (European Commission 2018a). Reports prepared by third parties have also shown the procedure to have been at least partly successful, despite some shortcomings. For the monitoring mechanism to work best, it should be utilised in tandem with a strict admittance procedure that brings attention to needed legislative and implementation reforms before a country is admitted into the GSP+ scheme. Furthermore, some studies suggest that the Commission should ensure that beneficiary countries are transparent and accurate in fulfilling their reporting duties. Importantly, the Commission should consider how best to engage and safeguard civil society and journalists who participate in the dialogues in order to avoid receiving biased or inaccurate accounts due to pressure from authorities (The GSP Platform 2018, 2; GSP Platform 2020, 2).

2.7.3 Scenario 7b: Further practical measures to improve transparency and inclusiveness

Stakeholders consulted within the MTE called for a more robust monitoring of GSP+ beneficiaries. In their view, the monitoring process should be more transparent and effective, involving social partners and civil society, and should take place more frequently. These recommendations have been echoed in the European Parliament resolution of 14 March 2019 on the implementation of the GSP Regulation highlighting also a need to collect data and information from a broad range of sources, to improve coordination between actors involved in the monitoring process and to ensure consistency of the GSP and its requirements with actions in other policy areas and assistance directed to GSP beneficiary countries.¹⁷⁶

¹⁷⁶ See http://www.europarl.europa.eu/doceo/document/TA-8-2019-0207_EN.pdf.

One reform to enhance the transparency and inclusiveness in the GSP+ monitoring process, as called for in the MTE, the European Parliament resolution and by other sources including civil society representatives,¹⁷⁷ could be the introduction of practical measures but short of changing the provisions in the GSP Regulation. Issues regarding transparency that have been raised by stakeholders notably comprise publication of the “lists of issues” and a transparent and inclusive process involving a wide range of stakeholders including the beneficiary country, EU institutions, civil society (including trade unions) and other actors. We also note that increased transparency may avoid certain confusion among civil society concerning the stages of the process, the actors involved, and the related decision making process. The public consultation showed that a number of respondents think the current system is sufficiently transparent. However, many respondents also called for further increase transparency. Therefore, one could consider the possibility of making the list of issues public according to different degrees as proposed in the inception report of the study: (1) publication of a full original text; (2) publication of a part based on publicly available sources (e.g., recommendations of international bodies) and a delayed disclosure of parts which may require temporary confidentiality until the EU and the beneficiary country reach an agreement on its content; or (3) publication of a meaningful summary of the list of issues. They are further discussed in the next paragraphs.

In the current GSP+ monitoring process, lists of issues remain confidential between the EU (the European Commission, the EEAS, EU Member States and the European Parliament) and the beneficiary countries in order to build a trustful relationship between the parties that subsequently discuss it. Yet, in the past the confidentiality of scorecards was criticized for preventing other relevant stakeholders to participate in the process (Richardson, Harrison, and Campling 2017; van der Ven 2018). Only in the Annexes of GSP biennial reports (the Staff Working Documents), individual countries’ lists of issues are made public in a condensed form. Those documents typically include: a summary assessment; recent developments; data on GSP trade between the beneficiary country and the EU; and reviews of the country’s compliance with each of the 27 conventions. Such reviews draw attention to persisting issues but do not set out specific recommendations or milestones to address them.

Maintaining the status quo in the GSP+ monitoring process would disregard the repeated calls for increased transparency and inclusiveness. The publication of the lists of issues would increase transparency and draw attention to areas requiring improvement. Other tools which can provide information on compliance with GSP+ requirements could also be considered, such as the publication and promotion of a detailed description of the monitoring process, actors involved and instances of civil society’s involvement. The aim would be to raise awareness on compliance with GSP+ requirements among stakeholders, ensure transparency and stimulate stakeholder engagement. In assessing options with regard to enhance transparency and inclusiveness, several issues could be identified on the basis of documents, statements by stakeholders and the online public consultation.

First, criticism has been made with regard to the content of the lists of issues. Here, two issues need to be considered. On the one hand, it was suggested to include a wider range of reports and documents in the preparation of the monitoring documents. In consultations for this study, Human Rights Watch (HRW) suggested to make more use of the HRW country reports in preparing monitoring documents and some Commission officials, sharing their ideas during a stakeholder meeting, acknowledged it would make more use of the reports prepared by the CSOs. Other CSOs, such as Transparency International, also

¹⁷⁷ See e.g., Madi Sharma (EESC member): Is the GSP meant to profit the EU or create development successes? (February 2019): <https://www.friendsofeurope.org/insights/is-the-gsp-meant-to-profit-the-eu-or-create-development-successes/> GSP Platform statement: https://actalliance.eu/wp-content/uploads/2017/12/20171124_GSP-Platform-Statement_FINAL.pdf and a contribution of FIDH and other six CSOs (from Cambodia, Myanmar/Burma, Philippines and Pakistan): https://www.fidh.org/IMG/pdf/2017.05.08_final_fidh-adhoc-licadho-altsean-burma-odhikar-pahra-hrcp_contribution_mid-term_evaluation_of_the_eu_gsp_qd_ca_aq.pdf; van der Ven (2018).

prepare reports on countries or specific issues which can be further considered. Finally, one can consider other sources for reporting such as for example progress reports on achieving the SDGs and especially SDG 16 related to good governance. The integration of other sources including academic studies and reports by UN special rapporteurs was also mentioned in responses to the public consultation (see Annex B1).

On the other hand, it was pointed out that it is not clear whether they provide clear guidance for the beneficiary country to implement the conventions. As mentioned, the Annexes to the GSP biennial reports draw attention to issues that remain to be tackled but do not provide specific or time-bound recommendations. For example, the GSP+ assessment of the Philippines for the 2018-2019 period states: "Efforts to improve freedom of association in Special Economic Zones need to be sustained to be able to achieve real progress. The project implemented with the ILO initiated tripartite efforts to support dialogue, which should be pursued towards the creation of the appropriate mechanisms to address labour issue" (European Commission 2020b, 19). Calls have thus been made to include jointly negotiated roadmaps for beneficiary countries in lists of issues, which would clarify what is expected from beneficiary governments and enhance the implementation of the conventions (van der Ven 2018; The GSP Platform 2018). According to the GSP Platform (2020, pp. 4-5) these mutually agreed upon roadmaps should "(1) emphasize the reform of legislation, as well as the degree to which such legislation is implemented and developed through a multi-stakeholder dialogue, (2) assess the capacity of beneficiary countries' institutions of effectively implementing core human and labour rights conventions, and (3) assess the progress of such implementation." The creation and use of such roadmaps has also been proposed by academic experts (Richardson, Harrison, and Campling 2017, 47f) and respondents to the public consultation, who propose also to use "key performance indicators."

Secondly, CSOs call for making all documents publicly available in order to foster transparency. Making roadmaps (included in lists of issues) publicly available would enhance information of stakeholders about the monitoring process which can improve their involvement along with the implementation of the conventions. It can also be a means to hold beneficiary governments more to account in case of non-compliance. With regard to public disclosure, the GSP Platform (written input) argues for the publication of lists of issues and roadmaps in full to increase transparency and to draw attention to areas requiring improvements. Yet, as noted in the terms of reference for the study, the Commission considers that 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). An alternative option could be to release the part of the list of issues based on publicly available sources (such as recommendations from international bodies monitoring the conventions), and to disclose other parts such as roadmaps once an agreement has been reached between the EU and the beneficiary country. This would allow to preserve the necessary confidentiality and trust among parties. A third option related to the disclosure of lists of issues would involve releasing only meaningful summaries. While this last option would ensure confidentiality and trust between parties, it may not be sufficient to significantly improve transparency and inclusiveness.

Thirdly, it was pointed out that more systematic information and clearer guidance on the GSP+ monitoring process should be provided in a non-expert language, as well as in beneficiary countries' languages in order to raise awareness, enhance transparency, and offer greater opportunity for relevant stakeholders (especially in beneficiary countries) to get involved in the process. Recommendations in that sense include disclosing the list of actors involved, the timeline for lists of issues, details of country visits, deadlines for beneficiary countries to respond to lists of issues, how and when CSOs can feed into the process, and how the evidence submitted by CSOs will be used. Such information could be detailed in GSP+ factsheets. Currently, the GSP+ factsheets provide rather limited information about the GSP+ arrangement. For example, they do not give details on

monitoring missions that have been conducted or meetings with civil society that have been held, or references to the withdrawal of preferences. The factsheets could therefore include such details in an accessible language. In addition, description of the GSP+ monitoring process, reports or summaries of monitoring missions and dialogue meetings with beneficiary countries in the form of minutes or agreed joint statements could also be published on different websites, as the MTE recommends, such as on the DG TRADE GSP website in its monitoring section, on the website dedicated to relations with each GSP+ beneficiary, and on websites of EU delegations. More information on the monitoring process and missions could enable CSOs to better use the GSP as a tool in their own advocacy work, for example by timing interventions with upcoming missions. A possible drawback is that it might trigger negative reactions from the beneficiary country.

Fourthly, in considering options for more transparency in terms of making documents publicly available, one should also look at the implications of the workload in preparing documents. According to the Commission, currently a significant amount of time is invested in preparing extensive summaries of country situations. This time-investment could be allocated towards soliciting and incorporating more comments from stakeholders on lists of issues. This would imply making the lists of scorecards publicly available. Publishing the actual texts would demystify the lists of issues and would provide a better opportunity to civil society to comment. The Commission could then use any such comments to better prepare the new list of issues for the next cycle. For example, one could set a window of 60 days for comments after publication of the report (mid-January to mid-March) before the next list of issues is sent out (mid-May). In other words, instead of drafting extensive reports, the Commission could provide, per beneficiary, in the Staff Working Document the list of issues and the reply of the beneficiary government. Some information could be kept confidential if so requested by the beneficiary government.

An important consideration for making lists of issues publicly available is to assess the implications of personal data protection and the workload related to that. According to information received from DG Trade, Regulation No 2018/1725 imposes on DG Trade, as a data protection coordinator and controller, the responsibility for handling personal data. This regulation introduced new concepts such as data minimization (controller should collect only personal data which are strictly necessary for the purpose of their processing), transparency (controller always needs to inform data subject/individual from whom personal data is collected what the data will be used for, to whom it will be disclosed and how it will be protected), purpose limitation (personal data collected for one purpose may not be used for another purpose), and international data transfer (when transferring personal data to third countries outside the EU we had to ensure that these personal data are protected). Applying these rules will result in a significant workload increase of making lists of issues publicly available. Another possibility would be to keep the current reporting format and support the use of the existing biennial reports by CSOs. A significant amount of work is being put in producing these reports, but it was observed by the Commission that CSOs seldom use the reports. One could also consider to reduce the workload in preparing these reports and concentrate more on the lists of issues themselves.

Finally, some authors (Richardson, Harrison, and Campling 2017; van der Ven 2018) also suggest the use of a CSO/NGO-based intermediary to publish complementary information on GSP+ monitoring process, as well as to provide guidance for non-state actors about when and how to participate in the process. This complementary information could be considered an additional source of information for monitoring purposes and would give CSOs a formal role in monitoring (see also request by GSP Platform 2020, p. 2). The Centre for Civil and Political Rights (CCPR-Centre) has been pointed out as an example of such intermediary role. The CCPR-Centre is an NGO dedicated to contribute to the implementation of the International Covenant on Civil and Political Rights (ICCPR). The UN Human Rights Committee is the body monitoring the implementation of the ICCPR, usually every four years, to which states must report. Any NGO can also participate in the process and report on how states implement the ICCPR. The CCPR-Centre therefore supports and

links CSOs with the UN Human Rights Committee. Its role is to raise awareness about the UN HR Committee State Review process through the organization of workshops and conferences, as well as through providing legal and technical training to NGOs on state reporting procedures. It also coordinates formal NGO briefings during the UN HR Committee sessions, and organizes informal NGO briefings. Moreover, the CCPR-Centre disseminates information on the state review process by webcasting the HR Committee's sessions, and by publishing the outcomes of complaints or litigations submitted to the HR Committee.¹⁷⁸ Therefore, intermediaries similar to the CCPR-Centre for the ICCPR could be used to provide guidance to and support the involvement of CSOs in the monitoring process of the implementation of the other conventions under GSP+. Such intermediaries could also allow for a more structured input from civil society in the process. Van der Ven (2018) suggests that this intermediary role could be fulfilled by the CSOs that form the GSP Platform. Other options can also be considered. For example, one could organise an open competition between competing consortia in the context of the European Instrument for Democracy and Human Rights (EIDHR) which could fund such an intermediary. This would follow initiatives like the Human Rights Defenders initiative which is a consortium of CSOs, almost entirely funded by EIDHR, which *inter alia*, monitors the situation of human rights defenders worldwide. Lastly, as calls have been made¹⁷⁹ to establish constant dialogue between the EU and GSP+ beneficiary countries, including CSOs, intermediaries could constitute a platform for such dialogue.

Preliminary conclusions and recommendations: In choosing between different options to promote transparency, the above discussion makes clear that two main issues are to be taken into account. One is how to improve the current monitoring instruments. The second is how to complement the existing monitoring and information instruments.

The former relates mostly to the issue of the development and use of 'scorecards' or 'lists of issues'. Two further considerations can be made on this point. The first consideration concerns the disclosure of the documents. The above discussion makes clear that one needs to take into account other factors such as confidentiality, workload and the purpose and use of the developed documents. Hence, in considering the three options presented above with regard to the 'list of issues' or scorecards (full original text, partial publication or publication of a summary) one should carefully balance the different options in light of advantages and disadvantages taking into account cost considerations. CSOs seem to stress the importance of full disclosure. The GSP-Platform (2020, written input) urge the Commission to make relevant documents publicly available. The Commission also indicated that it could consider it possible to make the documents publicly available. In this context, full disclosure of the 'scorecards' and 'lists of issues' is advisable since it provides for most transparency. A second issue related to the 'scorecard – lists of issues' focuses on whether or not to expand the current approach by developing roadmaps which would allow to monitor commitments and progress more precisely by including time bound commitments on actions to be taken to address concerns listed in the 'list of issues-scorecards'. In essence, these roadmaps would provide more detail on what needs to be done by a next period and would allow for benchmarking progress.

The second issue is about how to complement the existing monitoring instruments. Here one can observe that there are pleas to complement the existing sources of information with information provided via CSOs, possibly through the establishment of a new intermediary. The establishment of a new intermediary might be considered in case one would not follow some of the options discussed under Scenario 7c, especially in relation to the establishment of Domestic Advisory Groups. The envisaged CSO intermediary could then be seen or conceptualized as a 'collective' DAG bringing together CSOs from the EU and GSP+ beneficiary countries.

¹⁷⁸ CCPR-Centre. <http://ccprcentre.org/about-ccpr>

¹⁷⁹ CEC Footwear written input; Richardson, Harrison and Campling (2017); van der Ven (2018).

2.7.4 Scenario 7c: Creation of formal structures for stakeholder consultation

A third option to amend the GSP+ monitoring process involves introducing more formal and independent structures for the involvement and consultation of civil society, in particular from beneficiary countries. This might require a change in the monitoring provisions in the GSP Regulation (e.g. in Article 14). The EP Resolution recommends exploring such option, and the European Economic and Social Committee (EESC) also supports the possibility to establish advisory groups or similar structures providing evidence about implementation of international conventions and highlight cases of violations.¹⁸⁰ Other civil society representatives such as the GSP Platform note that GSP+ monitoring encouraged some beneficiary countries to establish bodies assisting governments in the implementation of international conventions and their use by civil society as a platform for a related dialogue with the government, and recommends continuation of that work.¹⁸¹

We explore three possibilities of formal structures, namely DAGs and transnational Civil Society Meetings (CSM), following the example of TSD chapters in FTAs; the creation of an independent body, and the establishment and introduction of a complaint system. We aim to highlight some lessons learned from the almost 10 years of experience with the DAGs.¹⁸²

Creation of Domestic Advisory Groups

First, DAGs could be established to enhance the involvement of CSOs in the GSP+ monitoring process. The involvement of local and international CSOs on a regular basis was also mentioned in the public consultation. The establishment of DAGs could address the request by NGOs to have a formalized role for civil society actors in the monitoring process (GSP Platform 2020, p. 2). DAGs could fulfil several functions: they would strengthen the legitimacy of the monitoring process through further inclusion of CSOs; they would provide a forum for dialogue to raise awareness about the monitoring process and the issues identified; they could monitor the implementation of the conventions and signal progress as well as issues; and they could offer concrete recommendations on further implementation of the conventions. If one would follow a similar approach to the one used in the context of FTAs, one could consider establishing an EU DAG (the secretariat can be provided by the EESC as is the case in the FTAs) for all GSP+ beneficiaries and a DAG in each GSP+ beneficiary country. These DAGs could also organise DAG-to-DAG meetings to monitor and discuss the implementation of the conventions. However, the limits of the DAG approach in the context of FTAs have been pointed out (van der Ven 2018).

In the monitoring process of the implementation of TSD chapters in FTAs, CSOs play a potentially important role through DAGs. This feature has received quite some attention in recent years since there was criticism on the current approach which was followed up by the Commission in terms of a consultation process resulting in a 15-point action plan. The involvement of CSOs in the monitoring of TSD chapters constituted an important step forward in increasing the transparency of monitoring FTA implementation, but it also raised criticisms on the effectiveness of the current approach.¹⁸³ An assessment of the criticisms

¹⁸⁰ Opinion of the European Economic and Social Committee on the "Proposal for a Regulation of the European Parliament and of the Council applying a scheme of generalised tariff preferences": <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011AE1868&from=EN>

¹⁸¹ GSP Platform statement: https://actalliance.eu/wp-content/uploads/2017/12/20171124_GSP-Platform-Statement_FINAL.pdf

¹⁸² In this context, we note that lessons learned from establishment and operation of civil society DAGs set up under TSD chapters of EU FTAs, e.g., by former GSP+ beneficiary countries (Colombia, Peru, Ecuador, Georgia and Central American countries) may provide additional evidence, given their mandate related *inter alia* to monitoring implementation of international conventions by their countries. At the same time, we recognise that each country has its specific circumstances.

¹⁸³ A range of papers have addressed this (Van den Putte 2015; Marx, Lein, and Brando 2016; Harrison et al. 2016; Orbie, Martens, and Van den Putte 2016; Orbie and Van den Putte 2016; Ebert 2017; Marx et al. 2017; Smith et al. 2017; Harrison et al. 2019).

of the current systems allows us to assess the desirability of emulating such a system under GSP+.

A first criticism focuses on composition of CSO involvement. The current provisions on CSO involvement can, according to the literature, be improved on at least three accounts to improve monitoring: (i) the number of participants, (ii) the diversity amongst them, and (iii) the selection procedures for their participation. The DAGs and CSMs differ on these three components. First, the number of participants varies across agreements. In some agreements, it is not specified, while in others the maximum number of participants is determined in the rules of procedure. Second, there is diversity in terms of participation. All the legal texts stipulate that DAGs and CSMs encompass labour, business and environmental interests. In practice, however, the groups participating in the DAGs and CSMs can vary from being rather narrow (Moldova) to broad (Peru/Colombia/Ecuador). Harrison et al. (2016) report that the very notion of what constitutes a CSO is unclear and sometimes left to the interpretation of the parties, resulting in a specific interpretation of what constitutes a CSO (in the case of Moldova, only think tanks). Orbie et al. report an underrepresentation of environmental groups. There is also a point of attention towards the dynamics in DAG and CSM participation since diversity in representation of stakeholders over time can influence the issues which are discussed and flagged (Orbie, Martens, and Van den Putte 2016). Participation of CSOs and their representatives can be fixed or variable. This determines whether the same people are present through the series of meetings. To maintain a minimum level of continuity, DAGs and CSMs ideally have, to a certain degree, a fixed membership. From a transparency point of view, it is important to include a significant number of fixed and diverse stakeholders since these often focus on their own specific interest in monitoring and not necessarily represent all relevant interests. This is referred to as managing the politics of representation and ensuring that different interests are represented (Smith et al. 2020, 136–39; Ashraf and van Seters 2020, 4f). Third, the selection procedure varies across the DAGs and CSMs. There is no set procedure, neither for the domestic, nor for the transnational meetings. The key issue here is whether organisations are invited by the parties to the agreement to participate or whether they can take the initiative to participate themselves. Currently, there is quite a hands-off approach by governments engaged in an FTA towards the composition of DAGs in third countries notwithstanding that the Commission has expressed concerns regarding the composition of the DAGs of some trade partners. This is a clear point on which improvements can be proposed if such a system were applied in the context of GSP+. The transparency of selection procedures should be enhanced if it was based on a clear logic for stakeholder participation. Such an approach would be based on: the identification of stakeholders via stakeholder mapping; the development of a strategy to proactively approach and involve the identified stakeholders; involving major stakeholders on a more or less equal representative basis and the opening up of the monitoring process to all interested parties not initially identified in the first round of the stakeholder mapping.

A second criticism focuses on the organisation of CSO involvement in DAGs (Orbie, Martens, and Van den Putte 2016; also see Smith et al. 2017). First, the preparation of meetings could be improved, including a timely decision of a time and place, an approved agenda, a review of the attendees and clear rules of procedure. Second, the effectiveness of meetings would be enhanced by clear decision-making procedures. Third, outcomes of the meeting should be further disseminated and made public so that all are informed. Ideally, the minutes of meetings would include follow-up items and decisions which can be monitored. Fourthly, the frequency of meetings currently varies and could be planned more carefully. Whereas most FTAs oblige CSM to meet at least once a year, there is no requirement for DAGs, leaving it to their own dynamics. A more fixed schedule of meetings could be agreed upon. Finally, there is the issue of resources. Many CSOs do not have the financial resources to fully participate in these types of activities especially when the purpose and potential impact is unclear. In the literature, there are several examples where lack of resources is identified as a serious issue (Orbie, Martens, and Van den Putte 2016; Marx et al. 2017), showing that some CSOs would like to be involved in DAGs, but this

does not happen because their government does not facilitate their participation and/or because of a lack of funding and capacities. Hence, making funding available to participate in meetings is recommended. Alternatively, providing sufficient technical equipment which allows for participation could be an option. The question will arise about who will fund this participation. A possible model could be that each country funds its own DAG either via the organisation of meetings or through virtual means. Following the COVID-19 crisis the acceptance of virtual meetings and workshops has become more widespread and the use of virtual DAGs could lower the cost and potentially increase the number of meetings to 2 or 3 per year. Another model is that a separate funding scheme is used to establish DAGs. In this context, one could consider that DG Trade makes funds available to organise the DAGs or that the funding is provided through the European Instrument for Democracy and Human Rights (EIDHR).

Establishing DAGs in the context of GSP+ monitoring would necessitate addressing shortcomings affecting the current functioning of DAGs in FTAs. This requires particular attention to determine the number of participants, the diversity among them, and the selection procedures for their participation. A sufficient number and diversity of participants is needed to guarantee representation of all relevant interests. Besides, the selection procedure should be based on mapping and invitation of relevant stakeholders, but also leave the opportunity for other CSOs to sign up for participation, whose approval should be conditional on the fulfilment of determined criteria. Besides, preparation and conduct of meetings should include a timely decision about the time, place and frequency, an approved agenda, a review of attendees and acknowledged rules of procedure, in particular for decision-making. The outcomes of meetings should also be disclosed to the public to enhance transparency. Lastly, funding or technical support should be made available to CSOs that lack capacities to participate.

Creation of an independent body

The creation of an independent body is the second option. Such a body could fulfil different potential roles. Some observers have explored the possibility to establish an independent GSP+ monitoring body, thus taking on the Commission's monitoring role (not decision-making). Some (Orbie, Martens, and Van den Putte 2016; Marx et al. 2017) point to the significant resources that such an additional layer of bureaucracy would require, and to the Commission's reluctance vis-à-vis this type of option. Such an independent monitoring body might identify and signal more instances of non-compliance with the conventions since this would be precisely its role and reason of existence. While this might increase transparency and legitimacy of the scheme, it would also increase pressure on the Commission to withdraw preferences, whereas the Commission prefers the use of persuasion and incentives.

Introduction of a complaint mechanism

A third option, which might complement monitoring through reporting, is to establish a formal complaint mechanism (Richardson, Harrison, and Campling 2017). Currently, the GSP+ monitoring approach is more akin to an "audit" logic in terms of monitoring progress on the basis of information and interviews gathered at specific points in time. Some authors and organisations suggest that complaint mechanisms might constitute an additional layer of monitoring which would allow stakeholders to consistently monitor compliance and raise concerns in case of non-compliance.¹⁸⁴ To do so, important issues to be considered include deciding how and by whom a complaint can be initiated, in relation to what type of allegations, and who investigates those allegations. The GSP Platform (written input, 2020) also recommends the creation of a formal complaint mechanism, but which would be hosted by the EU's Chief Trade Enforcement Officer:

¹⁸⁴ See inter alia Marx (2014) and Marx and Wouters (2016).

“This complaint mechanism should allow for complaints by non-governmental organisations, trade unions and workers’ organisations, as well as Member States. It should include public hearings with invited persons to testify, including representatives from CSOs and Trade Unions and should take place on a country-by-country basis. It should also have determined time limits for investigation and resolution. Civil society and trade unions would be given procedural assurances that their complaints would be taken seriously by the Commission and that complainants would be protected from harassment, while the Commission would be empowered to investigate such complaints. Besides, a formal complaints procedure would increase the accountability of the Commission by ensuring that its decisions are transparent and subject to review. It would also provide greater insight and clarity on the thresholds used for both positive and negative conditionality. Moreover, the registration of complaints and subsequent decision-making by a formal complaints’ mechanism would increase transparency by providing a public record regarding the compliance of social and environmental obligations in the EU’s GSP. A significant advantage of a formal complaint mechanism is that it would not require negotiations with third countries: the EU can adopt such an instrument unilaterally.”

The GSP Platform sees an amendment to the EU’s Trade Barriers Regulation as the most effective way to achieve this complaint mechanism which could be considered as an accompanying measure. Whether an amendment to the EU’s Trade Barriers Regulation is possible and feasible needs to be further assessed. Technically it is possible to add reasons for enforcement in the Trade Barriers Regulation. An alternative course of action would be to take the enforcement mechanism of the Trade Barriers Regulation and plug them in the new GSP regulation.

A complaint system indeed offers some advantages. However, one should also be aware that administrating a complaint system might be more complex than initially expected. We know from other governance mechanisms that introducing complaint systems can be complex and one needs to clearly define who can bring a complaint and what is sufficient evidence to lodge a complaint (Marx 2014; Marx and Wouters 2016). A proposal for a possible complaint system requires significant detail in terms of procedures and rules. In general, a complaint system might pursue two objectives, one being a mechanism for continuous monitoring, the other being a mechanism for sanctions and/or compensations. In the current proposal of the GSP Platform, one of the main objectives of the complaint system is to add a layer of information gathering, rather than providing a mechanism for redress, compensation or sanction. If the aim is to allow for additional information gathering, the question arises whether a complaint system is the most appropriate mechanism.

Preliminary conclusions and recommendations: DAGs could constitute a potential compromise between improving inclusiveness and maintaining trust between parties in the GSP+ monitoring process, but would need to be carefully established and would mobilise significant resources to ensure inclusiveness. The costs and benefits of introducing such a system should carefully be balanced, also taking into account the dynamic nature of GSP+ in which countries graduate in and out of the system. With regard to complaint mechanisms, one should carefully consider what additional information a complaint system might generate on top of information provided by monitoring bodies of the conventions (and their complaint systems), information by CSOs and other actors including human rights defenders, possibly DAGs or a monitoring intermediary which provides additional information from a CSO perspective (scenario 7b).

2.7.5 Scenario 7d: Extension and alignment of the monitoring cycle

As per the GSP Regulation, the Commission monitors the status of GSP+ beneficiaries’ ratification and effective implementation of the relevant international conventions and submit a report to the European Parliament and the Council every two years (Article 14(1)). Based on considerations regarding administrative burden, scenario 7d assesses the

implications of extending the monitoring cycle to three or four years and aligning it with reporting by international bodies.

Whereas the authors of the MTE believe that the shortened two-year cycle introduced by the 2012 reforms would put pressure on beneficiary countries to implement the conventions, other studies (Richardson, Harrison, and Campling 2017; van der Ven 2018) 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 GSP Platform (written input) proposed to maintain a reporting cycle of two years and developed a proposal for a two-year reporting cycle which includes the use of roadmaps (see scenario 7b). The proposal mostly focuses on how to integrate roadmaps and the assessment of progress made in a two-year monitoring cycle. The proposal could easily be adjusted for a three-year monitoring cycle. In the online public consultation, only one respondent proposed to keep the reporting cycle to two years. This indicates that there is some CSO support for short reporting cycles and keeping the two-year cycle, but also that the main concern is with the substance of the monitoring cycle and the formalised involvement of CSOs in the monitoring cycle rather than with the specific duration. It could be argued that an extension of the reporting cycle to three years would also allow beneficiary countries to address issues listed in the roadmaps.

In addition, an extension of the monitoring cycle would alleviate the administrative burden of the monitoring process both for the Commission and the beneficiary countries. Besides, the monitoring cycle of the GSP+ could be harmonized or aligned with reporting requirements under the international conventions in the GSP Regulation.

The idea of aligning GSP+ reporting with the reporting of the international conventions is however not straightforward, as these follow different reporting cycles for countries with different time-frames. This would make it difficult to align GSP+ monitoring with the cycles of the international bodies.

First, the UN conventions included in Annex VIII of the GSP Regulation have different reporting cycles. For example, ICCPR Article 40 states that “The States Parties to the present Covenant undertake to submit reports on the measures they have adopted which give effect to the rights recognized herein and on the progress made in the enjoyment of those rights: (a) Within one year of the entry into force of the present Covenant for the States Parties concerned; (b) Thereafter whenever the Committee so requests.” The latter implies variation in reporting requirements for countries.

Table 49 presents the provisional schedule for reporting on the different UN conventions included in Annex VIII of the GSP Regulation for each GSP+ beneficiary (as per the baseline assumption for this study), except from the Convention on the Prevention and Punishment of the Crime of Genocide, for which reporting information is not available. For each convention, the end date of the previous reporting cycle is provided in column P, and column C indicates the year in which a country needs to report in relation to a specific convention in the current cycle. The table reveals three relevant facts with regard to the reporting cycle. First, the reporting dates differ between GSP+ beneficiaries and conventions. Second, the reporting cycles, in terms of number of years in between, differ between conventions. Third, reporting cycles even differ within one Convention for different countries (compare Cape Verde, Mongolia and Pakistan in the case of ICCPR). Additionally, based on an assessment of previous reporting, the length of reporting cycles can even vary for a given GSP+ beneficiary country and a given convention.

Table 49: Provisional schedule for GSP+ countries’ reporting on UN conventions included in Annex VIII of the GSP Regulation

Country	UN conventions in GSP											
	ICERD		ICCPR		CESCR		CEDAW		CAT		CRC	
	P	C	P	C	P	C	P	C	P	C	P	C

Bolivia	2011	2019 ₁ (2020)	2013	2018 ₁ (2020)	2008	2019 ₁ (2020)	2015	2019 ₁ (2021)	2013	2019 ₁ (2020)	2009	2019 ₁
Cabo Verde	2003	2006 ²	2019	2026	2018	2023	2013	2019 (3)	2016	2020	2001	2019 ³
Kyrgyzstan	2018	2022	2014	2020 ₁ (2020)	2015	2020	2015	2019 ₁ (2020)	2013	2019 ₁ (2020)	2014	2019 ₁
Mongolia	2015	2019 ³	2017	2022	2015	2020	2016	2020 ₁ (2020)	2016	2020	2017	2022
Pakistan	2016	2020 ²	2017	2020	2017	2022	2013	2020 ³	2017	2021	2016	2021
Philippines	2009	2012 ²	2012	2019 ₁ (2020)	2016	2021	2016	2020	2016	2020 ²	2009	2019 ₁ (2021)
Tajikistan	2017	2020 ₁	2019	2025	2015	2020 ₁ (2020)	2018	2022	2017	2018 ³	2017	2022
Uzbekistan	2019	2022	2020	2027	2020	2019 ₁ (2021)	2015	2019 ₁ (2021)	2019	2023	2013	2019 ₁

₁ = date when state report for the current cycle was submitted; session still to be held (session date provided if already known)

² = past due date for submitting state report but no submission; no session planned

³ = report submitted and session held on date mentioned, but no new cycle announced yet

Source: Prepared by the authors based on UNOHCHR UN Treaty Body Database:
https://tbinternet.ohchr.org/_layouts/15/TreatyBodyExternal/Countries.aspx.

Second, for ratified ILO conventions a reporting cycle of 3 years applies for fundamental Conventions (core Conventions which are included in Annex VIII of the GSP Regulation) and 5 years for other Conventions. There are three types of reports: 1st reports, regular reports (most common), and 'out-of-cycle' reports. There are two bodies that deal with the reports, namely the Committee of Experts on the Application of Conventions and Recommendations (CEACR) and the Committee on the Application of Standards (CAS). The CEACR consists of independent legal experts (not ILO officials, often judges and professors) who meet once a year to deal with all reports. They issue comments and observations and can direct requests. They can also initiate an out-of-cycle report request. The CAS is a tripartite body including government, employer and worker representatives, which meets once a year during the International Labour Conference and discusses the ratification and implementation of the conventions based on the reports by CEACR.

Table 50 presents the provisional schedule for reporting on the different ILO conventions listed in Annex VIII for the GSP+ beneficiaries. Each cell indicates the year in which a country needs to report in relation to a specific convention. The table shows that aligning GSP+ reporting schedules with the reporting schedule for the ILO conventions is not evident since countries run on different 'reporting cycles'. The reporting cycle for Bolivia is for example different from for Mongolia or Pakistan.

Table 50: Provisional schedule of regular reports for fundamental ILO conventions by GSP+ beneficiary

Country	ILO Conventions in GSP							
	C29	C87	C98	C100	C105	C111	C138	C182
Bolivia	2020	2022	2022	2021	2020	2021	2020	2020
Cabo Verde	2020	2022	2022	2021	2020	2021	2020	2020
Kyrgyzstan	2021	2020	2020	2022	2021	2022	2021	2021
Mongolia	2021	2020	2020	2020	2021	2020	2021	2021
Pakistan	2022	2021	2021	2020	2022	2020	2022	2022
Philippines	2022	2020 (O)	2021	2020	2022	2020	2022	2022
Tajikistan	2020 (O)	2020 (O)	2020 (O)	2021	2020 (O)	2020	2020 (O)	2020 (O)
Uzbekistan	2020	2022	2022	2021	2020	2021	2020	2020

O= out of cycle

Source: Prepared by the authors based on Normlex, <https://www.ilo.org/dyn/normlex/en/f?p=1000:11002:.....>

Preliminary conclusions and recommendations: 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, the GSP+ reporting cycle should not be determined by the reporting cycles of the international conventions: GSP+ can set its own reporting cycle.

The setting of the own reporting cycle should be determined based on (1) the need to regularly and effectively monitor the implementation of conventions which would plea for shorter reporting cycles and (2) the administrative burden for monitoring and reporting which would plea for longer cycles. It should be noted that international conventions have longer reporting cycles than 2 years. This could be an argument to set a reporting cycle of 3 years, following the example of the ILO.

Hence, one could consider to change from the two-year cycle to a three-year cycle by complementing such cycle of “normal” monitoring with an additional “out-of-cycle” monitoring exercise or the 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 (e.g., implement an Action Plan) further to the enhanced engagement.

2.7.6 Preliminary conclusions and recommendations

The different options are not mutually exclusive since some focus on the content of monitoring while another option focuses on the duration of the monitoring cycle. Based on existing literature and consultations, there is a demand for a more formalised role of CSOs in monitoring as well as measures to enhance transparency. Following the discussion above, the following combination of options could be recommended to amend the current monitoring approach by:

1. Making the lists of issues publicly available and complement them with more specific time-bound commitments on progress which needs to be made (scenario 7b).
2. Develop a system of CSO involvement, either through an intermediary mechanism (scenario 7b) or through Domestic Advisory Groups (scenario 7c). For the option of a Domestic Advisory Group one should take into account that this can be resource intensive. The establishment of an intermediary CSO-based monitoring body, covering all GSP+ countries, and funded by EIDHR might be the most effective and efficient way to integrate CSOs in the monitoring process. An assessment of this option could be done based on a pilot project.
3. Expand the monitoring cycle to three years with the option to perform prioritised (out of cycle) monitoring for specific issues and/or countries (scenario 7d).

2.8 Options regarding the process for temporarily withdrawing GSP (Task B.8)

2.8.1 Introduction: Purpose and Options

The Commission may decide to withdraw tariff preferences temporarily if it determines that a country is not meeting the requirements listed under Article 15(1) of the GSP Regulation (for GSP+ beneficiaries) or Article 19(1) (for all GSP arrangements).¹⁸⁵ The two procedures are quite similar: to initiate the temporary withdrawal procedure, the Commission first publishes a notice and informs the country concerned, which is followed by a six-month monitoring investigation and evaluation period. Afterwards, the Commission must make a decision¹⁸⁶ to either end the procedure or withdraw benefits.¹⁸⁷ The decision about

¹⁸⁵ There are different substantive requirements to meet to launch the withdrawal procedure. For GSP+ countries, Article 15 requires that: (i) the monitoring body of a relevant convention has identified a serious failure to effectively implement the convention, (ii) the country is no longer cooperating with reporting procedures and monitoring bodies, or (iii) if the country has formulated a reservation for a convention that is incompatible with the object and purpose of the convention. For EBA countries, Article 19 in particular see conditions listed under Article 19(1) (a) to (f).

¹⁸⁶ Within 3 months or 6 months respectively under Article 15 or 19,

¹⁸⁷ Under Article 19 the Commission needs to produce a report on findings and conclusions within 3 months from the end of the monitoring and evaluation period.

withdrawal of preferences enters into effect six months after the entry into force of the act withdrawing preferences later. For GSP+, the burden of proof of compliance falls on the beneficiary country (see Development Solutions 2018). The Commission may gather all relevant information, including from civil society, social partners, the relevant international monitoring bodies, and third parties to the procedures.¹⁸⁸

Although the Commission considers that the current mechanism for withdrawing GSP preferences provides the necessary leverage to constructively engage with beneficiary countries, it recognises that there is scope for improving the withdrawal process. The following options have been defined:

- **Baseline (scenario 8a):** the current withdrawal mechanism set out in Article 15.1 (regarding the GSP+ arrangement) and Article 19 (regarding all GSP arrangements) is left unchanged and allows for the withdrawal of preferences either for all or only for certain products;
- In **scenario 8b**, additional steps would be introduced for the Commission to follow prior to its decision to formally launch the GSP withdrawal process under Article 19. 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;
- **Scenario 8c** would provide for additional steps to follow after the launch of the formal procedure, with the objective of deciding whether total or partial withdrawal of preferences is justified;
- **Scenario 8d** would provide for an amendment to the partial withdrawal of preferences by introducing, in addition to the existing possibility of withdrawal of preferences for all or certain products, the withdrawal of preferences, or exemption from such a withdrawal, for individual economic operators or natural persons.

2.8.2 Scenario 8a: Keeping the current mechanism for temporary withdrawal of preferences

The MTE identified certain shortcomings with respect to the current use of the withdrawal procedure, which risk undermining the effectiveness of this instrument and which call for a more consistent use of the withdrawal procedure and transparency of the process. In fact, from the perspective of predictability, more consistency and transparency in the use of procedure could lead to potentially positive social and human rights effects because the partner countries would better understand the procedural steps and would attribute a higher probability to the withdrawal if they do not start cooperating at a certain point. The MTE also underlined that no withdrawal procedure had been launched e.g., in relations with Uzbekistan (regarding the use of child labour at the cotton harvest violating the ILO convention No. 182 on the worst forms of child labour), while it was used for Sri Lanka¹⁸⁹, Belarus¹⁹⁰ and Myanmar.¹⁹¹

¹⁸⁸ Which enjoy specific procedural rights under Regulation (EC) No 1083/2013.

¹⁸⁹ Temporary withdrawal of preferences followed Commission's investigation into serious violations of human rights conventions. See: EU temporarily withdraws GSP+ trade benefits from Sri Lanka: <https://reliefweb.int/report/sri-lanka/eu-temporarily-withdraws-gsp-trade-benefits-sri-lanka>

¹⁹⁰ Preferences for Belarus were withdrawn in 2007 further to violations by the country of the ILO convention on freedom of association and the right to collective bargaining. See: European Parliament (Briefing), 2017, Human rights in EU trade policy Unilateral measures: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595878/EPRS_BRI\(2017\)595878_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595878/EPRS_BRI(2017)595878_EN.pdf)

¹⁹¹ Temporary withdrawal of preferences resulted from an investigation launched by the Commission further to a trade union complaint regarding the use of forced labour in Myanmar violating the ILO fundamental convention No. 29. See: Council Regulation No. 552/97 of 24 March 1997 temporarily withdrawing access to generalized tariff preferences from the Union of Myanmar: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31997R0552&from=EN>

The European Parliament in its resolution of March 2019 on the GSP Regulation¹⁹² stresses the need to maintain the withdrawal procedure to preserve the credibility of the scheme and as a tool to address severe and systematic violations of international conventions. It also underlines the need to have well-defined instances when this mechanism can be triggered and to minimise negative impacts for the local population of the beneficiary country. This has been echoed by some respondents in the consultations for this study who supported keeping the withdrawal procedure to preserve the objectives of the GSP system and its international credibility. At the same time, they considered it as a step of last resort, ideally being preceded by an enhanced engagement process. Respondents also were of the view that withdrawal alone is unlikely to solve the problem of serious and systematic violations of human rights or labour standards and should be accompanied by other measures taken by the EU, including further engagement with the GSP country or assistance projects. Other respondents put more emphasis on the conditionality of GSP preferences and raising awareness of beneficiary countries that preferences are not for free (i.e., international conventions, as well as human and labour rights enshrined therein need to be respected) and not to be taken for granted, i.e., they can be withdrawn if the country fails to meet the conditions and does not cooperate with the EU to address violations.

In the available literature on the subject, some authors (Velluti 2016a; Velluti and Van den Putte 2018) criticise that decision-making related to GSP according to them lacks transparency, considering the thresholds established by Article 9 of the GSP Regulation as too generous¹⁹³ and resulting in admission to the GSP+ arrangement of countries whose compliance record is poor, and in very rare uses of the withdrawal mechanism. On the other hand, these authors recognise that under the current Regulation, more emphasis is put on ensuring compliance (e.g., by the regular monitoring and the use of scorecards, dialogue with more stakeholders based in the beneficiary countries, enhanced engagement with governments and the EU assistance projects), which turns the withdrawal of preferences into a tool of last resort. Along the same line, in a resolution of July 2016, the European Parliament called on the European Commission to clarify, either through a delegated act or a revision of the GSP Regulation, the terms which are related to the entry conditions to the GSP+ arrangement and consideration of the withdrawal procedure.¹⁹⁴

Based on the above and also on other parts of the analysis carried out under this task, we consider that the mechanisms applied in the GSP scheme in relation to the withdrawal of preferences can be improved by increasing the transparency, including information sharing, of the process leading to the decision to open a formal withdrawal procedure and by clarifying both the procedural steps (notably at the stage of enhanced engagement) and the thresholds triggering the Commission's decision to start enhanced engagement or the withdrawal procedure.

Preliminary conclusions: As discussed in detail under option 8b, the Commission has recently taken steps to improve transparency of the process preceding formal launch of the withdrawal of preferences. However, given the criticism expressed by some authors and studies, including the MTE, and different stakeholders, more will need to be done.

¹⁹² Implementation of the Generalised Scheme Preferences (GSP) Regulation. European Parliament resolution of 14 March 2019 on the implementation of the GSP Regulation (EU) No 978/2012 (2018/2107(INI)), P8_TA(2019)0207, http://www.europarl.europa.eu/doceo/document/TA-8-2019-0207_EN.pdf

¹⁹³ Article 9 of the GSP Regulation establishes entry criteria to the GSP+ arrangement and states inter alia that a country may benefit from GSP+ preferences provided it has ratified conventions listed in Annex VIII and the most recent available conclusions of the monitoring bodies under those conventions do not identify a serious failure to effectively implement any of those conventions. Authors mentioned above argue that a threshold for failure in the so established conditionality remains so high that practically every applicant country meets the entry criteria, while the actual record of implementation of international conventions by some of them is really poor.

¹⁹⁴ Social and environmental standards, human rights and corporate responsibility. European Parliament resolution of 5 July 2016 on implementation of the 2010 recommendations of Parliament on social and environmental standards, human rights and corporate responsibility (2015/2038(INI)), P8_TA(2016)0298, http://www.europarl.europa.eu/doceo/document/TA-8-2016-0298_EN.pdf.

Maintaining the current practice without any further enhancements could raise further concerns about the lack of consistency and transparency in the process leading to the temporary withdrawal of preferences and in the decision-making about whether or not to withdraw the preferences. This would be at odds with DG TRADE's approach of the last few years of constantly increasing the levels of transparency in trade policy and engagement with stakeholders in this context. It could also decrease the leverage that the EU may otherwise have on the beneficiary countries, as the lack of clarity as to how likely and imminent the withdrawal is may reduce their resolve to act and to remedy the situation.

2.8.3 Scenario 8b: Introducing additional steps prior to the formal launch of a withdrawal procedure

When the Commission considers that there are sufficient grounds for a temporary withdrawal of preferences,¹⁹⁵ 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)/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)/15(4)). These steps constitute the formal launch of a withdrawal procedure. While the GSP Regulation, as well as Delegated Regulation No. 1083/2013, establish detailed rules for the formal procedure, they are silent on the steps to be taken that precede a decision whether to launch such a procedure.

Under this scenario, we will focus on the enhanced engagement, triggers thereof and steps taken by the Commission at that stage. The analysis also covers the end of this stage and the corresponding Commission's decision on whether to close the case and return to business as usual or to launch the formal withdrawal procedure. We highlight good practices developed and identify points for improvement.

To start, we recall points discussed under Scenario 8a, i.e., the need to increase transparency of the process leading to a decision whether to launch a formal withdrawal procedure, and to clarify the thresholds that would trigger the Commission's decision to move towards the withdrawal procedure. This would increase the predictability and legal certainty for both stakeholders and the GSP beneficiary countries as to the likelihood that the Commission could start the withdrawal procedure in case of lack of cooperation during the enhanced engagement stage.

Enhanced clarity on how enhanced engagement or a withdrawal procedure is triggered. The enhanced engagement stage is not defined as such in the GSP Regulation and there is no provision defining the circumstances triggering it. Therefore, it remains fully within the Commission's discretion to judge when the seriousness of a situation in the beneficiary country qualifies it to move towards this stage. The Commission may have opportunities to raise concerns with the beneficiary countries beforehand; however, only in the case of the GSP+ arrangement, does the GSP Regulation envisage a regular comprehensive monitoring and dialogue with them regarding the implementation of international conventions, while there are no comparable communication channels with Standard GSP or EBA beneficiaries. In practice, in relations with those countries, the

¹⁹⁵ 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).

Commission, cooperating with the EEAS, engages in a human rights dialogue which also covers the ILO fundamental conventions and includes annual meetings providing an opportunity to discuss matters of interest but also to raise concerns. However, the format of those meetings, covering a broad range of items to discuss, and their frequency (once a year) may not be sufficient for the Commission to engage with the beneficiary country if the situation aggravates quickly or the matter requires a profound discussion with representatives of the country going beyond the government. There may also be opportunities for EU Delegations to flag concerns to the governments of host countries and to coordinate in this regard with EU Member States and other representatives of the international community. However, this form may also have its limits. This suggests the need to have the enhanced engagement stage as a specific form of a dialogue, but also to have more clarity as to when and how it starts.

We suggest improving the clarity around the status of the enhanced engagement process by adding a provision to the new GSP Regulation introducing it as a stage preceding the launch of a formal withdrawal procedure. Its details could then be outlined in a guidance note or a communication developed and published by the Commission (this form could offer flexibility in publishing updated versions based on the recent practice, illustrated by practical examples to make them user-friendly for a broader audience). We acknowledge that the Commission should maintain a certain level of discretion in the related decision-making process, including the start and progress of the enhanced engagement. However, a guidance note developed and promoted by the Commission, could bring much clarity and help in the communication with beneficiary countries and other stakeholders. Such a note could outline a practical approach for the enhanced engagement stage, such as what kind of a situation in the beneficiary country may trigger the process.

The note would also make clear that each country will be seen as a unique case to consider its specific circumstances and there will be no “automatism” in the decision-making process. It could provide examples of situations, e.g., related to procedures of the international monitoring bodies, which would act as an early warning signal for the Commission and draw its attention to the country or indeed trigger the start of the enhanced engagement. Such a note would also support the Commission services in ensuring consistency in decision-making as it would provide references to past cases and examples of a “threshold” in failure to respect international conventions by the beneficiary country beyond which the Commission would be encouraged to act. It would also ensure a wider understanding of the enhanced engagement as a stage helping the beneficiary country to remedy the situation early enough to avoid the launch of the formal procedure and a possible withdrawal of preferences. It would also be helpful if the Commission explained in the guidance note what type of information sources it may consider in the process of collecting evidence prior to the decision about launching the enhanced engagement process or the withdrawal procedure, as well as how and when such evidence may be provided to the Commission by interested parties. The evidence could include reports about violations of international conventions by the country in question, as well as information about progress made in remedying the situation (if this has taken place) as a result of the enhanced engagement. The guidance would also explain how different stakeholders, including civil society and international organisations can play their role in the process. Respondents in the consultations for this study suggested also a greater involvement of EU Member States at the stage prior to starting the enhanced engagement. Involving more stakeholders and issuing guidance would provide more clarity around the process and ensure its inclusivity, as more interested parties may be aware of the possibility to contribute and would do so at a right time and in the right form. Some respondents also suggested that the Commission develops its view of the situation in the beneficiary country on the basis of a broad range of sources which ideally would include a mission to the country and discussions with the relevant stakeholders¹⁹⁶. The aim would

¹⁹⁶ We note in this context that e.g. the press release after the EU mission to Cambodia in July 2018 mentions meetings with trade unions, civil society and business representatives in the country, as well as local offices of international organisations, such as UN and the ILO (see: <https://ec.europa.eu/commission/presscorner/>

be for the Commission to get better insights into the reasons of the worrisome situation, and factors influencing it, and to develop an idea of what should be done to remedy it. Dialogue with the beneficiary country could be supported by technical or financial assistance.

Enhanced transparency on enhanced engagement. With respect to the implementation of enhanced engagement, we note the finding from the literature, echoed by MTE regarding the lack of consistency and transparency highlighted by stakeholders and their related lack of understanding about why in certain cases (like Uzbekistan) the Commission has not launched a formal withdrawal procedure while it did so in relation with some other countries (the MTE refers e.g., to the older cases of Sri Lanka 2009 and Belarus, 2007¹⁹⁷ considered under the GSP regulations of 2006 and 2008). In this context, we have analysed six cases of the Commission's engagement with beneficiary countries from the last few years at the stage preceding a formal launch of a withdrawal procedure. These cases either constitute examples of the enhanced engagement under the current GSP Regulation (Bangladesh, Myanmar and Cambodia,¹⁹⁸ all three EBA beneficiaries) or can be treated as a proxy of this stage given that the engagement took place under the previous regulation of 2008 (we refer, however, to those cases as well to have a broader overview of measures applied by the Commission and results of engagement, and to cover at least some cases raised by stakeholders and echoed by MTE). The cases taken as proxies of the enhanced engagement include Uzbekistan (Standard GSP), Georgia, Guatemala (both GSP+ at the time), and Bangladesh in 2013 (EBA).

The analysis also covers processes followed by the Commission with some countries under the TSD chapters of recent EU trade agreements. This is because, while the TSD chapters as such are a result of a negotiation process (compared to the GSP scheme which is based on a unilateral EU decision), the enhanced engagement process is not included in the legal text of a trade agreement¹⁹⁹ and has been developed in practice by the Commission (or more broadly, the EU side) to address serious shortcomings by the partner countries in the ratification and effective implementation of international conventions which are required by the provisions of the chapter. Therefore, the origin of the enhanced engagement process in both cases (GSP and TSD) is very similar, i.e. a unilateral practice developed over time by the Commission outside a legal text to help partner or beneficiary countries meet their obligations enshrined in the legal act related to respecting international conventions in the area of labour, environment and climate change (the TSD chapter does not include an explicit reference to the human rights conventions other than the ILO fundamental ones).

[detail/en/ip_18_4467](#)). Moreover, based on interviews with the Commission officials, we understand that similar meetings took place also in the context of a mission to Bangladesh. However, other Commission sources, e.g. the Staff Working Document on the enhanced engagement with Bangladesh, Cambodia, and Myanmar, do not mention such meetings. Therefore, our recommendation would be that the Commission continues this practice and at the same time ensures that information about engagement with trade unions, business and other civil society representatives is more systematically included into the press releases and other materials reporting about actions taken at the enhanced engagement stage.

¹⁹⁷ EU temporarily withdraws GSP+ trade benefits from Sri Lanka: <https://reliefweb.int/report/sri-lanka/eu-temporarily-withdraws-gsp-trade-benefits-sri-lanka>; EU will withdraw GSP trade preferences from Belarus over workers' rights violations: https://ec.europa.eu/commission/presscorner/detail/en/IP_07_844

¹⁹⁸ In the case of Cambodia, a decision to launch a formal withdrawal procedure came after a few years of the reported human rights violations, including widespread displacement, violent evictions and land grabbing in order to issue land concessions for rice and sugar industry benefitting from EBA preferences. The Commission initially engaged in a dialogue and cooperation with Cambodia, including in agriculture. This faced criticism by NGOs arguing that there is a lack of political will in the country to approach the reforms seriously and to address violations. See MTE, page 97.

¹⁹⁹ While the TSD chapters of recently concluded EU trade agreements do not contain provisions related to enhanced engagement (they include only provisions related to a formal dispute settlement mechanism under the chapter), political dialogue having a nature close to enhanced engagement has been included in Article 8 of the Cotonou Agreement, with the objective of avoiding launch of formal consultations by the Parties, i.e., to avoid triggering a formal dispute settlement process. Also, Article 9 of the Cotonou Agreement states e.g., that promotion of human rights, processes of democratisation, consolidation of the rule of law, and good governance will be an important subject for political dialogue between the Parties (also see Art. 96): [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02000A1215\(01\)-20180531&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02000A1215(01)-20180531&from=EN)

The analysis helps to identify more diversified measures used by the Commission in relations with different partners which, in turn, informs our recommendations.

The objectives of the analysis are as follows:

- to identify current ways of communicating about the enhanced engagement stage and steps taken by the Commission, as well as ways to address related shortcomings in terms of transparency as flagged by the stakeholders and ways to address them;
- to determine the effectiveness of enhanced engagement as a tool to help to remedy the situation and to avoid withdrawal of preferences;
- to identify additional steps and measures which may be taken by the Commission in the future in the enhanced engagement process to make it more inclusive, clear and predictable for stakeholders).

Annex B8-1 provides detailed results of that analysis, while the summary of findings and recommendations follow below.

Regarding transparency and communication around the enhanced engagement process, the analysis has been affected by the fact that the Commission removed from its website all documents pre-dating 2015, and therefore it has not been possible to evaluate the extent to which information about engagement with countries such as Uzbekistan, Bangladesh or Georgia was available to the broader public, including interested stakeholders at the time. Based on the information currently available and related to those cases, we noticed that some actions taken by the Commission or the EU, such as statements in the ILO bodies by EU representatives or the launch of assistance projects supporting respect for international conventions were reported through other sources, e.g., the ILO website, and not by the Commission, and therefore information about them was not too visible for those who were interested in the case. Moreover, on some occasions, information about the EU position towards the beneficiary country and expectations regarding its actions were provided in other, not GSP-related documents, e.g., in the annual Progress Reports on the Implementation of EU Neighbourhood Policy, as in the case of Georgia. Finally, elements of the Commission's position in cases like Uzbekistan were shared verbally, e.g., in meetings of the European Parliament International Trade Committee. This means that interested stakeholders did not have access to comprehensive information about each case which would help them to get familiar with it and to develop an understanding of why the EU has not launched the withdrawal of preferences in certain cases, such as Uzbekistan.²⁰⁰

This confirms some findings from the MTE on the need for greater transparency and better visibility of the enhanced engagement process. It is to highlight that, in addition to providing information to interested parties, such visibility and transparency may contribute to its effectiveness and create a momentum for support for a change among a wider range of actors involved, including in the GSP beneficiary country, increasing pressure on the government to act. Together with a guidance note explaining the process, timely information and a clear communication would help all parties involved understand better the process and its stages, their roles in the expected change and the consequences of action and inaction. While it is clear that a certain level of confidentiality of the talks with a beneficiary country, in particular at an early stage, may sometimes be needed to prepare the ground for a change, an increased overall transparency of the process, as promoted by the Commission in other areas of trade policy, including in trade agreement negotiations, is likely to be appreciated. The Commission and the EEAS have already taken steps in that direction by publishing (as part of the regular biennial GSP Report), a Joint Staff Working Document explaining enhanced engagement activities with Bangladesh, Cambodia, and Myanmar. Moreover, on the DG TRADE website, there are press releases

²⁰⁰ In the case of Uzbekistan, the withdrawal of preferences was avoided thanks to the enhanced engagement which, however, might not have been communicated clearly and broadly enough at the time.

about the main steps in relations with Cambodia, and a mission to Myanmar. The ongoing GSP transparency project also is a step in the right direction, and its website (GSP Hub)²⁰¹ could support increased transparency discussed in this section. E.g. in the “Country info” part, on Bangladesh, it provides information about enhanced engagement with the country and a summary of the main points. In the future, this could be complemented by links to the key documents from the process (e.g. the Joint Staff Working Document) in the same way as the site provides links to the last few Country Reports.²⁰² Moreover, in the main part “About GSP”, in addition to the information about the withdrawal mechanism and the safeguard mechanism, it could provide a reference to the enhanced engagement process. Such good examples should become a standard practice used systematically at the enhanced engagement stage. Moreover, sharing information in this context could also be inspired by the Commission’s recent practice under the TSD chapter dispute settlement.²⁰³ The Commission could also consider publishing short information (in the form of a press release or an update) whenever the EU takes action within the enhanced engagement process, e.g., undertakes a mission to the partner country, delivers statement at the ILO or another international organisation, launches assistance project, etc. Such updates would be published on DG TRADE website (e.g., in the news section and in the page dedicated to GSP), replicated on the GSP Hub under the Country info, and further promoted in social media or in meetings with the relevant stakeholders. When needed, they would make clear which of the actions have been taken by the Commission and which by other EU representatives (e.g., the EU Presidency delivering statements). This would ensure that all interested parties are kept up-to-date with the process and the Commission’s evaluation of the situation in the beneficiary country and therefore a subsequent decision on whether to launch a formal withdrawal procedure or to continue engagement (or close the case) would not come as a surprise.

In addition to that, following the example of reporting in the 2020 Staff Working Document on enhanced engagement, the Commission could consider following the practice of some international organisations, e.g., the ILO, in relation to a more frequent reporting on cases of concern. This could take the form of a summary report (prepared with a frequency relevant for the case, e.g. annually) providing a comprehensive overview of developments in the enhanced engagement with one or more partner countries over the previous year (or another reporting period). It would pull together information provided in the meantime in the form of above-mentioned updates, and outline Commission’s assessment of the situation and next steps, i.e., continued engagement with further actions to take by the beneficiary country, closing the case (if enough progress has been made) or moving towards the formal withdrawal procedure, if there is no sufficient progress. For example, in the ILO, reporting about the situation in the country for which a complaint under Article 26 of the ILO Constitution has been submitted, may be requested twice a year, with a review of the situation by the Governing Body and a decision on next steps. Similarly, once an individual country case of concern has been discussed by the ILO Committee on the Application of Standards, the country is often requested to submit a Government report in the same year to the Committee of Experts for analysis. A similar approach was also used by the EU in the previous engagement with Bangladesh (further to Rana Plaza collapse in 2013), with annual reports from implementing the Sustainability Compact for Bangladesh. The recent decision to publish reports from enhanced engagement together with the biennial GSP Report, while being an important step forward, may be insufficient and the reports too infrequent to ensure the right level of transparency and the momentum in engagement.

²⁰¹ See: <https://gsphub.eu/>

²⁰² See section on Bangladesh: <https://gsphub.eu/country-info/Bangladesh>

²⁰³ The practice in engagement with the Republic of Korea may provide some food for thought. Here, at each step of the dispute settlement process under the EU-Korea FTA’s TSD chapter, short press releases are published together with letters of the EU Trade Commissioner to Korea and the Commission’s assessment of the situation.

Regarding **measures used by the EU at the stage of enhanced engagement** with GSP beneficiary countries, our analysis of the above-mentioned cases provides evidence about a broad range thereof.²⁰⁴ These include:

- letters to the beneficiary country expressing concern about violation of rights enshrined in international conventions underpinning preferences under the GSP scheme, and listing actions to be taken by the country to remedy the situation;
- bilateral meetings with partner country representatives, including national and state or local authorities, representatives of relevant institutions, such as judiciary or inspection and civil society organisations (business associations, trade unions and NGOs); these may be organised ad hoc or use the existing communication channels, such as human rights dialogues; moreover, meetings attended by representatives of the Commission and/or the EEAS may be complemented by engagement of EU Member States, the EU Delegation in the partner country or Members of the European Parliament conveying the same message to the partner country;
- fact finding missions to the country, extended, if needed, to areas where violations took place, like in the case of Myanmar; in some cases, replaced or complemented by findings from missions carried out by others, such as the ILO or UN agencies and Special Representatives;
- specific acts (such as conclusions or resolutions) adopted by EU institutions (the Council or the European Parliament) or Commission statements and other measures (e.g., recommendations in Progress Reports on the Implementation of the EU Neighbourhood Policy, as in the case of Georgia), expressing concern, calling on the country to take concrete steps (often listed in the text) and, if required, making a link between the expected progress to be achieved by the country and steps to be taken by the EU, such as giving consent for a trade agreement or its amendment, like in the case of Georgia (DCFTA negotiations) or Uzbekistan (Textile Protocol to PCA);
- actions taken in international organisations, such as statements delivered in the ILO Committee on the Application of Standards and the ILO Governing Body or sponsoring resolutions in the UN system; this may also include support for specific actions to be taken by the international organisation, such as the ILO tripartite monitoring mission to Uzbekistan at the cotton harvest;
- building coalitions of like-minded partners, e.g., with the US, Canada or Japan to exercise pressure on the beneficiary country; similar joint efforts may also be undertaken by the EU institutions and EU Member States, as well as civil society or business, e.g., international buyers, like in the case of Bangladesh;
- agreeing an Action Plan, a roadmap or a document however defined outlining actions to take by the partner country, responsible institutions and a timeline for delivery, and being supported by an effective monitoring mechanism with regular reporting, as was the case with the Sustainability Compact for Bangladesh, or third party monitoring at the cotton harvest in Uzbekistan (the latter was undertaken under the ILO auspices),
- providing assistance, which may be implemented by a relevant organisation, such as the ILO (in cases related to labour rights), supporting the partner country in taking actions to remedy the situation. Such projects may foresee engagement in legislative changes and drafting a new legislation, capacity building and awareness raising for the Government representatives, judges, inspection services, other enforcement agencies (e.g., police or prosecutor's office), social partners and other civil society

²⁰⁴ The sequence of measures has been chosen by us in line with what can be considered as escalation from measures more discrete, such as letters to partner countries, to more visible actions engaging many more stakeholders and involving more the EU itself, e.g., through assistance projects or other initiatives, such as the Sustainability Compact for Bangladesh.

Not all of the listed measures have necessarily been applied in all analysed cases. The Commission and other EU representatives have usually chosen a selection relevant for the case and the responsiveness (or lack thereof) by the partner country.

organisations, support in meeting reporting obligations, and carrying out monitoring, etc., like in the case of Guatemala, Georgia, Bangladesh and Myanmar.

A similar range of measures, often complementary to EU actions or mutually supportive, may be taken by other actors of the international community in relations to the same countries. Annex B8-1 provides more information.

Returning to the point about transparency, visibility and communication, to the best of our knowledge, there is no document which would explain enhanced engagement and steps taken by the Commission in its context. However, we note that the Commission's report about enhanced engagement with Bangladesh, Myanmar and Cambodia provides a limited list of possible measures which may be used.²⁰⁵ We therefore recommend that, in the already mentioned guidance note about the process, the Commission provides a catalogue of measures it may use (it could also provide examples of such measures applied in the past) and their sequence, to outline the journey from the start of the process until the point of taking a decision about whether to launch the formal withdrawal procedure. The guidance note could stress that there is no automatism in using the listed measures and that the Commission and other EU bodies will preserve a margin of discretion regarding the best solution. Nevertheless, such a note would illustrate that there may be diverse ways of encouraging and supporting the country in remedying the situation, thus helping it to attain objectives of the GSP Regulation without withdrawing preferences. However, it would also make clear to beneficiary countries and other stakeholders that while there may be several attempts to convince the country to act, the enhanced engagement process will not last forever and the EU will eventually evaluate the situation and take the corresponding decision. In this context, the note may also establish a timeline for the enhanced engagement process, e.g., one year or two, making clear to the beneficiary countries that a prolonged inaction will lead inevitably to the end of enhanced engagement and launch of a formal withdrawal procedure.

Furthermore, based on the analysis of the available information regarding the six above-mentioned country cases, it seems that the Commission's efforts are directed mainly at government representatives of the beneficiary countries, or at least information is available mainly about this kind of engagement, while there seem to be more limited engagement with business representatives relevant for the case, as well as any information about it. For example, the Commission's report about enhanced engagement with Bangladesh, Myanmar and Cambodia²⁰⁶ refers only to meetings with their Government representatives and a visit in Internally Displaced People's camp in central Rakhine State. We understand that to a certain extent this may be guided by the fact that Government alone or in cooperation with the Parliament and different state agencies is responsible for ratification, implementation and enforcement of international conventions and domestic legislation. However, business (employers) is often responsible for practical application thereof, and based on the ILO rules, employers' and workers' representative organisations should be consulted by the Government on draft policies and legislation related to employment, labour standards and working conditions. On the other end of the scale, the previous case of Bangladesh provides an example of an inclusive process engaging also international buyers, as well as employers and trade unions from Bangladesh and international organisations, including European ones. In this context, we recommend that, building on good practices (such as Bangladesh in this context, as well as meetings during missions to Cambodia and Bangladesh), the Commission adds to the catalogue of measures used in the enhanced engagement a more comprehensive interaction with those who are key to the success of changes in the beneficiary country, notably employers, trade unions and

²⁰⁵ For example, the Commission's report about enhanced engagement with Bangladesh, Myanmar and Cambodia provides a limited list of possible measures which may be used (European Commission 2020a).

²⁰⁶ As noted in the preceding part of this section, in the press release from a mission to Cambodia in July 2018, there is a reference to meetings with business, trade unions and other civil society representatives. Moreover, based on an interview with the Commission officials we understand that such meetings took place also e.g. during a mission to Bangladesh, but there was no wider reporting about them.

other civil society representatives, including NGOs, as well as international buyers. The case of Bangladesh demonstrates that local business may raise obstacles preventing any change in the country and influence the Government, but when facing the prospect of economic loss (due to a possible withdrawal of preferences) its representatives may be ready to cooperate. Therefore, bearing in mind that companies may often need to implement agreed measures (and may also be affected economically by withdrawal of preferences), business representatives (along with trade unions) should be involved in the discussions within the enhanced engagement process and take the responsibility for actions envisaged for companies to deliver. International buyers should also be involved given that their position, e.g. on prices and timeline for order delivery, may have an impact on respect for labour and environmental standards in supplying companies. Our recommendations are supported by views expressed in public consultations, according to which the Commission should include business representatives from GSP countries into a dialogue at the enhanced engagement stage, to explain the process, to raise awareness about the possibility of withdrawal of preferences and economic consequences this may have for sectors and companies benefitting from them, and to convey the message about steps that are necessary to preserve the preferences. According to respondents, businesses may become advocates of change and lobby the government to act for the benefit of the country.

We also recommend that the future guidance note on the enhanced engagement process explains clearly the roles and responsibilities of different actors in the partner country in remedying the situation and preventing withdrawal of preferences. These could include, in addition to the government, the parliament, employer and worker representatives, the judiciary, inspection services, other enforcement agencies, e.g., the police and the prosecutor's office, the army, media and others. Subsequently, all of them, to the extent this has not been the case yet, should be targeted by the Commission's information and awareness raising campaign related to the case, explaining the requirements of the GSP Regulation and links between tariff preferences and respect for international conventions, the enhanced engagement process, expectations towards the partner country and the stakeholders' role in this context. In the consultations, 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.

With regard to the **effectiveness of the enhanced engagement**, it can be noted that in most of the analysed cases violations of international conventions had persisted for a few years before the EU applied enhanced engagement with the beneficiary country. In Bangladesh, the reaction of the Government to the EU's invitation to engage into a dialogue to agree remedy actions was quick due to an enormous international pressure; in Georgia or Uzbekistan it took a year or two before the Government started to act. In all of these countries, however, as well as in the case of Guatemala, the response which finally came was positive and addressed the immediate concerns. In Uzbekistan, children were withdrawn from the cotton harvest, and the use of adult forced labour started decreasing systematically, the ILO monitoring mission was invited to the country to observe the cotton harvest, and Uzbekistan adopted a Decent Work Country Programme 2014-2016 with the ILO, extended later to 2017-2020.²⁰⁷ In Georgia, the Labour Code was amended in 2013 to ensure compliance with the ILO conventions No. 87 and 98. The Guatemalan Government, in cooperation with social partners took steps to implement the national roadmap on the ILO convention No. 87 and the progress achieved was sufficient for the ILO Governing Body to take a decision in 2018 to close the complaint against Guatemala under the Article 26 of the ILO Constitution. In Bangladesh, the Labour Law was amended

²⁰⁷ ILO-Uzbekistan Decent Work Country Programme 2014-2016 [accessed on 4 April 2020]: https://www.ilo.org/europe/projects/WCMS_359551/lang--en/index.htm; ILO's Decent Work Programme makes progress in Uzbekistan: https://www.ilo.org/global/about-the-ilo/how-the-ilo-works/departments-and-offices/governance/fprw/WCMS_543109/lang--en/index.htm; Decent Work Country Programme for Republic of Uzbekistan extended for 2017-2020: https://www.ilo.org/moscow/news/WCMS_546279/lang--en/index.htm

in 2013, and other recommended actions, such as factory safety inspections or recruitment of labour inspectors, were undertaken. In the case of Cambodia, the Commission's efforts to engage the country in cooperation and dialogue and to encourage reforms took a few years before a decision was taken to launch a formal withdrawal procedure, and even afterwards, some limited actions were taken by the Government. These were however insufficient to prevent the Commission's decision to withdraw partly EBA preferences. In Myanmar, some progress has been reported and the situation is being monitored by the Commission. Our findings coincide with views expressed by stakeholders, according to which the failure to respect international conventions should be addressed in a dialogue with the beneficiary country during which it should be clear that GSP preferences are conditional and can be withdrawn if the country fails to act. However, sustainable development of the GSP country and poverty reduction should remain the overarching objective, and therefore withdrawal of preferences should be considered as a measure of the last resort. The country should be made aware of steps it needs to take to remedy the situation and should be given time to act. Respondents emphasised that dialogue and cooperation in areas corresponding to pillars of sustainable development, including environment protection, have brought about good outcomes in the past and should continue. If, however, there is no response (no action) from the beneficiary country, preferences should be withdrawn. At the same time, respondents believe that withdrawal of preferences alone is not likely to change the situation in the GSP country and lead to improved respect for international conventions.

In terms of the **sustainability of achieved results**, based on the ILO and third-party reports from the cotton harvest in Uzbekistan, as well as progress in implementing the Decent Work Country Programme, there are grounds to consider the change as permanent. In Georgia, despite the changes in the Labour Code, concerns related to the lack of labour inspection (which was abolished by the 2006 Labour Code) and effective implementation of the conventions remained unaddressed and are subject to the dialogue with the EU under the TSD chapter. Although some progress has been made, the situation (e.g., regarding operation of labour inspection) is not yet fully satisfactory. In Bangladesh, the Labour Law was changed in 2013, but the amendments did not address many of the ILO recommendations related to freedom of association and the right to collective bargaining, and concerns about implementation of those rights persist (as set out in the complaint under the Article 26 of the ILO Constitution). They are subject to engagement with the ILO and the EU. Labour inspectors were recruited, however (as discussed under Task B.5), their number decreased again, and more recently new steps were taken by the Government of Bangladesh to improve working conditions and operation of labour inspection. The situation in Guatemala, Cambodia and Myanmar will need to be followed in the coming years to conclude if changes, which have been quite recent and partial to-date, can be considered permanent, and if the Government of Cambodia will take additional steps to ensure the level of compliance enabling the EU to reinstate the preferences.

Finally, enhanced engagement can only be successful if supported by **other factors**. Political will of the Government is essential for any changes to take place, as illustrated by the cases of Uzbekistan, Georgia (where the change in approach happened only after the general elections with a new party coming into power) and Guatemala. Other factors supporting engagement and its effects include: economic relations between the EU and the beneficiary country (e.g., the EU being the main trading partner of Georgia and Bangladesh), international pressure, concerted action taken by the EU and other countries, as well as processes launched by international organisations (e.g., launch of a formal complaint mechanism under Article 26 of the ILO Constitution and adoption of an MoU between the ILO and Guatemala; a concerted effort of the international community, including the EU, the US and the ILO in the case of Uzbekistan; and withdrawal of GSP preferences by the US increasing pressure on the EU to also withdraw preferences for Bangladesh after the Rana Plaza collapse in 2013). Moreover, technical and financial assistance may enable agreed changes to be implemented, e.g., ILO experts advising on how to draft a legislation to ensure its compliance with the conventions or providing

training to strengthen capacity and raise awareness of the main parties involved, i.e., ministries, employers and workers, judges, inspection services, and – when required – also army or police forces.

On the basis of these findings, we recommend continuing the practice of enhanced engagement as it helps to achieve two objectives of the GSP Regulation, i.e., improved performance of beneficiary countries in respecting international conventions on the one hand, and a continued use of preferences to support economic and social development, and poverty eradication, on the other. We also recommend keeping the broad catalogue of measures at the EU's disposal and continue applying it in the process, while the selection of measures used in each case should be adapted to the circumstances. Moreover, we recommend that – to the extent possible – all stakeholders (in the beneficiary country and international ones) relevant for the case are made aware of enhanced engagement and involved in this process given their role in influencing the government, as well as in approval, implementation and ensuring sustainability of a change (e.g., new legislation or new practices).

Taking a longer-term perspective, we conclude that the picture regarding the sustainability and the scope of changes following the enhanced engagement process is mixed, ranging from a permanent change in Uzbekistan to a need for a new round of enhanced engagement with Bangladesh or Myanmar. While the situation in each country is unique, some recurrent factors may be particularly important and either facilitate or impede change. Among these, we can mention the following: the government's relative strength and political will, the views of other political parties and domestic actors, e.g., business representatives, the overall level of enforcement of the legislation and the capacity of the inspection services and judiciary, as well as the capacity and the level of respect enjoyed by employers and workers, and other civil society organisations, and relations between them and the government. In some cases, the scope of the required change, as well as deeply rooted weaknesses of the domestic mechanisms are so substantial that the change towards compliance with the international conventions may happen only over a medium- to long-term and may need to be implemented in stages. The case of Bangladesh may provide important lessons learned in this regard.

With this in mind, we recommend that the enhanced engagement process is not definitively closed at the time when the changes are adopted and considered sufficient to avoid withdrawal of preferences. Instead, we suggest that the Commission maintains a dialogue with the beneficiary country to encourage further improvements and ensure the effective implementation of those already adopted. The form of such a dialogue may depend on the adopted measures, e.g., if there is an action plan or a roadmap accompanied (or not) by an assistance project, regular monitoring (progress) reports related to the implemented action plan (roadmap) may provide basis for a discussion with the partner country. Such a process would resemble monitoring under the GSP+ arrangement and could involve a visit to the country and meetings with the government and other stakeholders. Given a limited number of the beneficiary countries involved at any time in the enhanced engagement process, this should not imply an administrative burden for the Commission Services (dialogue may also be led by the EU Delegation in the partner country).

Finally, as for all stages of the enhanced engagement, we recommend that the Commission explains in the guidance note (already mentioned above in the text) the conclusion of the process and the factors playing a role in it, as well as leading to the final outcome. It should clarify e.g., how the Commission reaches its decision whether to launch a formal withdrawal procedure, which elements are then taken into consideration and whether there is an approximate threshold below which actions (if any) taken by the beneficiary country may be considered insufficient to avoid launch of the formal procedure. While also at this stage the Commission should preserve a certain level of discretion and while each country is unique, so that it may be difficult to define how much of progress means that it is sufficient, nevertheless every additional information, with examples, would help the

countries and stakeholders better to understand the process, improve its transparency and emphasise consistency in the Commission's actions and decisions.

Preliminary conclusions and recommendations: The analysis of six cases of engagement with GSP beneficiaries at the stage preceding a decision about launching the formal withdrawal procedure shows that the process is generally effective. As part of this engagement, the EU has used a wide range of measures, and consistent with international practice their selection each time is adapted to the circumstances. We therefore recommend keeping the process with its wide catalogue of measures. This 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, so to facilitate their adoption and implementation in the longer-term. A clear link between expected changes and continuation of preferences should be made on such occasions, followed by explanation of the role the stakeholders can play in this context. The Commission should also more systematically report about meetings with business and civil society and other stakeholders, whenever it reports about meetings with partner country Government (as noted above, meetings with stakeholders already take place, however, there is not much of publicly available information about it).

Moreover, given that the picture regarding the sustainability and scope of introduced changes is rather mixed, we recommend that the Commission continues dialogue with the country also after a decision has been taken that the initial changes are sufficient to avoid launching a formal withdrawal procedure. Such a dialogue with the Government should be accompanied by meetings with other stakeholders to share information and to encourage further changes and a continued or gradually increasing respect for rights and standards enshrined in the international conventions.

We also recommend that the Commission publishes a guidance note which would explain to the public the enhanced engagement process (given that the GSP Regulation does not mention it). Such a note would ensure more transparency in the process and provide more clarity about factors included in decision-making, thus making the Commission's actions and decisions more predictable.

Finally, to improve transparency and awareness of the enhanced engagement process, we recommend more regular reporting (on DG TRADE website and in social media, or on the GSP Hub respectively, provided that website is promoted among stakeholders to increase awareness of it²⁰⁸) on the steps taken by the Commission (e.g., a letter or a mission to the partner country). Short updates, in the form of press releases in the news section and in the part dedicated to GSP could be complemented by regular (e.g., annual) progress reports summarising development in the enhanced engagement process over the previous year. In this context, the recently published report about enhanced engagement with Bangladesh, Myanmar and Cambodia can be considered as an important step, however, if it remains linked to the main biennial GSP Report, it may be too infrequent to ensure an appropriate level of awareness about the process with stakeholders.

We also note that stakeholders consulted for this study, including international trade unions and NGOs, suggest the introduction of a complaint mechanism with petitions submitted by interested parties raising violations of human rights and labour standards by companies of GSP beneficiary countries. Such a mechanism could be hosted, in their view, by the Chief Enforcement Officer and include public hearings. It may trigger a formal investigation by the Commission. This may improve the monitoring of the situation in GSP beneficiary countries going beyond GSP+, ensure a greater participation and inclusivity of this process encouraging trade unions and NGOs to collect and share evidence and would improve

²⁰⁸ Once the transparency project which has launched the GSP Hub comes to the end, the Commission may consider either launching a new one to maintain the level of information sharing with stakeholders about GSP or e.g. to integrate the Hub into the DG TRADE website, with the same objective.

transparency of the analysis and decision-making by the Commission in cases brought to its attention.

2.8.4 Scenario 8c: Introducing additional steps after 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” (Article 19(4)(b) of the GSP Regulation) during a period of six months.²⁰⁹ 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. 1083/2013²¹⁰ 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.

Whereas the procedural steps are set out in detail in these regulations, the **type of assessment** that is needed to support the decision whether preferences should be withdrawn, and if so, whether for all or only for certain products, are less clear. We have therefore analysed some elements which the Commission may consider before taking a decision on the scope of withdrawal. These may include the impact analysis of different options. While the withdrawal of preferences should be serious enough to encourage compliance in the future, it should be proportional and well thought-through following the objective of not putting at risk the achievements made thanks to the use of GSP preferences, such as job creation in particular for women, youth and vulnerable groups or poverty reduction. Any decision should also consider the specific situation in the country and potential links between the benefits stemming from GSP preferences and the improved living or working conditions or respect for rights of certain groups. An example would be the case where the GSP has led to the reduction of child labour or poverty thanks to creation of jobs for adults or where it has contributed to job creation for women or supported their economic activity as entrepreneurs. In such a situation, the withdrawal of preferences (in particular withdrawal for all products) could slow down or reverse positive trends.

Examples of factors to be considered and approaches to be applied preceding a decision about the scope of withdrawal include the following ones:

- *Volume of exports to the EU and the use of preferences:* The estimation of potential impacts resulting from a temporary withdrawal of preferences (and the choice between a partial and a full withdrawal) could start with the analysis of trade flows between the EU and the beneficiary country, the EU’s importance as a trading partner and the share of GSP eligible exports to the EU out of the total exports of the partner country to the

²⁰⁹ Article 15(4)(b) 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.

²¹⁰ Delegated Regulation No. 1083/2013 of 28 August 2013 establishing rules related to the procedure for temporary withdrawal of tariff preferences and adoption of general safeguard measures under Regulation (EU) No 978/2012 of the European Parliament and the Council applying a scheme of generalised tariff preferences: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1083&qid=1543398605579&from=EN>.

world. In case the EU plays an important role in the total exports of the country, with GSP eligible exports having a substantial share, a partial withdrawal of preferences might be preferable over a complete one: it would still have an impact on the economy of the country and therefore act as deterrent discouraging future violations and an incentive to remedy the situation, while limiting the negative impacts which a full withdrawal might have (e.g. job loss for a large group of workers). In the opposite case, i.e., when the EU's importance as a trading partner is relatively limited, a partial, and in some cases, even a full withdrawal of preferences may play a political rather than an economic role as a signal of lost trust in the country. This was for instance the case of the US withdrawing GSP preferences for Bangladesh in 2013 after the Rana Plaza collapse, while the ready-made-garment sector was not even included in the US scheme (for details, see Annex B8-1).²¹¹ However, in that case the US withdrawal put pressure on Bangladesh to act and to engage in a dialogue with the EU, the ILO and the US, given that otherwise the EU could have also withdrawn its preferences and this would have had strong negative impacts on the garment sector and the country. In such cases, a substantial partial withdrawal could be considered to send a political signal to encourage cooperation, with a possibility to reinstate preferences once the situation has been remedied.

- *Structure of exports to the EU:* Another factor to be considered, complementary to the previous one, is the structure/concentration of GSP eligible exports from the beneficiary country to the EU. In a number of GSP countries, exports are concentrated in only one sector;²¹² where this is the case, the partial withdrawal of preferences focusing on that sector would have an effect comparable to the full withdrawal. In such a situation, partial withdrawal may mean that only certain tariff lines within the sector would be covered by the withdrawal of preferences.
- *Impact analysis based on economic modelling:* Complementary to the descriptive statistical analysis of the volume and structure of exports, a quantitative analysis of the anticipated effects of preference withdrawal could be considered. The most appropriate method in this context is likely to be a partial equilibrium analysis (e.g., an off-the-shelf model). It allows for the required granularity of the estimation (which may have to look at individual tariff lines), supports the limited scope of the analysis (one exporting country, focus on direct effects of the measure) and does not require engagement of substantial resources. It would provide an estimate of the trade, output, employment and welfare effects in the GSP beneficiary in a theoretical scenario in which preferences would be withdrawn fully or partially.
- *Existing vulnerabilities and other factors:* Where a sector supports the livelihood of vulnerable persons, even a partial withdrawal of preferences that is focused on such a sector may have disproportionately negative social effects. Similarly, other factors apart from a potential preference withdrawal, such as increasing automation leading to job losses, may negatively affect sectors and should be considered prior to taking a decision on the temporary withdrawal of preferences.

Factors which may play an important role in sustainable development of the country should be considered too: for instance, the share of exporting sectors using GSP preferences in total employment and in the employment structure and the livelihoods of certain groups or regions in the country. In such cases, a more selective partial withdrawal might be called for to avoid too negative social effects. For example,

²¹¹ As an illustration of the weight of trade with the EU for different beneficiary countries, based on ITC TradeMap data, in 2018 the EU had a 38% share in Bangladesh's total exports (all trade with the EU and GSP eligible one), 14% for Myanmar (GSP eligible exports while total trade with the EU takes 15%), and 47% for Cambodia (all trade with the EU and GSP eligible trade). Conversely, for some countries such as Afghanistan, its share in total exports remains very low (total trade with the EU accounts for 3.3% and GSP exports for 1.5% of total exports).

²¹² For example, garments exports account for 92% of total exports to the EU in Bangladesh, 81% in Myanmar, or 73% in Cambodia (2018 data based on ITC TradeMap).

preferences could be withdrawn for goods that have low MFN tariffs or whose production is at least partly automated, has low added value, requires diverse manufacturing processes (it will be then less likely that the withdrawal affects only or disproportionately one population group), or the goods are produced in different parts of the beneficiary country and, if at all possible, do not involve local suppliers from vulnerable groups. On the other hand, preferences for goods of a high added value, enabling diversification of the economy, or moving higher in the value chain could be maintained. The Commission's decision on the partial withdrawal of preferences from Cambodia seems to follow this pattern.²¹³

- *Nature and scope of the violation:* It could also be considered to link the preference withdrawal to the sector triggering the withdrawal procedure through practices seen as contrary to the development needs of the country and its population. This approach is already used by the Commission.²¹⁴ Some respondents in the public consultations for this study supported sector-specific or product-specific withdrawal accompanied by a roadmap with targets for the beneficiary country to remedy the situation.

Such analysis could go further to consider whether there is a risk that people who have suffered due to the violation of the international conventions and rights enshrined therein are likely to be also affected by the withdrawal of preferences. For example, if the violation of workers' rights in general or in certain sectors provided a reason for withdrawal of preferences, whether it is likely that the same workers may lose their jobs if preferences are withdrawn and companies operating in this sector start reducing their capacity. In Bangladesh the lack of respect for workers' and trade unions' rights has been a matter of a serious concern, in particular in the Ready-Made-Garment sector. At the same time, the garment sector has the highest share in Bangladeshi exports to the EU (€15 billion or 92% of the total exports from Bangladesh to the EU in 2019)²¹⁵ and withdrawal of preferences related to this sector could result in job losses for up to 320,000 workers.

Finally, in cases of serious and systematic violations that are widespread across the country and sectors or are of a horizontal nature (e.g., systematic violations in the past of the ILO forced labour convention No. 29 in Myanmar), the analysis should envisage, among the options, full withdrawal and its impacts.

The GSP Regulation and other related acts do not provide details regarding methodology to be used prior to a decision about withdrawal of preferences. In our view, this is one more instance where more transparency could be applied, e.g., by publishing the methodology and outcomes of the analysis justifying the decision taken. Moreover, similarly as is the case in other types of analysis carried out by external consultants of the Commission services (e.g., impact assessments), consultations with relevant stakeholders should take place regarding the scope of withdrawal. It would provide an opportunity for the Commission to identify potential impacts of a partial or full withdrawal of preferences, based on evidence provided by participants. It would also contribute to increased transparency and inclusiveness of the process, enabling the Commission to consider all relevant aspects and to take an informed decision based on this.

²¹³ Commission decides to partially withdraw Cambodia's preferential access to the EU market (February 2020): <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2113> [accessed on 31 March 2020]

²¹⁴ For example, in the recent case of Cambodia, concerns raised by the European Commission with the Government included Economic Land Concessions in the sugar sector and related land issues (European Commission 2020a). Subsequently, sugar was among the goods for which preferences has been withdrawn. See Commission decides to partially withdraw Cambodia's preferential access to the EU market (February 2020): <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2113> [accessed on 31 March 2020]

²¹⁵ EU, trade in goods with Bangladesh (data for 2019): https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_bangladesh_en.pdf

Given that cases of preference withdrawal are infrequent and each of those is unique, it is difficult to identify a pattern in the approach taken by the Commission or to say which approach or methodology works better than others or how comprehensive the analysis should be to be considered sufficient. In any case, we recommend that the analysis goes beyond trade data and takes a closer look at the beneficiary country, sectors benefitting from preferences and social aspects discussed above to balance the preference withdrawal with mitigation of negative social impacts for the local population, as requested by the European Parliament.

Some respondents in the consultations for this study also referred to potential negative impacts of the withdrawal of preferences and stressed that the progress achieved by beneficiary countries in terms of economic development, job creation and poverty reduction may be lost if preferences are withdrawn. Some respondents also warned that the withdrawal of preferences could contribute to a worsening of extremism, organised crime and migration from areas affected by the withdrawal. Others thought that foreign investors would be less interested in such a country (as it happened with Cambodia) and therefore prospects for economic growth, knowledge transfer, new partnerships and development of supply chains would be affected. Others pointed out that the lack of certainty around terms of trade may discourage international buyers from placing orders in countries facing prospects of withdrawal, thus affecting the economic situation of the country and exporting sectors even before the preferences are withdrawn.

Respondents also suggested, as part of the process preceding withdrawal of preferences, the development of a roadmap which would outline steps to be taken by the beneficiary country to remedy the situation and to improve respect for human rights and labour standards. In their view, this would facilitate the monitoring and evaluation of further developments in the country and engagement of stakeholders in the process, ensure transparency and provide foundations for a future Commission's decision regarding withdrawal (whether to proceed with it or not) and a framework for a continuous dialogue with the beneficiary country. Respondents also suggested that EU and beneficiary country's civil society is consulted by the Commission.

Preliminary conclusions and recommendations: 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. However, both documents leave for the Commission's 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.

While there needs to be some flexibility in the analysis and the decision-making process to adapt it to the circumstances of the beneficiary country, we recommend nevertheless the inclusion of an additional step to be carried out for each case, i.e., to prepare an analysis of trade-related data (e.g., the volume and structure of GSP-eligible exports from the beneficiary country to the EU) and the potential impacts resulting from the withdrawal of preferences, including for workers and vulnerable groups of the society. The need for impact analysis prior to a decision on withdrawal of preferences has been highlighted also by consulted stakeholders. They emphasised also the general need for setting a clear purpose for the measure, i.e., how it would contribute to the solution of the underlying problem and remedying the situation in the country. This would normally require the Commission's continued engagement with the beneficiary, keeping the withdrawal of preferences as a measure of last resort to be used in case the country fails to act.

Moreover, to ensure transparency and inclusivity of the monitoring and evaluation phase we recommend an active engagement with stakeholders from the EU, the beneficiary country and international ones including business and other civil society representatives to raise awareness of the process, seek more information about potential impacts of the withdrawal of preferences and encourage action, which may help to remedy the situation

and prevent withdrawal. Such an engagement, both with stakeholders and the beneficiary country, could be supported by a roadmap outlining steps to be taken by the country, with timeline and responsible institutions.

2.8.5 Scenario 8d: Introducing withdrawal of preferences for specific economic operators

The temporary withdrawal mechanism established by Articles 15/19 of the GSP Regulation applies to “all or certain products originating in a beneficiary country”. Nevertheless, in line with the principle that an established link between the cause triggering the withdrawal process and the design and scope of the latter is preferable, an alternative approach to targeting or exempting certain products or sectors (where violations are especially acute or not a pressing issue, respectively) could be to target or exempt certain economic operators. The withdrawal of preferences for certain economic operators has been supported by some respondents in the consultations for this study.

The analysis which follows is to be considered in the context of legal aspects outlined in the previous section, i.e., that preferences are granted under the assumption of support to development needs of the country and may be withdrawn if that objective is not met or if the preferences may be used to the contrary, e.g., by economic operators benefitting from preferences while violating at the same time workers’ human and labour rights.

Targeting certain economic operators in the context of the GSP Regulation poses several questions. The first one relates to types of violations of international conventions. There are examples confirming that certain violations, e.g., of human rights, including political rights, may be driven by the government and applied by enforcement agencies (e.g., police), judiciary, prosecutor’s office or parliament (passing adequate legislation), but without the private sector’s involvement. In such cases, there would be no grounds to apply the option of targeting economic operators. Such a situation has also been highlighted by respondents in the consultations. They believe that withdrawal of preferences in general affects directly and negatively first and foremost companies, workers and vulnerable groups in the local population, while the violations may originate in state institutions. Hence, they suggest to consider other measures that may target those in power, such as sanctions against individuals. Other respondents were of the view that economic sanctions may effectively influence actions of the government. In such a case, however, the usual approach should be used, i.e., partial or full withdrawal of preferences across sectors rather than targeted measures against certain economic operators.

Another question relates to the seriousness or extent of fault required on the companies’ side. Again, there are examples of GSP beneficiaries (e.g., Bangladesh) where violations of international conventions are embedded in domestic legislation (e.g., related to conditions for trade union operation) and extended into practice. While effective implementation of international conventions in law and practice is an obligation of a state and economic operators have a duty to comply with national legislation, their actions may be evaluated as complying (or not) with the domestic law and as supporting (or not) development needs of the country and the people. The latter reflects interpretation in line with the Enabling Clause. Considering the selective withdrawal of preferences, the Commission might need to establish whether practices applied by economic operators can be considered as putting the country in a situation of violation of human or labour rights (under the international conventions) and therefore as being contrary to supporting the country in meeting its development needs. For this purpose, the Commission may consider setting out in the Delegated Regulation to the GSP Regulation (which may be accompanied by a guidance note) a non-exhaustive list of examples (ideally consulted with relevant international organisations, including the UN and the ILO) of practices applied by companies which are considered to be serious violations of human or labour rights contrary to development needs of the country and therefore may be addressed by a selective withdrawal of preferences. This would ensure transparency and predictability for economic

operators and other stakeholders (e.g., workers, buyers and civil society), provide grounds for a Commission decision to withdraw preferences and help to avoid or to mitigate potential complaints.

In the public consultations for this study, several respondents stated that the withdrawal of preferences may aggravate the situation regarding respect for human or labour rights as worse terms of trade may lead e.g., to lowering of wages in the affected sectors, reverse trends to increase minimum wage or cause increase in unemployment. Moreover, with the loss of preferences, engagement opportunities with the country and EU leverage may be lost and the country, as well as economic operators may stop caring about human and labour rights as well as environment protection or may divert exports to other markets having low standards, which in turn would not provide incentives for applying practices supporting development of the country. With preferences being withdrawn, there may be no measure or incentive left to stop unsustainable practices in the private sector violating human or labour rights of workers or of a local community.

However, there is a question about the effectiveness of such a tool (selective withdrawal) in cases of economic operators whose conduct puts the beneficiary country in breach of its human or labour rights obligations, but which operate only in the domestic market, i.e., are not involved in international trade or export to the EU without using GSP preferences or export to other markets. In such cases, withdrawal of preferences would not have any direct or immediate economic impact for them and any consequences may come (if at all) from impact on their image and reputation, as well as "domino effect" if other importers or customers decide to follow suit and apply e.g., boycott of products or services of a given company or another country decides to withdraw their preferences.

There is also a question about the scope of application of such a selective withdrawal, i.e., shall it be used only with regard to economic operators of a country for which the formal withdrawal procedure has been launched by the Commission or for any company from any GSP country in cases where the company whose conduct puts the beneficiary country in violation of its human or labour rights obligations thus undermining achievement of development needs of the country. In our view, given that investigations related to every company reportedly violating human or labour rights and operating in a GSP beneficiary country would impose a substantial administrative burden on the Commission, selective withdrawal may be applied, at least in the first few years, as a pilot, only with regard to GSP countries targeted by the formal withdrawal procedure. Companies from other GSP countries could be sued in domestic courts or become subject to visits of inspection services and fined, if grounds for this have been established.

Finally, there is a question about the process, i.e., whether an investigation leading to a possible withdrawal of preferences for individual economic operators would be based on a complaint mechanism or a comprehensive audit. If the latter is chosen, it would resemble country-wide and sector-wide factory inspections carried out in the Ready-Made-Garment sector in Bangladesh following the Rana Plaza collapse in 2013. In that case, around 4000 factories have been audited for building and fire safety and several closed or requested to take remedy actions. While such a process is comprehensive, transparent and guarantees equal treatment to all companies, i.e., all are inspected and assessed, it takes a lot of time and requires engagement of substantial resources, both in terms of money and people, as well as sound management on the ground. Moreover, checks regarding respect for national law and international conventions may be challenging as not all evidence would be available in form of documents and inspection would require engagement with staff (e.g., interviews or surveys) and other relevant stakeholders (e.g., trade unions, civil society organisations, local community, etc.) and a discussion on matters which may be sensitive. In addition, as the subject matter would be related to rights and standards provided by international law (to varying degree mirrored in the national legislation), those who will carry out inspections should be trained by relevant international organisations, e.g., the ILO or specialised UN agencies to have a good understanding related to requirements, i.e., rights and standards

which should be observed. A complaint mechanism on the other hand, would not provide a comparable coverage and there would be a risk that some companies may be targeted while others may enjoy impunity simply by not getting on someone's radar. To be effective, such a solution would also require that interested parties (e.g., trade unions, civil society organisations or individuals) who are entitled to submit a complaint can operate freely in the beneficiary country and have sufficient capacity to collect evidence. Establishing such a process would also require setting out either in the new GSP Regulation or a Delegated Regulation a procedure to follow, with steps and timeline, defining evidence which can be submitted, the rights and obligations of interested parties and the Commission's mandate in reaching conclusions and taking decisions. Elements from investigations²¹⁶ carried out under trade defence measures or the Trade Barriers Regulation may provide some inspiration. However, one should take into account that, in this case, a complaint will target an economic operator, not a country (a complaint against a country is submitted e.g., under the Trade Barriers Regulation) and it will also need to be provided for in the GSP Regulation or a Delegated Regulation whether violation of human or labour rights would be sufficient to submit a complaint or whether a complaint would need to prove trade-related impacts of such a violation. Finally, even if the administrative costs for the Commission could be substantially lower than in the case of a wide audit, establishing the process would probably require recruiting additional staff or outsourcing it, which will imply additional costs. The Commission could also consider preparing a model complaint and a guidance note outlining the whole process.

It is also to note that, even if such a process was established, and some economic operators faced a prospect of losing preferences in access to the EU market, the Commission would nevertheless need to continue engagement with the beneficiary country, given that evidence shows that violations of international conventions are often embedded in national laws and widespread practices, economic situation (e.g., linking poverty and child labour) and benefit from weakness of public institutions (e.g., inspection services), attitudes (e.g., towards trade unions, women, ethnic minorities or indigenous peoples) and power (e.g., companies compared to workers). Therefore, even if withdrawal of preferences for certain economic operators may serve as a deterrent, it may not be likely to solve the underlying problem. This coincides with views expressed in the public consultations where respondents thought that withdrawal of GSP preferences may bring about negative economic consequences for companies and workers, however less direct impacts for the Government of the beneficiary country that carries at least partial responsibility for respect of human of labour rights.

The starting point for the exemption of economic operators from withdrawal of preferences would be the consideration that by applied practices these companies support development needs of the country, including human and labour rights as part of sustainable development pillars. In this context, due diligence mechanisms or voluntary sustainability schemes could be used as a device providing evidence underpinning decisions about exemption from withdrawal. Some respondents in the public consultations for this study suggested the involvement of the private sector (including companies and business associations) into a dialogue about GSP preferences and respect for international conventions, to let them understand the system and demonstrate their sound practices in respecting human rights and labour standards. This should allow for a more nuanced (selective) approach to withdrawal, without penalising companies that comply with requirements regarding human and labour rights.

According to a definition used by the OECD, **due diligence mechanisms** and related guidance documents help companies to respect e.g., human rights and to avoid doing any harm through their operations (e.g. refrain from contributing to a conflict through their mineral purchasing decisions and practices by identifying, assessing and mitigating any

²¹⁶ See e.g., the Commission's guidance note: Trade Barriers Regulation, filing a complaint: https://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150984.pdf

negative impacts²¹⁷). Considered as international standards, due diligence mechanisms developed and promoted by OECD can be referenced in national regulations in a similar way as technical, safety or other standards. They serve as a tool enabling companies to ensure and to demonstrate that there are no violations of human or labour rights or environmental and good governance standards in their own operations and along their supply chains. A preliminary assumption would be that companies implementing effectively the requirements of such mechanisms apply practices supporting development needs of the country and therefore could be granted an exemption from the withdrawal of preferences and could continue using these preferences in their trade-related activity. In this context, Annex B8-2 provides an overview of due diligence instruments developed in the last few years by the OECD and the EU, for further consideration. They cover various export sectors of GSP beneficiary countries, such as garment and footwear, agriculture, minerals and extractive industries, as well as financial operations, which support the development of sectors involved in international trade. These mechanisms are meant for all companies operating along the supply chains in the respective sectors, from farmers and raw materials producers to retailers. They can be adapted for use of enterprises irrespective of their size, and aim at addressing issues which under the current GSP Regulation can constitute a cause for withdrawal of preferences, e.g., violations of labour rights (child labour, including its worst forms), forced labour, trade unions' rights and specific human rights like the right to work, the right to a decent standard of living and the right to a clean environment.

A similar solution can be provided by **voluntary sustainability schemes** (VSS). According to the International Trade Centre (ITC)²¹⁸, they are typically developed by the private sector and civil society. The United Nations Forum on Sustainability Standards (2013, p. 3) defines VSS as "standards specifying requirements that producers, traders, manufacturers, retailers or service providers may be asked to meet, relating to a wide range of sustainability metrics, including respect for basic human rights, worker health and safety, the environmental impacts of production, community relations, land use planning and others". They aim to promote sustainability in global value chains through standard-setting, often based on existing international conventions, and monitoring practices. They are not required legally as they are voluntary by nature, but may be requested by, for instance, private buyers. They act as a differentiating element and may open access to high value markets for exporters complying with them. VSS require observance of human rights, labour and/or environmental standards by participating firms and can help them to prove that there are no violations of fundamental rights in their operations and supply chains.

In this context, some authors (Schukat and Rust 2012; Marx 2018; Marx et al. 2018; van der Ven 2019) have explored the possibility of integrating VSS in the EU GSP. VSS, to a degree, base their standards on some of the 15/27 Conventions included in Annex VIII of the GSP Regulation and might be applicable in particular to the GSP+ arrangement. One of the arguments to include VSS in the GSP scheme is that, compared to the current situation, it would allow a more differentiated approach towards fostering compliance with sustainable development requirements since they would provide direct incentives to firms. In the context of the withdrawal of GSP preferences, the integration of VSS might take the form of exempting VSS certified products from the preference withdrawal. In this option, the preferential tariff would continue to be applied to certified products, while non-certified products would be subjected to MFN tariffs. The application of such an approach can be targeted towards certain sectors and commodities for which several VSS might be available. The same approach may be applied to due diligence mechanisms developed by the OECD. Most of them have been designed in the last few years and therefore should reflect the current economic reality of the sectors covered. In this context, it is worth noting that some of them are being tested within pilot projects, whose results may inform the

²¹⁷ The OECD Due Diligence Guidance for Responsible Mineral Supply Chains: <https://www.oecd.org/corporate/mne/mining.htm>

²¹⁸ ITC training materials on voluntary sustainability schemes.

Commission's decision about whether they are adequate for use in GSP beneficiary countries. For example, the guidance for responsible agricultural supply chains is tested as part of the EU-OECD-ILO "Responsible Supply Chains in Asia" programme, with companies in Myanmar, the Philippines, Thailand and Viet Nam. This pilot runs from September 2019 to end-2020. Another pilot on the same guidance, with over 30 companies and initiatives was completed in 2019.²¹⁹ Moreover, this year (2020) the OECD is carrying out a survey related to due diligence guidance for responsible supply chains in the garment and footwear sectors. The survey targets SMEs operating in the sector and aims at collecting data on sourcing practices in order to identify pragmatic approaches to implementing due diligence that are tailored to a company's size, resources, nature of business, and sourcing models. Once published, the results of the survey and further practical advice could indicate how companies operating in GSP beneficiary countries in garment and footwear sectors may implement the due diligence guidance in their daily activities²²⁰.

However, there are also some reservations to such an approach. First, as Marx et al. (2018) report, the integration of VSS in GSP might fundamentally change the state-to-state nature of the regime and might provide an argument to state officials in beneficiary countries that the private sector needs to comply with the requirements and there is thus less responsibility for the state. Second, if applied, it should cover all trade schemes run by a country. Integration in trading regimes is dynamic: countries move from one system (GSP) into another (bilateral agreement). If the requirements for VSS would solely be applicable in the context of the GSP scheme or a bilateral agreement, it might create disproportionate costs to comply if these requirements no longer hold under other trade regimes. Third, the integration of VSS might negatively affect preference utilisation because economic operators may not be able to prove that they fulfil the criteria, or choose not to do so because of the costs involved in getting certified outweigh the benefits of the preference. Finally, it should be observed that VSS are available for certain products (groups) but not for all products covered under the GSP. Hence, the application of a VSS requirement can only be considered for a limited number of products, mainly agricultural commodities and textiles.

Preliminary conclusions: In the search for a methodological approach for a selective withdrawal of preferences, a procedure based on a complaint mechanism against certain economic operators can be considered. However, as indicated above, its application poses several questions. Even if it were used for certain economic operators, the Commission would need to continue engagement with the beneficiary country to address shortcomings which have enabled actions violating human or labour rights. Examples from some GSP beneficiary countries confirm that certain actions originate in the Government or the ruling party and state institutions, or are enabled by domestic legislation non-compliant with international conventions, or by the weakness of enforcement agencies, inspection services, and judicial system not being capable of detecting and addressing violations in an effective way which would deter the actual and future perpetrators.

Regarding exempting businesses from withdrawal of preferences, due diligence mechanisms developed by international organisations and voluntary sustainability schemes designed by private sector and civil society seem to provide a good solution given the monitoring mechanisms and certification procedures they include. However, as highlighted above, they carry a risk of passing the burden of ensuring compliance with rights enshrined in international conventions from the beneficiary country government to the private sector and involve costs which may constitute a barrier, in particular for MSMEs.

At the next stage of the study, we will analyse outcomes from pilot projects under OECD due diligence guidance (to the extent they are available by then) to determine pros and

²¹⁹ See: OECD-FAO Guidance for Responsible Agricultural Supply Chains: <http://mneguidelines.oecd.org/rbc-agriculture-supply-chains.htm>

²²⁰ See: OECD Due Diligence Guidance for Responsible Supply Chains in the Garment & Footwear Sector: <http://mneguidelines.oecd.org/responsible-supply-chains-textile-garment-sector.htm>

cons of their application in GSP countries. We will also test our proposals with the relevant stakeholders, including international organisations, trade unions and business representatives, to identify if they are implementable in practice by companies operating in GSP countries, and if a withdrawal mechanism with an option of a selective withdrawal, as well as with an exemption granted thanks to the use of due diligence instruments can play a role in discouraging the violations of GSP rules, in supporting GSP credibility, and helping to achieve GSP objectives without representing at the same time an undue administrative burden.

2.8.6 Preliminary conclusions and recommendations

The analysis under this task has shown that improvements to the current practice (scenario 8a) are called for, both with respect to clarifying procedures and enhancing public awareness of the Commission's actions related to a withdrawal procedure. Conclusions and recommendations regarding these two stages have been set out under scenario 8b and 8c, respectively.

Under scenario 8d, a possibility of a selective withdrawal of preferences, as well as selective exemption from withdrawal for certain economic operators is analysed and a complaint mechanism and due diligence mechanisms are suggested as potential vehicles to deliver these solutions. At the next stage of the study, their viability in the context of GSP Regulation and the use in GSP beneficiary countries will be tested in light of pilot cases run by OECD, as well as additional stakeholder consultations.

2.9 Options for amending the GSP safeguard mechanisms (Task B.9)

2.9.1 Introduction

2.9.1.1 Background

The aim of the GSP safeguard mechanisms is 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. There are two safeguard mechanisms in the GSP: a general safeguard mechanism and an automatic safeguard mechanism.

The **general safeguard mechanism** (Articles 22-28 of the GSP 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 over 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. During the investigation, the Commission found that imports of Indica rice from both countries combined had increased by 89% in the past five rice-growing seasons, and that the prices were substantially lower than those on the EU market and had actually decreased over the same period. This surge in low-priced imports was found to have caused serious difficulties for EU rice producers to the extent that their market share in the EU dropped substantially, from 61% to 39%. Accordingly, following the Commission's decision to impose safeguard measures, normal customs duty of €175 per tonne in year one, progressively reduced to €150 per tonne in year two, and €125 per tonne in year three were introduced on the product. From the Commission's

perspective, this experience with the safeguard measure against imports of rice from Cambodia and Myanmar indicates that the general safeguard provisions are effective.²²¹

An **automatic safeguard mechanism** (Article 29 of the GSP Regulation) applies only to specific product groups, primarily textiles and garments (GSP section S-11a and S-11b) as well as a few selected other products (see below). 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 (for details see below). The Commission has never activated this mechanism because the conditions have not been met to date.

2.9.1.2 International Legal Context

The 1970 Agreed Conclusions of the UNCTAD Special Committee on Preferences, the legal significance of which is discussed above,²²² set out the legal framing for the use of safeguards in the GSP setting under international law (emphasis added):

III. Safeguard mechanisms

1. All proposed individual schemes of preferences provide for certain safeguard mechanisms (for example, a priori limitation or escape-clause type measures) so as to retain some degree of control by preference-giving countries over the trade which might be generated by the new tariff advantages. *The preference-giving countries reserve the right to make changes in the detailed application as in the scope of their measures, and in particular, if deemed necessary, to limit or withdraw entirely or partly some of the tariff advantages granted. The preference-giving countries, however, declare that such measures would remain exceptional and would be decided on only after taking due account in so far as their legal provisions permit of the aims of the generalized system of preferences and the general interests of the developing countries, and in particular the interests of the least developed among the developing countries.*

2. *Preference-giving countries will offer opportunities for appropriate consultations to beneficiary countries, in particular to those having a substantial trade interest in the product concerned, in connexion with the use of safeguard measures; where prior consultations are not possible, preference-giving countries will undertake for the purpose above to inform all beneficiary countries, through the Secretary-General of UNCTAD, with a minimum of delay, of the action taken. Safeguard measures taken should be reviewed from time to time by the preference-giving country concerned with the aim of relaxing or eliminating them as quickly as possible.*

3. Certain preference-giving countries provide for a mechanism including an a priori limitation formula under which quantitative ceilings will be placed on preferential imports. Some of these countries might, nevertheless, have recourse also to escape type measures, for those products which are not covered by a priori limitation formulae.

4. For those countries which do not envisage a priori limitations, escape-type measures are the main safeguards at their disposal.

Several points can be made.

- First, *a priori* limitations are permitted for safeguard reasons.
- Second, *a priori* limitations do not exclude the possibility of GSP-specific safeguard measures.
- Third, safeguards are subject to procedural conditions.
- Fourth, according to the panel in *EC – Tariff Preferences*, these rules are binding. That would mean that the form of limitation and the procedural conditions attached to the use of safeguards must be respected.

Until the mid 1990s, the EEC's approach differed according to the product categories at issue. For agricultural products, the EEC applied no *a priori* limitations, but relied solely on safeguard measures, except for coffee, pineapple, cocoa and tobacco, which were subject

²²¹ <https://trade.ec.europa.eu/doclib/press/index.cfm?id=1970>

²²² See above at 2.2.1.4.

to quotas.²²³ Industrial products were also subject to safeguards. Until 1995 (for agricultural products it was 1996), the EEC also applied import quotas on industrial products in the form of ceilings based on a reference period.²²⁴ Within these import quotas, there were maximum export quotas per beneficiary (20%, 30% or 50%), and, for sensitive products, member state quotas.²²⁵ In effect, and unlike the import quotas, these export quotas functioned as graduation mechanisms.²²⁶

2.9.1.3 Options for reform

The MTE study recommended that the Commission should more effectively use the safeguard mechanism in the application of the current GSP Regulation. The EP resolution on the GSP implementation also pointed out that the GSP safeguard mechanisms should be more responsive, in particular in the case of “sensitive products”²²⁷.

A majority of stakeholders consulted for this study (both in the EU and in GSP countries) agrees that safeguards should be provided for in the GSP regime, even if they may have negative effects for exporters (see Annex B1). 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 entered into force in 2014, i.e., avoid detrimental effects for EU producers.

Given that the Commission considers the general safeguard mechanism according to Article 22 to be functioning well, the identified policy reform scenarios focus on an expansion of the automatic safeguard mechanism established in Article 29 of the GSP Regulation. The policy scenarios for the analysis are as follows:

- **Baseline (scenario 9a):** the safeguard mechanisms under the current GSP Regulation are maintained without change.
- **Scenario 9b:** 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** (i.e., GSP sections S-1a, S-2a, S-2b, S-2c, S-2d, S-3, S-4a, S-4b, S-4c), without changing the current application on GSP beneficiaries (i.e., no extension to EBA beneficiaries). In addition, case study 13 explores the potential impact for the EU industry of expanding automatic safeguards to an industrial product sector, leather and footwear (**Annex C-13**);
- **Scenario 9c:** The application of the safeguard mechanism in Article 29 is expanded to EBA beneficiaries. Three different sub-scenarios are considered:
 - **9c1:** The list of products covered by the mechanism is not changed from the current Article 29;
 - **9c2:** The product scope of the safeguard mechanism in Article 29 is expanded, to also cover rice and sugar; and
 - **9c3:** The product scope is expanded to also cover all agricultural products.

²²³ *Comprehensive Review of the Generalized System of Preferences - Report by the UNCTAD Secretariat*, TD/B/C.5/63, 9 April 1979, para 66. For a detailed discussion, see Ann Weston et al, *The EEC's Generalised System of Preferences* (ODI, 1980).

²²⁴ WT/COMTD/W/93. The reference period was set two years out of date, and much criticised for failing to provide any incentive to increase exports.

²²⁵ A critical account is provided in Peter J Ginman and Tracy Murray, 'The Generalized System of Preferences: A Review and Appraisal' in Karl P Sauvant and Hajo Hasenpflug (eds), *The New International Economic Order* (Westview, 1977; republished Routledge, 1999), at 198-200.

²²⁶ Murray (1995, para. 24): "To the extent that the more competitive beneficiary developing countries are increasingly bound by maximum amount limits, the growth of their GSP exports would slow compared to that of other beneficiary countries. The effect would be a gradual phasing down of the share of GSP trade originating in the more competitive beneficiary countries."

²²⁷ "Sensitive products" (applicable to the Standard GSP only) are defined in Annex V of the GSP Regulation. For these products, the Standard GSP provides partial preferences only; see Art. 7(2)-(6) of the GSP Regulation.

2.9.2 Scenario 9a: Keeping the current automatic safeguard mechanism

The automatic safeguard mechanism presently applies to textiles and garments products, as well as some other products,²²⁸ imported from GSP and GSP+ countries, and only provided that the following conditions are met:

- Condition 1: Imports from the country increase by at least 13.5% in volume compared to the previous calendar year (Art. 29.1(a)); and
- Condition 2: Imports of the relevant products from the country account for at least 6% of total EU imports of those products (Art. 29.2);
- Condition 3: For textiles and garments products, imports of the relevant products from the country account for at least 14.5% of EU imports of those products from all GSP countries (Art. 29.1(b)).

The framing of the Regulation raises a range of conceptual and administrative issues.

First, regarding all three conditions, it is not specified how products are to be aggregated for the calculations. Based on information provided by the Commission, the safeguard conditions would be evaluated at the GSP section level (i.e., separate calculations of thresholds and increases for GSP sections S-11a – textiles, and S-11b – garments), as well as combined thresholds and calculations of increases for the other products listed in Article 29. Taking into account the considerations raised about graduating individual products within a section if they are deemed competitive and are above a *de minimis* threshold (see section 2.3 above), a parallel construction would make sense for safeguards as well to allow a more surgical targeting of product groups that actually may be causing concern to the EU industry.

Second, as regards condition 1, the automatic safeguard could in theory be triggered by increases in the quantity of imports (under the GSP scheme as currently framed, these would be defined at the section level) of as little as 0.8% of total Union imports, if the imports from the country in question amounted to 6% of total Union imports in the base period and there were no price change in the imports. On numerous comparative grounds, this threshold is open to serious question. For example, there have been several years in the past two decades where total EU27 imports from the world expanded by more than 13.5% (2006, 2010, and 2011); even in years where total EU imports grew much more slowly, there were many product groups that witnessed expansions of imports calculated on the GSP safeguard basis that were well above 13.5%. Building on this point, there is often substantial year-to-year variation in sourcing patterns across international sources of supply. A 13.5% increase from one country may be in response to supply constraints in another country. Indeed, it is not inconceivable that EU total imports of the section in question might be *falling* even as the automatic safeguard is required to kick in on the country that is seeing the rise in exports to the EU27. This highlights an issue in the framing of a safeguard measure on an individual country basis, with the automatic safeguard measure applying to the developing country alone.

Third, as regards condition 2 and 3, it is not entirely clear whether the threshold refers to the current calendar year or the previous (base) calendar year. Commission practice seems to be to take the current year. This means e.g., that a country from which EU imports doubled in a year from 3.5% to 7% would be subjected to automatic safeguards (assuming that all conditions are met).

Fourth, as regards condition 3, this adds another *de minimis* threshold in relation to total imports of the relevant goods from all GSP countries, which provides no added value from

²²⁸ Various types of ethyl alcohol and derived products (CN codes 22071000, 22072000, 29091910, 38140090, 38200000, and 38249097)

the point of view of protecting import-competing EU businesses since the share of EU GSP imports varies and it is total imports from the world that matters for an injury evaluation.

Fifth, there is an additional administrative issue with regard to condition 3. The Regulation specifies that the condition is fulfilled where the threshold is reached “during any period of 12 months”, which leaves some room for interpretation as regards which “12 months” are to be considered.

Finally, as regards the automaticity of the automatic safeguard provision, the framing of the import increase in quantity terms is problematic on numerous grounds.

- First, it would seem to apply to a section, for which quantity or volume data are not readily available. Administratively, there is no clear signal in regularly reported data as to when the automatic provision is to be triggered.
- Second, the units of the various products within a section vary. The only apparent way to aggregate in such a context is to use value weights to construct a volume index. This raises questions analogous to those encountered in constructing price indexes of which weights to use within which index methodology (e.g., Paasche, Laspeyres, chain). This is not simply a theoretical concern: calculations of average prices based on recorded import values and volumes for GSP section S-11a (textiles) show an extreme volatility, especially for smaller exporters. For example, prices per ton of imports from Lao PDR over the period 2014-19 ranged from EUR 720 (in 2016) to EUR 5,638 (in 2015).
- Third, the lag in reporting volume data could render the safeguard objective – shielding Union industry from surges in low-cost imports – inutile.

For these various reasons, it might be preferable to use import values rather than volumes for the automatic safeguard calculations.

For better or worse, the mechanism has not been tested so far because the conditions have not come close to being met and hence the issues raised above have not been confronted in practice.

Bearing these issues in mind, we consider next the countries slated for upcoming graduation and apply retroactively the current Article 29 mechanism to see whether automatic safeguards would have been triggered over the past five years with respect to their exports to the EU. As shown in Table 51, there appears to have been a number of occasions in which the Article 29 mechanism might have been triggered, if applicable to those countries.

- For Pakistan’s exports of ethyl alcohol and selected chemicals, in 2016, 2017 and 2019 all three conditions would have been fulfilled. Considering the shares in EU imports and recent performance, the likelihood that Pakistan’s exports of these goods would in the future trigger automatic safeguards is high;
- For Bangladesh’s garments exports, all three conditions would have been fulfilled in 2015 (note that Bangladesh is considered as a Standard GSP country in the baseline due to its expected graduation from LDC status). Similar to Pakistan above, garments imports from Bangladesh significantly surpass the two *de minimis* thresholds set by conditions 2 and 3 and would therefore likely trigger automatic safeguards whenever the growth rate exceeds 13.5%;
- Textile and garments imports from India are also close to (or surpassing) the thresholds under conditions 2 and 3 and could therefore also possibly trigger safeguards, although growth rates in the past 5 years have been consistently well below 13.5%.

Table 51: Hypothetical use of automatic safeguards 2014-2019 (current product scope), countries (close to) reaching Article 29 thresholds

	C1: Increase in imports (%)					C2: Share in total EU imports (%)					C3: Share in EU imports from GSP (%)				
	14-15	15-16	16-17	17-18	18-19	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Other Art. 29 goods (CN codes 22071000, 22072000, 29091910, 38140090, 38200000, and 38249097)															
Bolivia	-38.5	-55.3	-17.7	-70.3	1115.2	3.8	1.7	1.4	0.4	4.6	48.1	17.1	11.3	4.4	23.4
Pakistan	-58.5	161.9	27.6	2.1	77.8	2.6	6.8	8.5	9.5	14.3	32.6	67.7	69.6	92.8	72.5
S-11a (textiles)															
Indonesia	1.0	-7.3	2.5	-8.7	4.2	1.9	1.8	1.8	1.6	1.7	13.8	12.6	12.2	11.5	12.7
India	1.1	5.8	6.4	-2.2	-9.1	6.7	7.1	7.3	7.0	6.5	48.2	50.3	50.9	51.1	49.3
Pakistan	5.2	1.5	4.4	-1.3	-3.6	3.9	4.0	4.0	3.9	3.8	28.2	28.2	28.0	28.4	29.0
S-11b (garments)															
Bangladesh	22.5	9.0	2.8	7.5	7.2	14.9	15.9	16.0	16.6	17.1	49.5	49.4	48.3	48.6	48.5
India	8.7	1.8	1.0	-0.1	0.1	6.0	6.0	5.9	5.7	5.5	19.9	18.6	17.8	16.7	15.5
Pakistan	21.0	9.8	10.6	1.9	9.6	3.5	3.8	4.1	4.0	4.2	11.7	11.7	12.3	11.8	12.0

Note: Allocation of countries based on country composition in Task B.2 baseline

Source: Author calculations based on COMEXT database.

The purpose of the safeguards mechanisms under the GSP is to avert injury that might be caused to the EU industry because of the GSP preferences. This is consonant with the purpose of the general WTO safeguards mechanism to provide a safety valve to attenuate import surges that might cause domestic industrial dislocation. Nevertheless, and in line with the Agreed Conclusions, the GSP automatic safeguard mechanism is legally constructed differently from WTO safeguards. It is applied on an individual country basis, rather than on an MFN basis. It is triggered by import increases from an individual country that fall well within normal year growth for total EU imports from all countries – and far short of the rate of growth that is associated with the notion of harmful import “surges” in trade remedy contexts. The specific thresholds adopted in the Regulation would trigger the mechanism in response to import increases as small as 0.8% (6% times 13.5%) of total EU imports of a product group. The mechanism could theoretically be triggered against one supplying country in a context where total EU imports from all countries were in fact falling. These structural features of the GSP automatic safeguard show its limited effectiveness. The specific framing of the automatic safeguards mechanism in terms of quantity measures of import growth (which are problematic to construct and for which relevant may not be available on a reliable and timely basis) simply add to the problem by raising serious questions as to whether it would even be workable in practice.

The automaticity of the mechanism is problematic in another sense since it might cause a “rollercoaster” effect whereby safeguards are imposed once all three conditions are met, leading to a decline in exports from the targeted economy (with a likely market shift by EU importers to third country suppliers). However, should imports drop, this would lead to the removal of the safeguards one year later. Imports could strongly pick up again, leading to another imposition of automatic safeguards the following year, and so on. This pattern has obvious undesirable effects on predictability of business relations, as well as on employment in the affected country and sector.

Social impact

From a social analysis point of view, a few elements need to be taken into consideration, in good measure driven by the current pandemic. We take the example of garment industry workers in exporting countries, such as Bangladesh, who have borne the brunt of reduced demand for garment product in the advanced economies to illustrate potential social impacts in exporting countries.

First, while it is difficult to predict precisely further developments in the world economy, their interaction with potential new waves of the corona virus and impacts on trade flows, one cannot exclude that there will be periodic slowdowns in the economy as governments move to control outbreaks followed by periods of recovery resulting in a “rollercoaster” economy. EU import demand would likely follow the ups and downs in the economy, meaning that the import statistics would technically show “surges”. The problem this would pose for the operation of the GSP scheme is that these artificial “surges” could technically

trigger the automatic safeguard mechanism if other conditions are met (in particular that the Regulation foresees a comparison only with the previous year, which may record a temporary fall in exports followed by a recovery, but not a longer-term trade pattern and volume). In turn, this would expose beneficiary countries to disruptions that would flow through in terms of negative consequences for workers in the sector, where 80% of them are women.

Second, the structural changes induced by the response to the pandemic, including the widespread adoption of remote working, will likely only be partially reversed once the pandemic is brought under control, since the ongoing digital transformation was enabling these types of more flexible working arrangements in any event. These structural changes in demand heighten the normal uncertainties surrounding the projections used to evaluate the impact of country graduation. This may slow income growth in countries such as Bangladesh that are heavily dependent on garment exports and even affect the timing of graduation.

Third, for Bangladesh and other garment exporting countries scheduled to graduate from EBA to the Standard GSP arrangement, potential safeguard measures would have a cumulative effect with the reduction of the scope of preferences and the change in the rules of origin related with the move from EBA to the standard GSP. In this context, tasks B.4 and B.2 provide an estimation of potential impacts on employment and wage levels in the garment sector resulting for these countries from the move and a potential change in structure of the GSP scheme. Given the high share the garment sector has in these countries' exports to the EU, as well as the high share of exports to the EU in their total exports (especially for Bangladesh), one could expect significant impacts.

In particular, this could lead to redundancies in the garment sector, further automation of the production processes (on the expense of workers), impacts on working conditions (wages, types of contracts, working hours, etc.) and prospects for poverty reduction, the share of women in labour force and sustainable development.

Given a need to balance the interests of the EU (to protect its economic and financial interests) and the development needs of beneficiary countries, the transitory disruptions raised by an event such as the pandemic underscores the potential need to analyse trade data over a longer period before safeguards are triggered to avoid misinterpretation of a recovery trend for a surge in exports which in normal circumstances may be caused e.g. by additional production capacity or trade flows diversion.

Human rights impact

From a human rights perspective of the GSP beneficiary countries, any safeguards imposed will have a negative effect because access of the GSP country to the EU market is restricted (even if only temporarily). The case of Bangladesh sets out in high relief what a reduction in access could do for various human rights; these effects generalise to other economies in similar circumstances: due to higher EU tariffs for wearing & apparel, the sector's exports are reduced (diverted to other countries in part), and the right to work in the sector is significantly and negatively impacted. That has implications for the right to an adequate standard of living for workers in that sector (especially those in the informal economy). Indirectly – for example via the issue of out-of-pocket expenditures – also access to healthcare and/or education could be restricted. The effect of a safeguard measure from the view of a GSP beneficiary country will also put up a (temporary) barrier, much like losing GSP status would do (albeit the latter would have a permanent character). As such, from a human rights perspective for the GSP beneficiary countries, the safeguard measures have a potential negative impact and should therefore be applied with caution and measure.

Regarding the “rollercoaster” effect, from a human rights perspective the idea of having access in one year and no access in another is disconcerting. Business needs continuity, also in the GSP beneficiary countries, so having a rollercoaster effect will have negative consequences on business (build it up in one year, run into trouble in the next) and thus on employment. Businesses may, for example, want to only go into temporary employment contracts to have flexibility when the safeguard measure is applied to be able to shed redundant workers fast. This would have a very negative effect on the right to work, but also on working conditions that are already not good. Subsequently, there would be potential negative effects on the right to an adequate standard of living and potentially on access to education and/or healthcare.

From the perspective of rights in the EU, the picture is the other way around, but relatively smaller in size: the safeguard mechanism is invoked when imports into the EU surge and are sufficiently large in volume terms. Because of this surge, the right to work in import-competing sectors is negatively impacted – e.g., in the EU textile sector. That will have consequences for the right to an adequate standard of living also in selected EU sectors.

Also, for EU human rights, the “rollercoaster” effect is not helpful: if in one year imports can surge (reducing significantly EU prices) and in the other year not, EU businesses will also be negatively impacted as business uncertainty goes up. That will have a negative effect on employment and employment conditions in the EU for affected sectors (e.g., wearing & apparel or Indica rice).

Preliminary recommendations: While the scope of the automatic safeguards mechanism is discussed further below, a number of recommendations can be made at this point as regards its construction and application:

- The automatic safeguard should be better connected to its purpose – averting harm to EU industry. The current framing is inadequate in this regard. First, the GSP safeguard could be automatically triggered, without compensation, if the EU were to open an investigation for a WTO safeguard on products within the relevant section. Second, even before that, the GSP safeguard could be triggered if total imports were “surging” according to some measure and imports from a GSP beneficiary were performing above average. For example, the automatic mechanism could be triggered if imports of a given section were growing faster than total EU imports, and if imports from a GSP beneficiary were growing faster than total EU imports in that section and thus leading the growth, which would be *prima facie* evidence of competitiveness.
- For the sake of transparency, the Commission’s current practice regarding the issues outlined above which are not clearly specified in the Regulation should be codified in the future regulation or a delegated regulation under it, or alternatively be explained in a public manual of procedures.
- The calculation of import surges at GSP section level should be based on import values rather than import volumes due to the heterogeneity of products within sections.
- Abolition of the *de minimis* threshold (condition 3) established in Article 29.1(b) of the GSP regulation should be considered 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.

2.9.3 Scenario 9b: Expanding the range of products covered by the automatic safeguard mechanism

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, we applied the same retroactive analysis as in scenario 9a above. One simplification in the analysis is that we assume 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.

With this caveat in mind, Table 52 shows that across all GSP sections covering agricultural goods, there would have been only one instance across the years 2015 to 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. The only other instances where the two *de minimis* thresholds under conditions 2 and 3 would have been met are S-2a (mostly cut flowers) from Kenya, in all 5 years, and S-4c (tobacco and tobacco products) from India in 2018 and 2019; but the import growth rates in these years would have been too low to trigger safeguards. What is more, under the product graduation mechanism (Article 8 of the GSP Regulation) preferences for S-3 imports from Indonesia have been suspended since 2014, and for S-2a imports from Kenya since 2017; in other words, automatic safeguards would not have been applied in a single instance over the past years. Looking forward, based on the data in Table 52, the only realistic probability of automatic safeguards being applied would refer to tobacco from India, and even this looks fairly unlikely given low growth rates in the most recent years and the fact that, if imports continue to perform as per the recent trend, preferences for section S-4c from India would likely be suspended from 2023, as already in 2018 and 2019 the threshold in Annex VI of the Regulation was met.

Table 52: Hypothetical use of automatic safeguards 2014-2019 (agricultural products), countries (close to) reaching Article 29 thresholds

	C1: Increase in imports (%)						C2: Share in total EU imports (%)					C3: Share in EU imports from GSP (%)				
	14-15	15-16	16-17	17-18	18-19		2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
S-1a Live animals and animal products excluding fish																
Indonesia	16.1	-4.7	-19.4	-18.5	8.7		0.2	0.2	0.2	0.1	0.2	20.0	23.0	21.6	17.8	19.2
India	5.2	-20.2	-25.9	8.7	-1.6		0.5	0.4	0.3	0.3	0.3	44.4	42.9	36.9	40.7	39.7
Pakistan	-32.4	-29.5	-3.3	0.5	-2.0		0.2	0.2	0.1	0.1	0.1	17.8	15.2	17.0	17.4	16.9
S-2a Live plants and floricultural products																
Kenya	5.7	1.5	-3.3	9.9	8.1		24.5	24.8	23.0	25.0	26.1	57.4	58.1	56.3	59.7	60.6
S-2b Vegetables, fruits and nuts																
India	8.9	7.6	30.0	-5.7	3.6		1.7	1.8	2.2	2.0	2.0	35.3	36.0	42.0	38.5	38.7
Kenya	31.7	6.3	1.7	16.6	10.9		0.7	0.7	0.7	0.7	0.8	13.5	13.6	12.4	14.1	15.1
S-2c Coffee, tea, mate and spices																
Indonesia	29.8	-13.6	11.6	-41.4	10.7		3.9	3.5	3.8	2.5	2.7	21.4	18.4	18.3	12.1	14.5
India	17.6	-2.7	9.9	-7.2	-6.7		4.5	4.5	4.8	4.9	4.6	24.5	23.7	23.2	24.3	24.5
S-2d Cereals, flour, seeds and resins																
India	5.2	-11.3	29.9	-21.5	5.6		3.2	2.9	3.5	2.6	2.6	39.3	39.3	43.2	33.3	32.3
Pakistan	-2.1	-12.7	0.5	88.5	30.5		0.8	0.7	0.7	1.2	1.5	10.2	10.0	8.5	15.7	18.8
S-3 Animal or vegetable oils, fats and waxes																
Indonesia	-8.5	-7.4	29.9	-22.7	-11.8		28.7	26.1	28.8	24.8	22.0	78.1	75.0	76.2	73.0	73.6
Philippines	16.4	12.1	21.6	-23.3			4.6	5.1	5.3	5.1	3.9	12.6	14.7	14.0	14.9	13.0
S-4a Preparations of meat or fish																
Cabo Verde	-5.7	41.5	-4.8	71.7	-15.3		0.5	0.7	0.6	1.1	0.9	5.8	9.3	7.7	11.6	9.7
Indonesia	-19.5	11.4	-18.0	19.5	1.6		2.1	2.5	1.9	2.2	2.3	25.6	32.3	22.9	24.1	24.1
Philippines	40.1	-21.8	72.2	8.8	5.8		2.6	2.1	3.4	3.6	3.8	30.9	27.3	40.7	38.9	40.6
Solomon Isl	14.8	-23.9	20.2	27.9	10.9		0.9	0.7	0.8	1.0	1.1	11.0	9.5	9.9	11.1	12.1
S-4b Prepared foodstuffs (excl meat and fish), beverages, spirits and vinegar																
Indonesia	1.1	7.0	-8.6	13.4	8.1		1.2	1.3	1.2	1.3	1.4	22.6	21.9	20.5	25.2	24.1
India	-12.8	-12.2	54.3	-2.0	-4.3		0.9	0.8	1.2	1.2	1.1	17.7	14.0	22.3	23.6	20.0
Nigeria	0.8	26.9	-8.8	-2.6	7.9		1.1	1.4	1.3	1.2	1.3	20.8	23.8	22.3	23.6	22.4
S-4c Tobacco and tobacco products																
Indonesia	17.9	6.5	2.2	6.9	-8.6		4.0	4.9	4.9	5.2	4.8	11.5	14.1	14.2	15.3	14.5
India	21.9	-20.0	6.9	5.8	0.3		6.0	5.4	5.7	6.1	6.0	17.1	15.7	16.6	17.7	18.3

Note: Allocation of countries based on country composition in Task B.2 baseline

Source: Author calculations based on COMEXT database.

Another important observation 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 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.

Preliminary conclusions: In sum, the effect of expanding the product coverage of the automatic safeguard mechanism to agricultural goods – at least when applied on the basis of GSP sections – is considered to be negligible when compared to the current rules (scenario 9a). Accordingly, no economic or non-economic impacts are expected in this scenario when compared to scenario 9a. 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.

2.9.4 Scenario 9c: Expanding the coverage of the automatic safeguard mechanism to all GSP beneficiary countries

The three sub-scenarios to scenario 9c consider the implications of expanding the automatic safeguard mechanism in Article 29 to EBA beneficiaries, with varying degrees of product coverage. As a background to the analysis in the following sections, this issue is one of the topics where stakeholders consulted for the study disagree most (Annex B1). Although a majority of respondents are in favour of an extension to all GSP countries, views significantly differ between EU and GSP country respondents: among EU respondents, 54% think that LDCs should not be exempted from safeguards, whereas as 71% of GSP country respondents hold the opposite view. Across respondent types, in the EU, public sector and civil society are 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 think that exemptions should be ended. In GSP countries, the majority for keeping exemptions is found across all respondent types.

2.9.4.1 Sub-scenario 9c1: No change in the scope of products covered by automatic safeguards

Table 53 shows the EBA countries (as defined in the baseline for the analysis, i.e. assuming that the graduation of a number of countries from LDC status has already taken place) that would have come closest to the application of automatic safeguards during the period 2015 to 2019, if they had been included in the mechanism.

Table 53: Hypothetical use of automatic safeguards 2014-2019 against EBA countries (current product scope), EBA countries closest to reaching Article 29 thresholds

	C1: Increase in imports (%)					C2: Share in total EU imports (%)					C3: Share in EU imports from GSP (%)				
	14-15	15-16	16-17	17-18	18-19	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
S-11a (textiles)															
Madagascar	35.7	10.8	-27.2	-1.9	-0.1	0.1	0.1	0.0	0.0	0.0	0.4	0.5	0.3	0.3	0.4
Mali	50.5	-22.3	19.1	66.2	-50.0	0.0	0.0	0.0	0.1	0.0	0.3	0.2	0.3	0.5	0.2
S-11b (garments)															
Cambodia	36.1	20.3	10.1	9.0	1.4	2.9	3.4	3.6	3.8	3.7	9.5	10.4	10.9	11.2	10.5
Madagascar	10.0	18.4	0.0	7.3	0.0	0.3	0.4	0.4	0.4	0.4	1.1	1.2	1.1	1.1	1.1
Other Art. 29 goods (CN codes 22071000, 22072000, 29091910, 38140090, 38200000, and 38249097)															
Sudan	-30.3	34.8	40.5	-89.0	58.2	1.1	1.5	2.1	0.2	0.3	14.0	15.0	16.9	2.4	1.7

Note: Allocation of countries based on country composition in Task B.2 baseline.

Source: Author calculations based on COMEXT database.

No EBA country would have met the 6% import threshold for any of the products currently covered. Indeed, the only country and sector that has exceeded an import share of 0.5% in the two most recent years is Cambodia's garments sector – and at a steady share of slightly below 4% there is no indication that garments imports from Cambodia would meet

the conditions of Article 29 any time in the upcoming years. In a nutshell, then, the extension of automatic safeguards to EBA countries with the current product coverage would have no effect; nothing would change in comparison to the current mechanism. However, as indicated in the preceding section, the current pandemic had an impact on trade flows, and this may change trade pattern from those observed in previous years (e.g. a deep fall in garment exports followed by a recovery reflected in a surge in exports to the EU).

2.9.4.2 Sub-scenario 9c2: Scope of products covered by automatic safeguards extended to rice and sugar

This second sub-scenario would not only extend the geographical scope of automatic safeguards to EBA countries but also extend the scope of products covered to rice and sugar (which are excluded from preferential access for imports from Standard GSP and GSP+ beneficiaries but are covered by the EBA arrangement). An important decision to be made is the aggregation level at which the safeguard mechanism would apply. Three possible options are:

- Apply safeguards based on the existing GSP section structure. In this case, rice would be part of section S-2d, which covers HS chapters 10 to 13 and includes all cereals, cereal products, oil seeds, and miscellaneous vegetable products, and sugar would be part of section S-4b covering HS chapters 17 to 23, which basically includes most processed food products and beverages. This option would follow the overall approach of automatic safeguards.
- Apply safeguards at the level of HS chapters, in which case rice would be part of HS chapter 10 covering all cereals, and sugar part of HS chapter 17, sugar and sugar confectionary.
- Safeguards could also be applied to the specific products, similar to the group of other products currently listed in Article 29. Then, e.g., automatic safeguards for rice could be applied to HS heading 1006 ("rice"), and for sugar to HS heading 1701 ("Cane or beet sugar and chemically pure sucrose, in solid form").

The analysis undertaken provides results for all three options. Table 54 shows that, across all options and the two products, 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 – although the most recent decline in imports is likely to be in response to the general safeguards applied on rice imports from Cambodia (and Myanmar, which is not considered as an EBA country in the baseline due to its expected graduation from LDC status).

As observed above, the most difficult condition to meet is the 6% threshold, which is only ever met at the narrowest product definition level, and even there only by Cambodian rice (in any year) and by sugar from Mozambique and Sudan only in 2015 (when, however, import growth rates were below the 13.5% threshold, in fact negative).

Preliminary conclusions: 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. On the positive side, automatic safeguards would have been triggered earlier than the general safeguards actually imposed, and there would be a reduction in administrative costs and also costs for the EU industry resulting from the more complicated procedure under the general safeguards mechanism. On the negative side, there would be additional costs arising from the fact

that the automatic safeguard mechanism would have to be based on product definitions which are not in line with the established GSP sections, leading to a more complex system.

Table 54: Hypothetical use of automatic safeguards 2014-2019 against EBA countries (rice and sugar), EBA countries closest to reaching Article 29 thresholds

	C1: Increase in imports (%)					C2: Share in total EU imports (%)					C3: Share in EU imports from GSP (%)				
	14-15	15-16	16-17	17-18	18-19	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Rice															
S-2d Cereals, flour, seeds and resins															
Cambodia	33.6	1.3	-14.2	5.2	-1.7	1.0	1.0	0.9	0.9	0.8	12.6	14.4	10.5	10.8	9.7
Sudan	27.2	-9.6	11.1	-20.4	8.4	0.6	0.6	0.6	0.4	0.5	7.5	7.6	7.2	5.6	5.6
HS10 Cereals															
Cambodia	34.3	1.6	-14.3	4.1	-1.8	3.2	3.4	2.8	2.4	2.2	28.6	32.4	22.1	23.3	20.3
Sudan	403.7	-50.8	####	-96.8	25.1	0.0	0.0	0.3	0.0	0.0	0.3	0.1	2.4	0.1	0.1
HS1006 Rice															
Cambodia	34.3	1.6	-14.3	4.1	-1.8	18.3	19.1	15.0	14.5	12.5	31.0	34.2	23.6	24.2	21.3
Sugar															
S-4b Prepared foodstuffs (excl meat and fish), beverages, spirits and vinegar															
Madagascar	-27.8	32.2	2.5	1.8	1.6	0.1	0.1	0.1	0.1	0.1	1.6	1.9	2.0	2.2	2.0
Mozambique	-25.5	-29.1	-50.2	-70.0	401.2	0.2	0.2	0.1	0.0	0.1	4.1	2.6	1.3	0.4	1.9
HS17 Sugars and sugar confectionery															
Malawi	2.8	-24.2	-22.3	-36.5	-22.9	1.5	1.0	0.8	0.7	0.4	10.4	9.6	11.4	12.3	4.6
Mozambique	-26.1	-29.3	-50.7	-72.7	460.0	4.0	2.6	1.3	0.5	2.2	27.6	23.8	18.0	8.3	22.6
Sudan	-11.2	-30.6	-69.0	-82.0	-100.0	3.8	2.4	0.8	0.2	0.0	26.2	22.2	10.5	3.2	0.0
HS1701 Cane or beet sugar and chemically pure sucrose, in solid form															
Malawi	2.8	-24.2	-22.3	-36.5	-22.9	2.6	1.7	1.4	1.6	0.9	12.7	12.5	14.4	27.8	7.5
Mozambique	-26.1	-29.3	-50.7	-77.4	574.2	6.9	4.2	2.2	0.9	4.4	33.8	31.0	22.7	15.7	37.0
Sudan	-8.9	-32.7	-69.3	-100.0	..	6.5	3.7	1.2	0.0	0.0	31.7	27.7	12.6	0.0	0.0

Note: Allocation of countries based on country composition in Task B.2 baseline

Source: Author calculations based on COMEXT database.

2.9.4.3 Sub-scenario 9c3: Scope of products covered by automatic safeguards extended to all agricultural goods

This analysis is the same as for scenario 9b (section 2.9.3) except that it focuses on imports from EBA countries. Similar to the analyses above, as Table 55 below shows, the extension of automatic safeguards for agricultural goods to EBA beneficiary countries would have limited effects.

Preliminary conclusions: To summarise, neither of the sub-options under scenario 9c 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. In addition, product scope expansion in addition to the geographical expansion would raise equity concerns in terms of equality of treatment across industries, or require a re-definition of GSP sections.

2.9.5 Preliminary conclusions and recommendations

The main conclusion of the analysis undertaken of the various policy scenarios 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, as long as the conditions for triggering it are amended. The question of moving from scenario 9a to an alternative scope of automatic safeguards is moot. The Commission could therefore decide to continue with the current scope of the mechanism, while applying the recommendations made under scenario 9a above with regard to transparency, calculation based on value rather than volumes, and thresholds.

In addition, two wider issues should be considered in the revision of the GSP Regulation. **First**, the heterogeneous nature of GSP product sections – some very broad, covering many types of products, and some very narrow – leads to unequal treatment across sections: it is relatively easy for a country to surpass the size thresholds in the Regulation

for a narrow sector (e.g., Kenya and Ethiopia for S-2a), but much harder in a broader sector. **Second**, the rules for automatic safeguards and product graduation should be considered jointly, and a coordinated approach to the two is desirable. Accordingly, e.g., thresholds for graduation and safeguards should be aligned.

Table 55: Hypothetical use of automatic safeguards 2014-2019 against EBA countries (agricultural products), EBA countries closest to reaching Article 29 thresholds

	C1: Increase in imports (%)					C2: Share in total EU imports (%)					C3: Share in EU imports from GSP (%)				
	14-15	15-16	16-17	17-18	18-19	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
S-1a Live animals and animal products excluding fish															
Afghanistan	102.8	30.7	196.1	22.4	-14.2	0.0	0.0	0.0	0.0	0.0	0.5	0.9	3.0	3.7	3.1
Madagascar	104.5	152.5	-54.7	24.2	84.8	0.0	0.0	0.0	0.0	0.0	0.3	0.8	0.4	0.5	0.9
S-2a Live plants and floricultural products															
Ethiopia	3.8	-5.2	4.1	-9.0	2.9	11.8	11.2	11.2	10.1	10.0	27.8	26.3	27.4	24.1	23.3
Senegal	83.8	-52.4	16.9	4.5	63.9	0.4	0.2	0.2	0.2	0.3	1.0	0.5	0.4	0.6	1.1
Uganda	6.9	1.4	7.5	-1.4	-7.5	2.9	2.9	3.0	3.0	2.6	6.8	6.9	7.4	7.1	6.1
S-2b Vegetables, fruits and nuts															
Madagascar	-12.3	1.0	2.4	-0.3	0.9	0.2	0.2	0.2	0.2	0.2	4.3	4.1	3.8	3.6	3.6
Senegal	-5.7	1.3	17.0	9.1	-4.7	0.3	0.3	0.3	0.3	0.3	5.9	5.7	6.0	6.3	5.9
S-2c Coffee, tea, mate and spices															
Ethiopia	14.7	0.6	-3.4	-5.7	-3.1	2.4	2.5	2.3	2.4	2.3	12.9	12.9	11.1	11.8	12.4
Madagascar	69.6	90.3	50.3	11.1	-31.6	1.1	2.2	3.2	4.0	2.8	6.2	11.7	15.7	19.7	14.6
Uganda	12.1	-8.5	33.3	-10.4	-14.1	2.5	2.4	3.1	3.0	2.6	13.8	12.5	14.8	15.1	14.0
S-2d Cereals, flour, seeds and resins															
Cambodia	33.6	1.3	-14.2	5.2	-1.7	1.0	1.0	0.9	0.9	0.8	12.6	14.4	10.5	10.8	9.7
Sudan	27.2	-9.6	11.1	-20.4	8.4	0.6	0.6	0.6	0.4	0.5	7.5	7.6	7.2	5.6	5.6
S-3 Animal or vegetable oils, fats and waxes															
Senegal	83.8	-52.4	16.9	4.5	63.9	0.4	0.2	0.2	0.2	0.3	1.0	0.5	0.4	0.6	1.1
Burkina Faso	-3.9	55.6	48.3	26.9	16.8	0.0	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.4	0.5
S-4a Preparations of meat or fish															
Madagascar	-10.4	-22.9	25.6	-13.0	-4.8	0.7	0.6	0.7	0.6	0.5	8.5	7.4	8.0	6.1	5.7
Senegal	-26.6	-74.1	49.4	10.6	11.1	0.2	0.0	0.1	0.1	0.1	1.9	0.5	0.7	0.7	0.8
S-4b Prepared foodstuffs (excl meat and fish), beverages, spirits and vinegar															
Madagascar	-27.8	32.2	2.5	1.8	1.6	0.1	0.1	0.1	0.1	0.1	1.6	1.9	2.0	2.2	2.0
Mozambique	-25.5	-29.1	-50.2	-70.0	401.2	0.2	0.2	0.1	0.0	0.1	4.1	2.6	1.3	0.4	1.9
S-4c Tobacco and tobacco products															
Malawi	11.2	-15.8	42.5	-17.7	-4.4	8.0	7.6	10.6	8.8	8.4	22.8	22.1	31.0	25.8	25.4
Mozambique	48.9	-22.4	1.8	0.5	11.5	4.6	4.0	4.0	4.1	4.5	13.2	11.7	11.8	11.9	13.7
Tanzania	39.6	-4.4	-34.3	3.3	-24.5	6.7	7.2	4.7	4.9	3.6	19.1	21.0	13.6	14.2	11.1

Note: Allocation of countries based on country composition in Task B.2 baseline

Source: Author calculations based on COMEXT database.

2.10 Refined problem tree and objectives tree for the GSP (Task B.11)

The development of a problem tree and, derived from it, the formulation of an objectives tree are intermediate steps for the development of a performance measurement framework for the GSP (see task B.10, section 2.11). The starting point are the overarching objectives formulated in the current GSP Regulation (that resulted from the 2012 reform), which has overall been validated by the MTE and the European Parliament. Following from this, the problem and objectives trees are compatible with the given overarching objectives. In this context, we note that two thirds of the respondents to the online public consultation consider that the three overarching objectives of the current GSP Regulation remain relevant.

On a practical level, the starting points for the problem tree refinement and objectives tree formulation have been the problem tree as provided in the ToR (see Annex B11-1) and the intervention logic developed in the MTE (Development Solutions 2018, 37).

Figure 20 shows the refined problem tree, distinguishing three levels of problems: high-level, core, and underlying problems; these roughly correspond to the “drivers”, “problems” and “overarching objectives” as defined in the initial problem tree. Causal relationships between problems have been slightly amended. The problem tree also shows for which problems different policy options for the post-2023 GSP have been developed already, and addressed in this study. Some problems listed, notably the exclusion of trade in services, the role of NTBs, supply side constraints, issues related to rules of origin, and

low preference utilisation, are not covered in the present study – nor are they covered by the GSP Regulation, as they go beyond tariff preference issues.

Figure 21 presents the proposed objectives tree for the post-2023 GSP regulation. It has been derived from the problem tree, with areas not covered by the scope of the existing GSP Regulation (i.e., the issues listed in the previous paragraph) having been eliminated.

The objectives tree constitutes the basis for the development of indicators for measuring the performance of the GSP, which is addressed in the next section.

2.11 Performance measurement framework for the GSP Regulation (Task B.10)

The MTE pointed to methodological difficulties in defining a causal link between the GSP and its overall objectives and in 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. The MTE also pointed to issues such as the lack of timely data and indicators. Some stakeholder contributions received during the consultations also confirm that better monitoring (and publication) of the impacts of the GSP with regard to the intended objectives is called for. This section therefore presents our proposal for a performance measurement framework for the future GSP regulation that defines indicators as well as corresponding data sources and entities responsible for data collection.

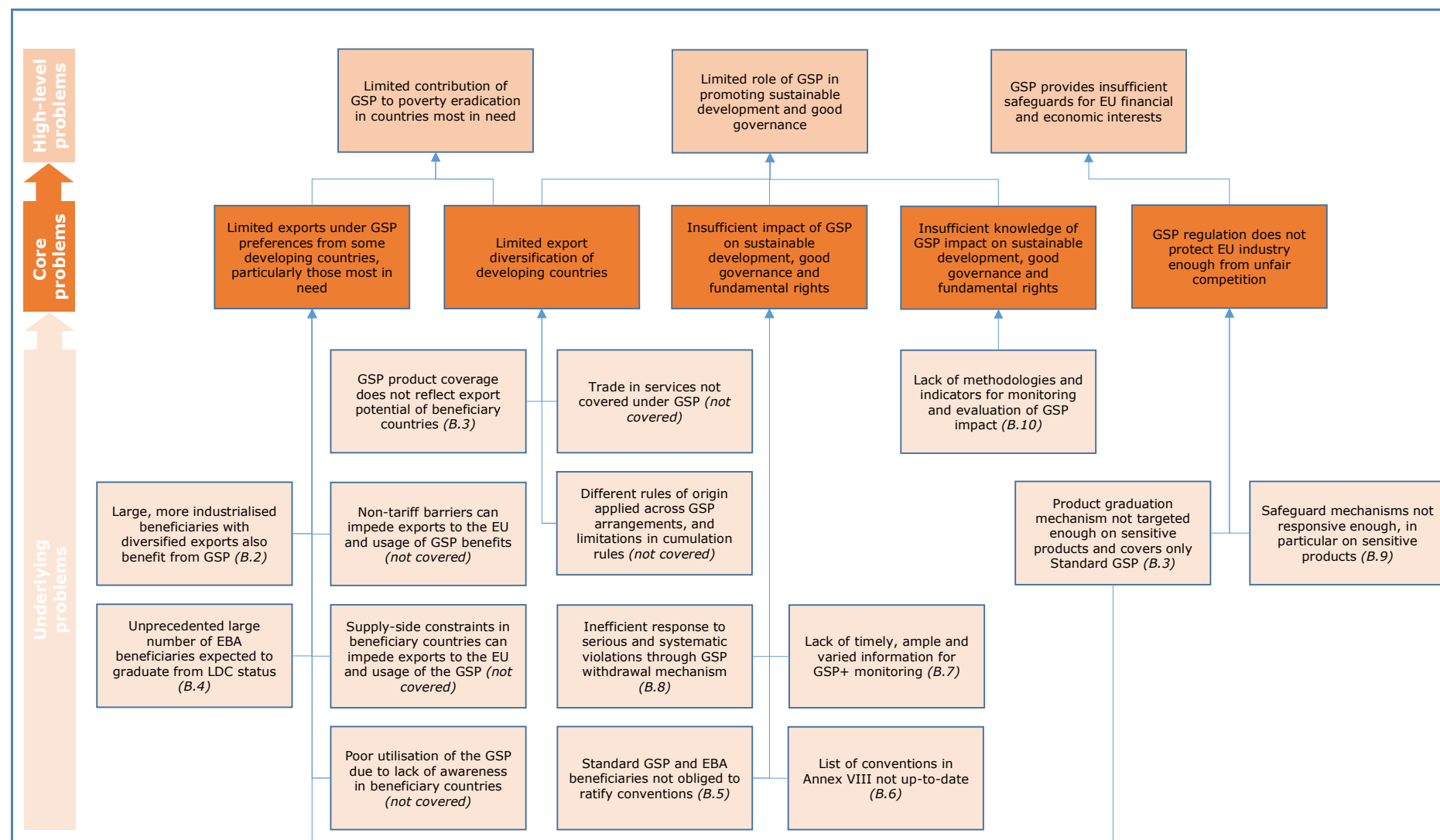
The underlying rationale for the performance measurement framework is the intervention logic/objectives tree developed above. Indicators are then, in principle, needed to measure progress at each of the objective levels. To limit the resource burden, we propose to focus on the core objectives for monitoring purposes, with evaluations to address the performance regarding the overarching objectives.

Comprehensive performance measurement would, in principle, also 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.²²⁹ The validity of these assumptions would, along with the measurement of progress towards the highest level objectives, be addressed as part of evaluations.

The following sections briefly describe the suggested indicators for measuring the GSP's performance against the overarching and core objectives. Annex B10 provides a tabular summary of the performance measurement framework, also indicating suggested data sources, i.e., institutions which are likely to collect and publish the data over time and facilitate in this way monitoring and ex-post evaluation of the new GSP regulation. For each indicator, the baseline value would be measured at the time of the regulation's entry into force. Core objective indicators would then be measured again annually (except where noted), and overarching objective indicators at the mid-term review or, if the regulation is adopted for a fixed-term, at the end of its application.

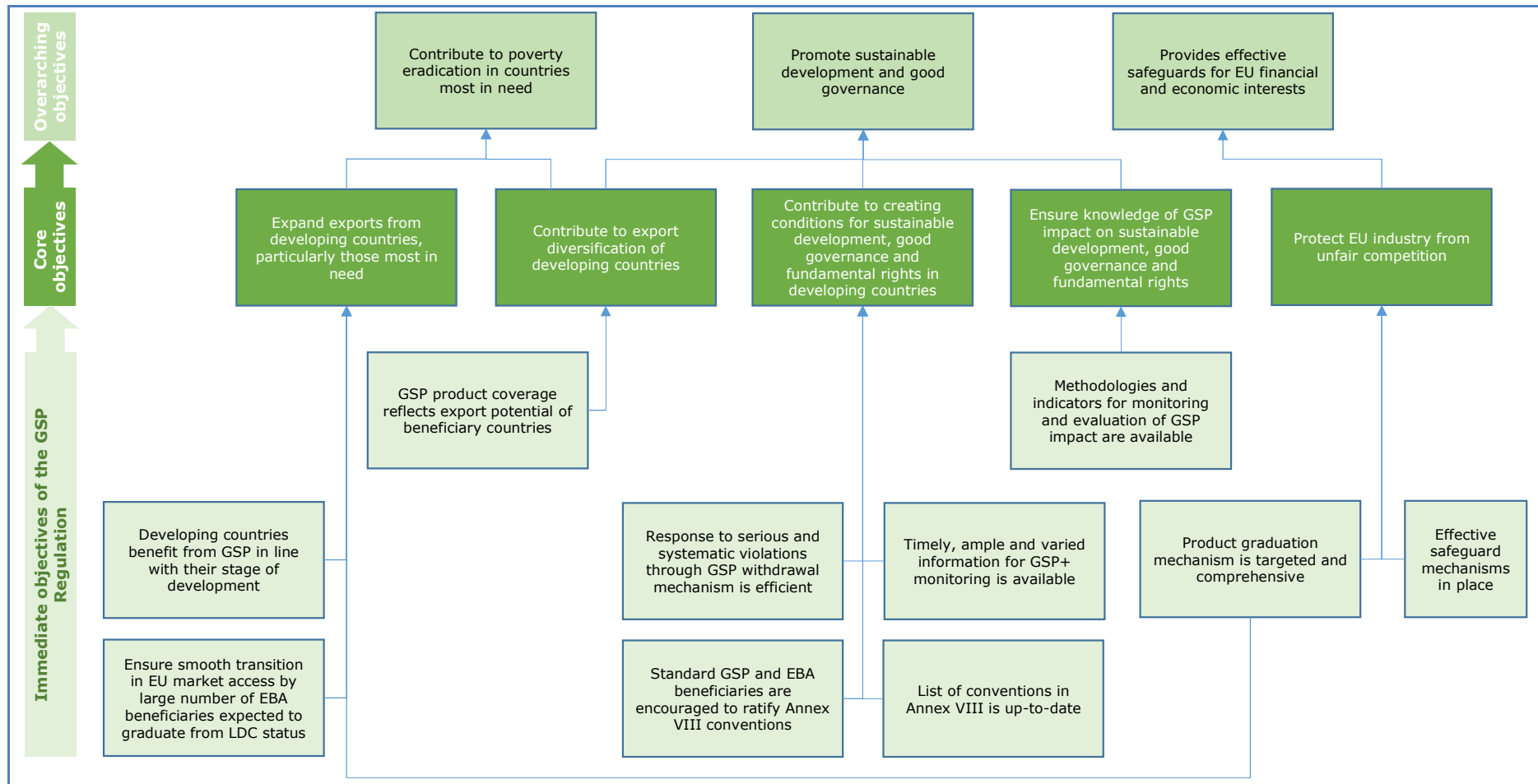
²²⁹ This is also justified by the fact that a large body of literature on the relationship between trade and development exists without however having achieved to put this issue to rest.

Figure 20: Refined problem tree for the post-2023 GSP



Note: References in *italics* refer to the task under which policy options for underlying problems are assessed in this study.

Figure 21: Proposed objectives tree for the post-2023 GSP



2.11.1 Measuring Performance with Regard to GSP Overarching Objectives

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

2.11.1.1 Reducing poverty in developing countries

- **Poverty rate:** As described in the previous section, 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, incl. minimum wages, encouraged by the GSP conditions, may contribute over time to reduction of poverty, including the rate of workers living in poverty. It therefore seems appropriate to measure developments in the poverty rate in GSP beneficiary countries over time.
- **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 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 (like in 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.

2.11.1.2 Promoting sustainable development and good governance

- **Informal economy and informal employment:** Although 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.), the GSP preferences in combination with the conditionalities regarding international conventions and corresponding government measures are aimed at enhancing conditions in the informal sector as well as professionalisation and hence the move from informal to formal business operations and employment.²³⁰ 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).
- **Gender Inequality Index (GII):** index reflecting on the position of women and providing insights on gender gaps in major areas of human development.²³¹ For some GSP countries, data is not available for this index, and it can be substituted by Global Gender Gap Index.²³²

²³⁰ 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.

²³¹ <http://hdr.undp.org/en/content/gender-inequality-index-gii>

²³² http://www3.weforum.org/docs/WEF_GGGR_2020.pdf

- **Global Freedom Index:** reflecting upon state developments in political rights and civil liberties of the citizens supported by reports that describe the actual situation explaining the score.²³³
- **Environmental Performance Index:** A number of indices measuring environmental performance (and thus capturing the environmental aspect of sustainable development) are available. Using Yale's Environmental Performance Index,²³⁴ coupled with the number of reports on environmental disasters in GSP beneficiary countries, is suggested due to its comprehensive nature.

2.11.1.3 Safeguarding EU financial and economic interests

- **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 an absence of cases where increasing preferential imports lead to major reductions in output or employment of competing EU industries.

2.11.2 *Measuring Performance with Regard to GSP Core Objectives*

The proposed performance indicators for GSP *core objectives* – expanding exports; diversifying exports; creating conditions for sustainable development, good governance and fundamental rights in developing countries²³⁵ – are summarised in the following sections.

2.11.2.1 Expanding Exports from Developing Countries

To measure the contribution of the GSP towards export expansion, it is insufficient to simply report the value of exports by GSP beneficiary countries at face value. On the other hand, the use of economic models singling out the effect of trade preferences on trade, such as CGE models, partial equilibrium models or gravity models, would be resource intensive and therefore not be suitable for ongoing performance monitoring. Such methods should therefore be used only in the in-depth evaluations of the GSP (i.e. the mid-term or final review). For regular GSP performance measurement, it is suggested to use the following indicator:

- **Value of EU imports of goods from GSP countries (individually, and aggregated by GSP arrangement) compared to (1) total EU goods imports from MFN countries; and (2) EU goods imports from all developing countries with which the EU has FTAs in place.** If GSP preferences effectively work as intended, the share of imports from GSP countries against comparator (1) should increase over time, i.e., the growth rate of imports from GSP countries is higher than the growth rate of imports from MFN countries, and against comparator (2) should remain constant or decline only slowly (i.e., the growth rate would be similar), because GSP countries and FTA partners which are developing countries enjoy similar preferential market access.²³⁶

²³³ <https://freedomhouse.org/>

²³⁴ <https://epi.yale.edu/>

²³⁵ For two core objectives, no separate indicators are proposed:

- The fourth core objective, "ensure knowledge of GSP impact on sustainable development, good governance and fundamental rights" is covered by the presence of a performance measurement framework which comprises indicators for all dimensions of sustainable development; this is what the performance measurement framework proposed here aims to be;
- Measurement of the fifth core objective, "protecting EU industry from unfair competition" is already covered by the proposed indicator for the overarching objective, "safeguarding EU financial and economic interests".

²³⁶ This is true particularly for EBA countries. The level of preferences for Standard GSP and GSP+ countries tends to be lower than the level of preferences granted to FTA partners.

Subsidiary indicators could help to show if the underlying assumptions for the GSP's role in increasing exports hold:

- **Value of total exports by GSP beneficiaries.** This subsidiary indicator, in combination with the previous one, 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.** This is another subsidiary indicator that 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** are another subsidiary indicator in this respect.

These indicators are straightforward to measure; they would be recorded annually, using EU import statistics or UN COMTRADE statistics.

2.11.2.2 Export Diversification of Developing Countries

Export diversification could be measured by the following indicators:

- **Development of GSP country exports of manufactured goods** (HS chapters 84 to 96) to the EU: This indicator is based on the original understanding that export diversification means an increase in the export of manufactured goods.
- **Concentration of GSP country exports to the EU across products:** This is a more "neutral" indicator than the previous one as it is based simply on the diversity of products exported but does not entail a value judgement (i.e. that exports of manufactures are more desirable than exports of unprocessed goods).

2.11.2.3 Creating Conditions for Sustainable Development, Good Governance and Fundamental Rights in Developing Countries

Measuring the contribution of the GSP to the creation of conditions for sustainable development, good governance and fundamental rights in the GSP beneficiary countries primarily refers to the ratification and effective implementation of international conventions:

- **Ratification of international conventions:** The reasons for countries to ratify (or not) international conventions are diverse and are often linked to domestic policy. However, as shown in this study, there are indications that for Standard GSP beneficiaries and countries graduating from EBA additional preferences offered by the GSP+ arrangement act as an encouragement to ratify international conventions. Therefore, ratification of the remaining conventions listed in Annex VIII to the GSP Regulation may be seen as influenced by the scheme, and should be monitored.
- **Implementation of international conventions:** While the record in this area across beneficiaries in all three GSP arrangements is mixed, at least in the case of GSP+ countries and those under the enhanced engagement process, one can argue that GSP-related procedures and the monitoring mechanism support improvement, over time, in the implementation of international conventions, including the ILO fundamental ones. Accordingly, the degree to which GSP countries effectively implement the ratified conventions should also be monitored. Given that the reports of the conventions' monitoring bodies would be the main source for this indicator, measurement should follow the monitoring cycles as established by the conventions, respectively the EU's GSP+ monitoring cycles (see task B.7, section 2.7 above).

These formal indicators could be complemented by substantive indicators on the various dimensions addressed by the international conventions. The following indicators are proposed. Alternatively, to reduce the resource burden, it could be considered to take relevant SDG indicators (and ILO Decent Work indicators for labour related aspects) for measuring performance at this level:

- **Job quality indicators:** While there is no automatic relation between increased exports and the job quality of workers in export-oriented sectors and enterprises, the evidence from the last few years shows that international organisations, donors and buyers (e.g., international brands) started paying more attention to it, e.g., regarding the health and safety at work, the building safety standards, wage setting mechanisms, training and awareness of workers, etc. If job quality indicators are available, these should be used (if possible broken down by sector), e.g. the average number of working hours a week, wages, the number of accidents at work, and the type of contracts.
- **Child labour:** Given that the elimination of child labour is a priority for the EU and that the GSP aims at this (by including the relevant ILO conventions among in Annex VIII), it seems recommendable to measure the prevalence of child labour in GSP countries. The corresponding indicator is development over time in the percentage of children aged 5-17 years engaged in child labour (by sex) in GSP countries.
- **Trade union membership/density:** There is no direct relation between increased exports and trade union membership, the latter depending more on the sector, the overall environment for freedom of association in the country and the conditions for trade union establishment and operation, including in the context of implementation of two of the ILO fundamental conventions No. 87 and 98 on freedom of association and the right to collective bargaining (in fact, while the situation has been improving over the last few years, in some countries, export processing zones have seen a very limited, if any trade union activity). However, the available evidence suggests that for instance targeted activities undertaken in the context of EU enhanced engagement with GSP beneficiaries (e.g., with Bangladesh) have contributed to improved conditions for trade union activity, confirmed by an increasing number of registered trade unions and their members.
- In case ILO Convention No. 81 is added to the Annex VIII, we suggest adding the **number of labour inspectors** in a country as an indicator, as well as the number of inspections and trends in this regard, incl. the number or percentage of inspections in enterprises operating in sectors benefitting from GSP preferences. The figures may be obtained from the ILO Committee of Experts reports related to implementation of Convention No. 81 by GSP beneficiary countries.
- **Greenhouse gas emissions:** greenhouse gas emissions in ktons of CO₂eq. Where available disaggregated by sector. For most GSP countries data is available from national reporting to UNFCCC.
- **Emissions to air:** PM_{2.5} and PM₁₀ emissions in ktons. Where available disaggregated by sector. For many (but not all) countries this is available from national emission reporting or environmental reporting. Additional information could be collected on various emittents such as NO_x, SO_x, etcetera, but to balance efforts and impact it is recommended to focus on PM emission levels.
- **Availability and access to water:** renewable water resources in m³/person/year and % of population with access to safe drinking water. Data is available from various sources including SDG6 reporting, UN-WASH reporting, UNICEF and FAO Aquastat.
- **Energy transition:** share of renewable energy and/or electricity in national consumption (preferred) or production. For most GSP countries this is available from energy statistics or from reporting to UNFCCC.
- **Waste and waste management:** Development in amount of municipal solid waste and hazardous waste in kilotonnes. For most (but not all) GSP countries this is available from reports provided in the framework of the Basel Convention, The Stockholm Convention and the Rotterdam Convention.
- **Biodiversity:** trend in forest cover and number of endangered species. For many (but not all) GSP countries this is available from national reports under the Convention on Biological Diversity and under CITES.
- **Number and degree of concerns raised by the monitoring bodies for the international conventions listed in Annex VIII.**

3 SCHEDULE FOR COMPLETION OF STUDY

3.1 Update on Consultations

Whereas some parts of the consultations took place as planned (notably electronic communication and consultation activities and the online public consultation), the foreseen physical interviews and meetings could not take place due to the covid-19 pandemic. To the extent possible, meetings were replaced by virtual interviews, but the number of stakeholders met through them has so far been more limited than originally planned.

Following the publication of the interim report, another round of interviews is planned in order to discuss the preliminary findings and recommendations; these will take place in until the end of 2020 and are hoped to bring the number of interviewed stakeholders to the originally planned targets. Based on the current status regarding the pandemic, it seems unlikely that any travel of the core study team members to GSP countries will be possible before the completion of the study; therefore, interviews will be held mostly virtually, including in virtual focus groups. Likewise, as physical workshops continue to be impossible in this period, the virtual interviews and focus group meetings will serve to replace them. The focus will be on interviews with GSP country stakeholders, notably of the countries covered by the case studies (Bangladesh; Bhutan; Ethiopia; India; Lao PDR; Myanmar; Pakistan; and Uzbekistan).

3.2 Update on the Work Plan

Due to the extension of the online public consultation by six weeks to 15 July 2020 based on a Commission-wide decision to provide more flexibility for stakeholders during the COVID-19 crisis, the submission of the interim report has also been postponed. At the same time, the scope of the analysis presented in this interim report has been expanded compared to the original plan, and the interim report now covers preliminary findings and recommendations regarding all tasks (rather than the selected tasks as listed in the ToR).

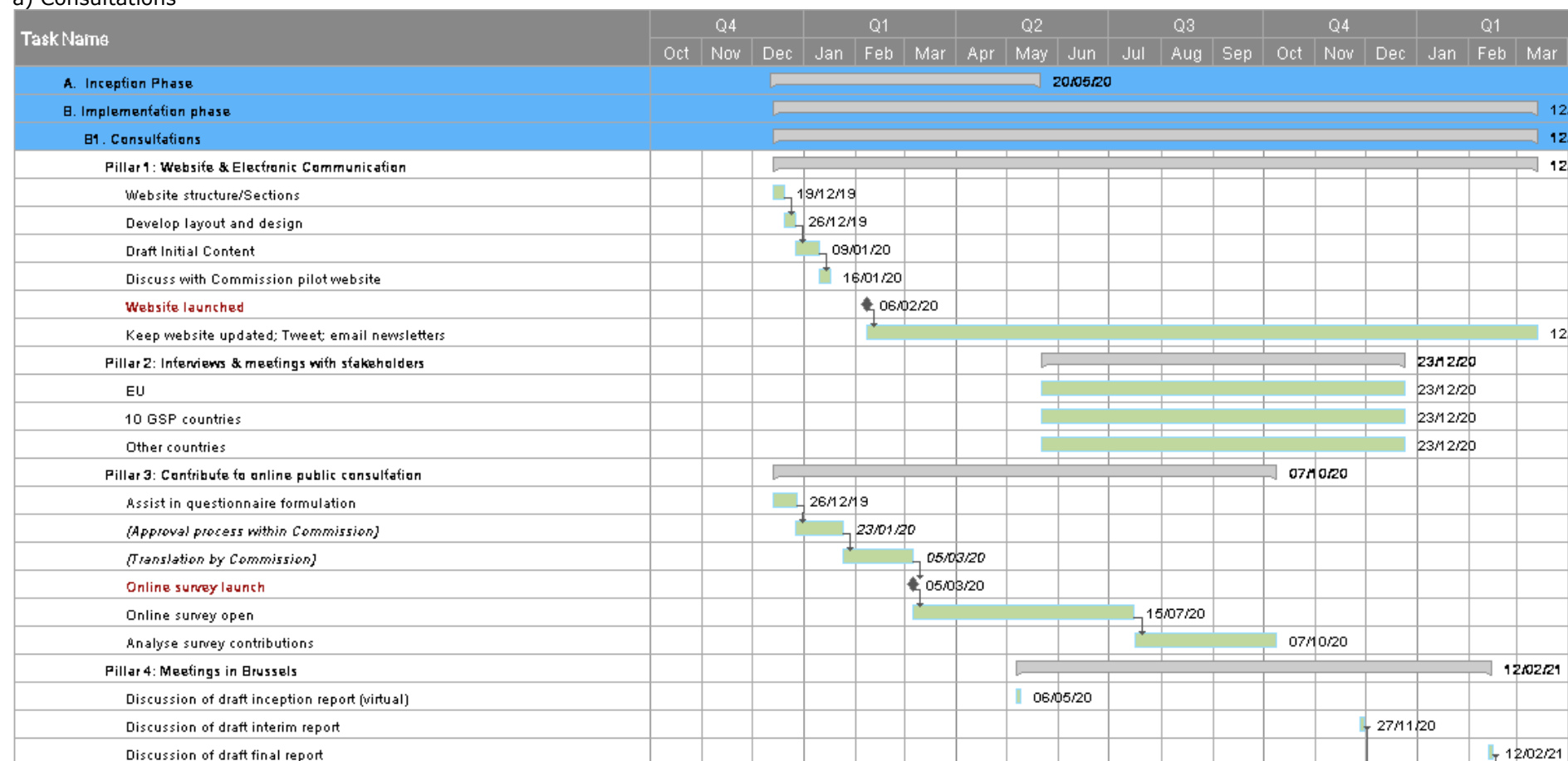
The main upcoming milestones are as follows:

- CSD Meeting to discuss the interim report (end November 2020);
- Submission of draft final report (January 2021);
- CSD Meeting to discuss the draft final report (February 2021);
- Study completion (March 2021).

The updated study schedule is presented in Table 56.

Table 56: Study schedule

a) Consultations



b) Technical tasks and reporting

Task Name	Q4			Q1			Q2			Q3			Q4			Q1		
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
B2. Analyse GSP arrangements and beneficiaries															29/10/20			
B3. Analyse GSP product coverage and product graduation															29/10/20			
B4. Analyse graduation of EBA beneficiaries															29/10/20			
B5. Analyse application of positive conditionality															12/11/20			
B6. Assess international conventions to be covered															29/10/20			
B7. Analyse GSP+ monitoring process															12/11/20			
B8. Analyse process for withdrawing GSP preferences															12/11/20			
B9. Analyse GSP safeguard mechanism															29/10/20			
B10. Develop performance measurement framework for GSP															26/11/20			
B11. Refine GSP problem tree															26/11/20			
Interim reporting															04/12/20			
Draft Interim Report															12/11/20			
Draft Interim Report															13/11/20			
Review meeting: ISG, CSD															27/11/20			
Revise Interim Report															04/12/20			
Final Interim Report															04/12/20			
Final reporting																		05/01/21
Consolidate findings and recommendations																		28/01/21
Draft Final Report																		29/01/21
Review meeting: ISG, Expert Group, CSD																		12/02/21
Revise Draft Final Report																		05/02/21
Final Report																		05/02/21

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