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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**on the application of Regulation (EU) No 978/2012 applying a Scheme of Generalised
Tariff Preferences and repealing Council Regulation (EC) No 732/2008**

{SWD(2018) 430 final}

1. INTRODUCTION

In 1971, the European Community first introduced a Generalised Scheme of Preferences (GSP) following a resolution of the United Nations Conference on Trade and Development (UNCTAD) to create a system of preferences to support developing countries. The GSP is also based on the WTO's enabling clause, which permits developed countries to grant unilateral and non-reciprocal tariff preference to developing countries.

By providing preferential access to the EU market, GSP has the prime objective to assist developing countries in their efforts to reduce poverty and promote good governance and sustainable development, by helping them to generate in particular employment, industrialisation and additional revenue through international trade.

1.1. The reform of 2012

The EU's GSP has undergone several transformations over the decades in terms of country and product coverage, also with the objective to increasingly promote sustainable development. The general objectives of the GSP reform of 2012 were threefold¹: (i) to contribute to poverty eradication by expanding exports from countries most in need; (ii) to promote sustainable development and good governance; and (iii) to ensure better safeguards for the EU's financial and economic interest. These general objectives were translated into six specific operational objectives for the GSP Regulation:

1. to better focus the preferences on the countries most in need;
2. to remove disincentives towards diversification for the countries most in need;
3. to enhance consistency with overall trade objectives, whether bilateral or multilateral;
4. to strengthen the support for sustainable development and good governance;
5. to improve the efficiency of safeguard mechanisms ensuring that the EU's financial and economic interests are protected; and
6. to enhance legal certainty, stability and predictability of the scheme.

1.2. The current regulation

The current GSP Regulation² entered into force on 1 January 2014 for a period of ten years. The GSP consists of three different arrangements:

1. a general arrangement (Standard GSP) for developing countries that have not achieved high or upper middle income status;
2. a Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) for Standard GSP beneficiaries that are also considered vulnerable; and
3. an Everything But Arms (EBA) arrangement for Least Developed Countries (LDCs).

¹ See page 21 of Commission Staff Working Document - Impact Assessment Vol. I Accompanying the document Proposal for a Regulation of the European Parliament and of the Council on applying a scheme of generalised tariff preferences {COM(2011) 241 final}{SEC(2011) 537 final, available at: http://ec.europa.eu/smart-regulation/impact/ia_carried_out/docs/ia_2011/sec_2011_0536_en.pdf

² Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences.

Table 1 provides an overview of provisions and beneficiaries under these arrangements.

Table 1: Overview of the three GSP arrangements

	Standard GSP	GSP+	EBA
Beneficiaries	Low or lower-middle income countries	Standard GSP beneficiaries that are vulnerable (in terms of export diversification, export volumes) and have ratified 27 international core conventions	LDCs
Number of beneficiaries	18	8	49
Tariff preferences	duty suspension (non-sensitive goods) or duty reduction (sensitive goods) for around 66% of all EU tariff lines	duty suspension for around 66% of all EU tariff lines	duty suspension for all goods with the exception of arms and ammunition

From Table 2 below, we can see that compared to total EU imports from the world the share of GSP is relatively modest and even declining. The vast majority of imports into the EU takes place under Most Favoured Nation (MFN) tariffs (i.e. tariffs that apply to all countries). EU imports under non-GSP preferential schemes, which include all kinds of trade agreements (free trade agreements, deep and comprehensive free trade agreements and Economic Partnership Agreements), have steadily increased between 2011 and 2016, signalling their growing importance. This is in line with the objective to encourage countries that were previously GSP beneficiaries to continue their trade with the EU under more comprehensive preferential trading schemes, which are often reciprocal.³

³ Standard GSP and GSP+ beneficiaries lose their GSP status in case of a preferential market access arrangement which provides the same tariff preferences as the scheme, or better, for substantially all trade. Current or past GSP beneficiaries have therefore the incentive to conclude trade agreements to upgrade and make long-term their market access to the EU.

Table 2: Share of EU imports by tariff regime (2011-2016)⁴

	Import value (EUR millions)	MFN=0	MFN>0	GSP	FTAs	Other	Total	Trade under zero tariffs
2011	1578724	62.5%	21.5%	5.8%	9.5%	0.7%	100.0%	75.2%
2012	1631256	63.6%	20.0%	5.8%	9.8%	0.9%	100.0%	76.6%
2013	1530711	61.9%	20.2%	6.1%	10.7%	1.1%	100.0%	76.0%
2014	1534073	60.4%	23.1%	3.9%	11.6%	1.1%	100.0%	74.1%
2015	1557035	56.6%	26.1%	3.9%	12.4%	1.1%	100.0%	71.2%
2016	1546772	56.1%	26.1%	4.1%	12.8%	0.9%	100.0%	71.4%

(MFN=0 means EU imports under zero Most Favoured Nation (MFN) tariffs, MFN>0 means EU imports under positive MFN tariffs, FTA means Free Trade Agreement)

1.3. The midterm evaluation

Pursuant to Article 40 of the GSP Regulation, the Commission shall submit a report on the application of the GSP Regulation to the European Parliament and to the Council, five years after the adoption of the regulation.

An independent external consultant was contracted to carry out a study to support this midterm evaluation. The final report produced by the consultant (Study) is made public alongside this report⁵. The staff working document (SWD) accompanying this report on the application of Regulation 978/2012 summarises the findings of and recommendations by the consultant. The SWD presents the process and methodology used in the context of this evaluation as well as the analysis of the evidence that have allowed the Commission to conclude on the application and the performance of the GSP Regulation.

The external evaluation used three complementary approaches in the midterm evaluation to analyse the functioning and impact of the GSP in the beneficiary countries and the EU, namely: (i) quantitative and qualitative desk research and data analyses; and (ii) an inclusive and extensive stakeholder consultation process; and (iii) country and sector case studies. For the economic analyses of the reformed GSP, the most up-to-date economic, trade and tariff data provided by Eurostat for the period 2011-2016 was used. Additionally, indicators were compiled to analyse the social, environmental and human rights impact in the beneficiary countries. This research was complemented by qualitative research based on literature sources as well as econometric estimation of the determinants of trade flows using gravity modelling. Since the reformed GSP has only been in force for three years as of the start of the midterm evaluation process, the number of readily available and up-to-date social, human rights and environmental impact indicators is limited. To overcome this shortcoming, case studies were undertaken in a

⁴ Table 3 on page 45 of the Study

⁵ <http://trade.ec.europa.eu/doclib/html/157270.htm>

number of beneficiary countries. These can, however, only give indications and are not necessarily representative. Therefore, the conclusions drawn at this point in time are indicative.

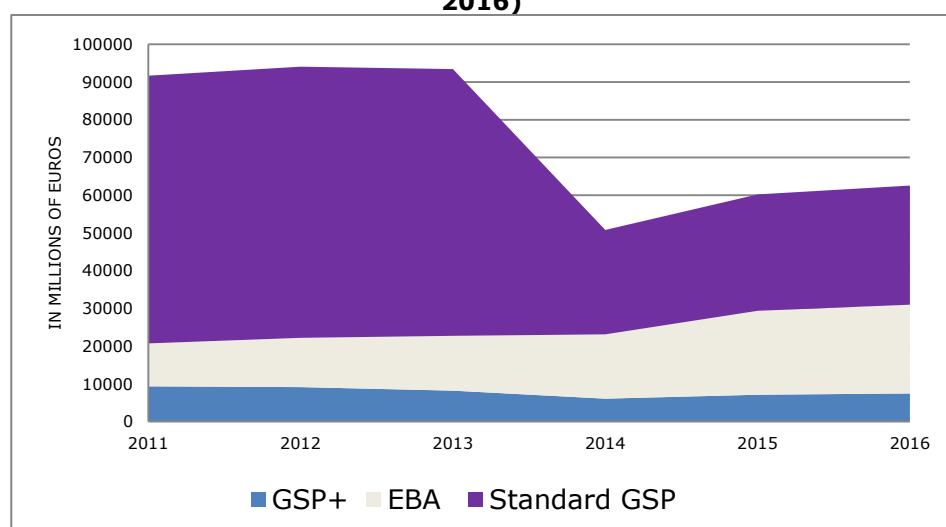
2. EVALUATION OF THE GSP REGULATION

The application of the GSP Regulation is evaluated in light of the general objectives of the 2012 reform.

2.1. Contribute to poverty eradication by expanding exports from countries most in need

The effectiveness of the GSP has been enhanced by focusing better on countries most in need, which was a main goal of the GSP reform. As figure 1 shows, following the entry into force of the GSP Regulation in 2014 a significant decline in the value of imports under the Standard GSP can be observed, because a large number of countries, including China, an upper middle-income country since 2010, are no longer eligible for GSP.⁶ A slight decline in GSP+ imports is also evident. Imports under the EBA arrangement have however steadily increased.

Figure 1: Analysis of the usage of GSP preferences by eligible countries (2011-2016)⁷



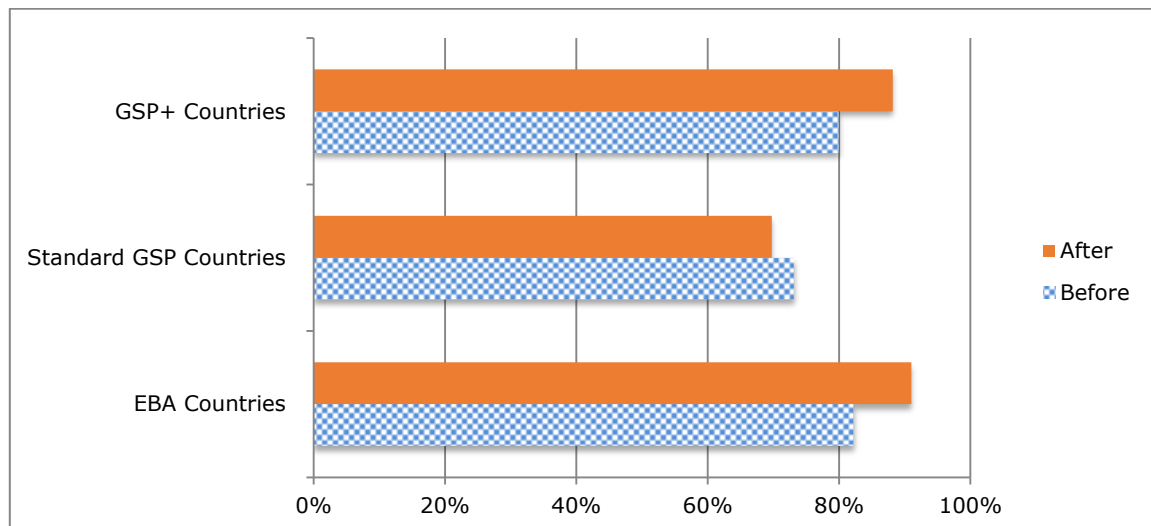
Overall, the positive economic impact of the GSP reform can already be witnessed and the relevance for beneficiaries of the GSP remains strong. In particular, while its aggregate trade impact has diminished as a result of the reduced number of beneficiaries it remains essential for those countries most in need of support, notably LDCs and other vulnerable countries. Their total exports to the EU have risen substantially, while their actual use of the preferences offered by GSP showed overall positive results (see figure 2). However, challenges to taking full advantage of the trade opportunities remain in

⁶ In total, 82 countries are no longer eligible for GSP after the 2012 GSP reform

⁷ Figure 2 on page 47 of the Study

some countries, such as strong competition from other countries, non-tariff barriers, rules of origin requirements, compounded by other supply-side constraints, for example limited production and transport capacity, a lack of diversification, and in general a low industrial development.

Figure 2: Utilisation rate per GSP arrangement⁸



While export diversification levels showed little change and remained lowest for EBA countries, this is largely due to supply side constraints and the enabling environment in beneficiary countries and not to GSP.

In conclusion the reformed GSP has reduced the number of Standard GSP beneficiaries, increased preference utilisation and contributed to poverty eradication by expanding exports from countries most in need.

2.2. Promote sustainable development and good governance

A country’s sustainable development, in its economic, social and environmental dimensions, depends on a multitude of factors, including the overall development strategies of the country. GSP as a trade policy instrument thus acts together with other EU external policies, such as its development policies. GSP has been found to be coherent with those EU policies, but also its foreign and security policies, especially as it relates to respect for human rights and fundamental freedoms.

The GSP has had an overall positive impact on social development and human rights in the beneficiary countries. For example:

- GSP has had a noteworthy impact on the role of women in society through the creation of employment opportunities for women and improved participation of women in the labour force in export industries trading with the EU. This is the case in particular in the textile and clothing sectors, amongst others, for example in Bangladesh and Pakistan.

⁸ Figure 6 on page 61 of the Study.

- GSP has propelled developing countries to ratify international conventions, for example Tajikistan, in seeking to avail themselves of enhanced access to the EU market through GSP+. While ratification in itself does not necessarily mean that the rights enshrined in the conventions are respected, it provides an important impetus and framework for improvement.
- The close monitoring of countries that benefit from GSP+ has increased the EU's leverage in these countries in pushing for the effective implementation of the 27 international conventions related to human and labour rights, protection of the environment and good governance. It has allowed for constructive dialogue, enabling the EU to engage with beneficiary countries on all areas where implementation is unsatisfactory. Overall GSP+ has made a contribution to sustainable development and good governance. The biennial GSP reports by the Commission and the European External Action Service⁹ show that all GSP+ beneficiary countries are making progress in implementing the relevant international conventions, even though challenges and problematic issues remain in all countries.
- In line with its commitment in the Trade for All Communication, the Commission, together with the High Representative, has also stepped up its engagement with certain EBA beneficiary countries to contribute to EU efforts to ensure respect of fundamental human and labour rights.

The impact of GSP on the environment is more difficult to assess for a number of reasons, e.g. lack of relevant and up-to-date data and indicators, and isolating the effect of GSP from other factors affecting the environment. It can be expected to be positive only if the beneficiary countries have policies in place to effectively direct their resources to environmental policies and mitigation measures that limit any potentially detrimental effects of increased economic activity on the environment.

Standard GSP and EBA are based on the respect of fundamental human rights and labour rights principles. GSP+ beneficiaries must moreover effectively implement all GSP+ relevant international conventions. The EU will continue to engage with beneficiary countries and use its leverage. The EU remains ready to launch the procedure to temporarily withdraw preferences in respect of all or certain products, in case its engagement with GSP beneficiaries fails to deliver, and if the legal conditions of the GSP Regulation are fulfilled.

To conclude, the reformed GSP has contributed to the promotion of sustainable development and good governance, in particular through the EU's enhanced monitoring of the implementation of the international conventions relevant to GSP+.

⁹ Report from the Commission to the European Parliament and the Council on the Generalised Scheme of Preferences covering the period 2016-2017, COM(2018) 36, available at: http://trade.ec.europa.eu/doclib/docs/2018/january/tradoc_156536.pdf

Report from the Commission to the European Parliament and the Council on the Generalised Scheme of Preferences covering the period 2014-2015, COM(2016) 29, available at: http://trade.ec.europa.eu/doclib/docs/2016/january/tradoc_154180.pdf

2.3. Ensure a better safeguard for the EU's financial and economic interest

The granting of unilateral trade preferences to other countries can provide benefits to EU industry, e.g. those that rely on imported inputs for their competitiveness, and consumers through cheaper and more variety of goods. However, it can also increase the competitive pressure on EU industry that competes with goods imported under GSP. While the reduction in the number of beneficiaries should generally have reduced the competitive pressure on EU industry, this might not be the case in specific industry sectors (e.g. textiles, clothing and tyres). That is why ensuring better safeguards for the EU's financial and economic interests has been among the Commission's objectives.

The GSP Regulation has mechanisms to protect EU industry in warranted cases. The general safeguard provisions were reformed in 2012 to better protect the EU's economic interests. The recently launched safeguard investigation on imports of rice from Cambodia and Myanmar/Burma¹⁰ will be the first test of the new safeguard provisions. Furthermore, the Commission monitors closely the conditions for the possible initiation of the automatic safeguards provided by Article 29 of the GSP Regulation. Moreover, the Commission ensures that countries that no longer need unilateral preferences (because of their improved income status or the conclusion of a trade arrangement with the EU) are removed from the scheme. Finally, tariff preferences under GSP are also removed for specific product sections of a country when they become sufficiently competitive.

To conclude, the reformed GSP has improved provisions to protect EU's financial and economic interests. Too competitive products are regularly removed from the scheme and there is an ongoing safeguard investigation concerning rice imports.

3. CONCLUSIONS

The midterm evaluation largely focused on an assessment of the results of the major reform that took place in 2012 as embodied in the current GSP Regulation. The evaluation showed that the EU's current GSP is on track in delivering on its objectives. Within the limits set by the WTO's Enabling Clause, it brings clear economic benefits to developing countries, making it relevant to the development needs of beneficiary countries. Moreover, the 2012 reform succeeded in focusing preferences on countries most in need and has contributed to their sustainable development. Finally, the efficiency of the scheme has remained stable during the period of implementation of the current regulation.

Therefore, at this stage, there is no need to amend the GSP Regulation before its expiry on 31 December 2023.

In line with the Study's recommendations, the implementation of the GSP Regulation could however be improved in two important aspects:

¹⁰ Notice of initiation of a safeguard investigation concerning imports of Indica rice originating in Cambodia and Myanmar/Burma, O.J. 2018/C 100/13, available at: [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018XC0316\(02\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018XC0316(02)&from=EN)

1. *Improving transparency in GSP+ monitoring and better involving civil society both in the EU and in the beneficiary countries:* In line with its commitments in the Trade for All Communication, the Commission is committed to transparency. In this respect, a number of measures are already in place to ensure transparency and inclusiveness in the GSP+ monitoring process. Regular and broad stakeholder consultations are held in order to allow civil society actors, including local civil society, to engage in the process. Additionally, the biennial reports on the implementation of the GSP are a major source of information and are made public immediately upon their transmission to the European Parliament and the Council. It should also be noted that the public UN and ILO reports are the primary source of information for GSP+ monitoring. The Commission will explore practical ways of improving transparency of GSP+ monitoring and to further civil society involvement.

2. *Promoting greater awareness of GSP in beneficiary countries:* GSP success largely depends on the uptake of the scheme by exporters in beneficiary countries and the degree of their awareness of the GSP rules. In this respect, there are already actions and programmes financed or undertaken by the EU that have this objective¹¹. Even though promoting the scheme is primarily the responsibility of beneficiary countries, the EU could do more to raise awareness not just for businesses, but also for civil society organisations, who have an important role to play in the implementation of the international conventions.

Beyond the abovementioned steps linked to the GSP implementation, the study provides some insight of the workings of the scheme, and makes observations on aspects to be considered in a successor scheme.

The present midterm evaluation constitutes an important input for the reflection on the next GSP Regulation. The Commission looks forward to discussions with the European Parliament, the Council and civil society in this respect.

¹¹ For example in the trade related technical assistance programmes the EU has had in Pakistan and is currently undertaking in Sri Lanka, as well as support to local civil society organisations under a programme funded under the European Instrument for Democracy and Human Rights.