

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

(TRADE/2019/D1/Do6, Contract No. Sl2.815944)

Presentation of interim report

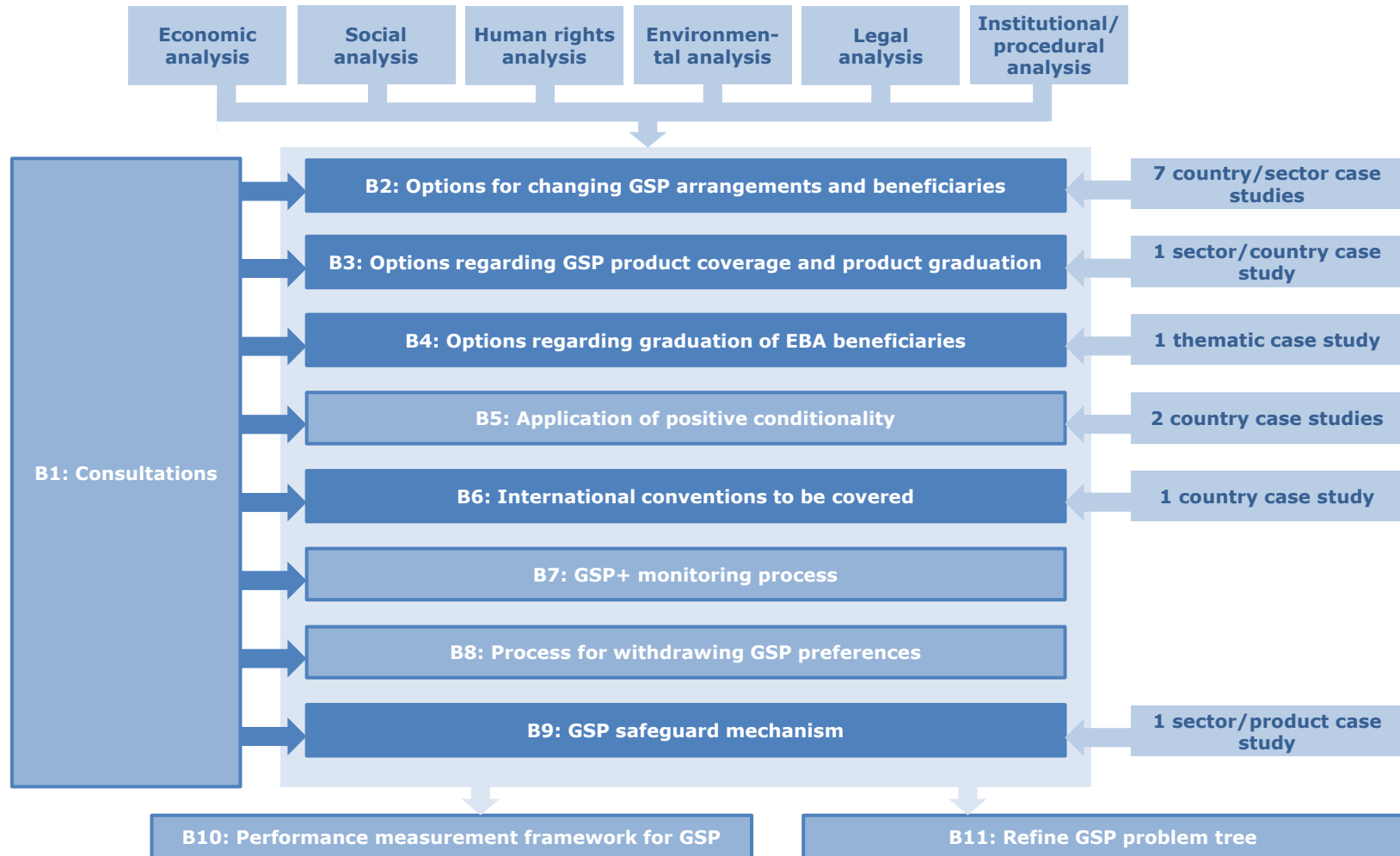
Civil society dialogue meeting
Webex, 25 February 2021

Overview of presentation

1. Summary of study approach & methodology
2. Findings and recommendations
3. Brief on consultations

1. Summary of study approach and methodology

Overview of study approach (1)



Legend: Priority tasks Other tasks Types of analysis & case studies

Overview of study approach (2)

- **Specific research questions** to be addressed – “separate” analyses under B2-B9
 - ⇒ Task-specific methodologies
 - ⇒ Varying importance of economic, social, human rights, environmental, and legal/institutional/procedural analysis
- **General method:** for each task, comparison of different policy options – defined in the ToR – with one another and a “no change” scenario
- **Main sources of information & data:**
 - Commission CGE modelling simulation results
 - Literature review
 - Consultations

2. Findings and recommendations

Changes to GSP arrangements & beneficiaries (B.2) – scenarios & findings

- **Aim:** Focus GSP preferences on countries “most in need”
- **Scenarios:** Keep all three arrangements (2a), keep EBA (2b), keep GSP+ and EBA (2c), graduate large DCs: India, Indonesia (2d)
- **Findings:**
 - **Countries losing GSP preferences:**
 - drop in exports, GDP, welfare and other economic, social indicators (incl. gender), and negative effect on some human rights (work, adequate standard of living).
 - Most affected countries: Bangladesh (GDP -0.36%), Pakistan (-0.30%); others up to -0.1%. LDC graduating countries lose twice (scen. 2b, c)
 - Most affected sectors: textiles, garments, leather, other food
 - **Other countries:** benefit, but to a very small extent (GDP up to 0.03%). Benefits evenly distributed; LDCs do not benefit most
 - **Environmental effects:** negligible globally; ambiguous at country level

Changes to GSP arrangements & beneficiaries (B.2) – macroeconomic effects

	Scenario 2b (only EBA)			Scenario 2c (EBA & GSP+)			Scenario 2d (no large DCs)			Scenario 4a (EBA grad->GSP)		
	Exports to EU	GDP quant	GDP value	Exports to EU	GDP quant	GDP value	Exports to EU	GDP quant	GDP value	Exports to EU	GDP quant	GDP value
EU27	0.11	-0.01	0.03	0.09	-0.01	0.03	0.08	0.00	0.02	-0.06	0.00	0.02
Standard GSP												
BGD	-7.36	-0.32	-0.98	-8.08	-0.36	-1.08	0.58	0.03	0.07	-8.52	-1.66	-4.92
IDN	-7.98	-0.08	-0.29	-8.12	-0.08	-0.29	-8.19	-0.08	-0.29	0.00	0.00	0.00
IND	-3.06	-0.07	-0.25	-3.19	-0.07	-0.26	-3.27	-0.07	-0.25	0.00	0.00	-0.01
KEN	-2.09	-0.06	-0.28	-2.20	-0.06	-0.25	0.15	0.01	0.01	0.00	0.00	0.00
LAO	-2.22	-0.01	-0.08	-2.35	-0.01	-0.08	0.24	0.00	0.00	-0.72	-0.09	-0.50
NGA	-0.40	-0.02	-0.07	-0.43	-0.02	-0.07	0.19	0.00	0.01	0.00	0.00	0.00
NPL	-1.25	-0.02	-0.13	-1.39	-0.02	-0.13	0.32	0.00	-0.03	-1.14	-0.10	-0.38
GSP+												
BOL	-1.54	-0.01	-0.05	0.12	0.00	0.00	0.10	0.00	0.00	0.00	0.00	0.00
KGZ	-2.66	0.03	-0.08	0.11	-0.01	0.00	0.09	0.00	0.00	0.01	0.00	0.00
MNG	-2.14	-0.06	-0.08	0.15	0.00	-0.01	0.11	0.00	-0.01	0.00	0.00	0.00
PAK	-24.90	-0.30	-1.31	0.82	0.00	0.02	0.48	0.00	0.02	-0.02	0.00	-0.01
PHL	-4.71	-0.05	-0.22	0.17	0.00	0.00	0.14	0.00	0.00	0.00	0.00	0.00
TJK	-7.20	0.02	-0.10	0.29	-0.01	0.01	0.20	-0.01	0.00	0.07	0.00	0.01
EBA												
OLDC	0.44	0.02	0.01	0.28	0.01	0.01	0.21	0.00	0.01	0.02	0.00	0.01
Others												
ARM	0.15	0.00	0.01	0.12	0.00	0.01	0.10	0.00	0.01	0.01	0.00	0.01
CHN	0.54	0.00	0.02	0.38	0.00	0.01	0.29	0.00	0.01	0.00	0.00	0.00
LKA	0.77	0.01	0.04	0.51	0.01	0.02	0.37	0.01	0.02	0.07	0.00	0.02
TUR	0.23	0.00	0.11	0.14	0.00	0.07	0.07	0.00	0.05	0.01	0.01	0.08
UK	0.09	-0.01	0.04	0.07	0.00	0.03	0.07	-0.01	0.02	-0.03	0.00	0.03
VNM	1.02	0.03	0.06	0.81	0.03	0.05	0.67	0.02	0.04	0.04	0.01	0.01
SSA	-0.03	0.00	-0.01	-0.01	0.00	-0.01	0.08	0.00	0.00	-0.09	-0.03	-0.05
OGSP	-0.13	-0.01	-0.03	0.00	-0.01	-0.01	0.08	0.00	0.00	-0.06	-0.02	-0.04
ROW	0.18	0.00	0.00	0.14	0.00	0.00	0.12	0.00	0.00	0.01	0.00	0.00

Changes to GSP arrangements & beneficiaries (B.2) – conclusions & recs.

- **no compelling reason to change the existing GSP scheme**
 - costs of changes in all policy change scenarios concentrated on few countries and sectors, but benefits will be diluted and not targeted on intended beneficiaries
 - negative effects of preference removal under scenarios 2b and 2c (discontinue Standard GSP) on those countries that are expected to graduate from LDC status
 - GSP: already focused on “most in need” through graduation of upper-middle income countries and graduation of globally competitive sectors (product graduation)

Changes to GSP product coverage and graduation (B.3) – a) product coverage

- **Aim:** foster export diversification of GSP beneficiaries
- **Change scenario (3b):** expand GSP+ & Standard GSP product scope by including goods that can help achieve environmental goals
- **Findings:**
 - Based on list of products provided: limited number of products with positive MFN duties: import expansion EUR 18 M (4.3%)
 - Import increase would be captured by largest and most diversified Standard GSP and GSP+ countries, limited export diversification of “weaker” beneficiaries
 - Minimal social, human rights and environmental effects
- **Conclusion/recommendation:**
 - Change scenario would not be effective
 - *Alternative suggestion:* Instead of adding a few products to the list, introduce sunset clause for all excluded and sensitive products, coupled with mechanism for application by industry to establish (or continue) country-product exclusion/sensitivity

Changes to GSP product coverage and graduation (B.3) – b) product graduation

- **Aim:** better focus on those in need by graduating competitive sectors
- **Change scenario (3c):** Expand product graduation to all GSP countries for (1) only rice and sugar; and (3) all agricultural goods
- **Findings:**
 - Expanding graduation for rice and sugar to all GSP countries would not impact access to preferences if thresholds remain unchanged
 - Expanding graduation for all agricultural goods would lead to graduation of cut flowers from Ethiopia only, with potential negative effects there (see case study below)
 - Changing threshold basis to M from world (instead of M from GSP countries) requires adjustment of threshold levels raising question of how to set the threshold in a non-arbitrary manner
- **Conclusion/recommendation:**
 - Expanding graduation to EBA & GSP+ with unchanged thresholds/section not recommended
 - *Definitions of GSP sections used for graduation to be reconsidered*

Potential changes to GSP product graduation (B.3) – Case study: Cut flowers from Ethiopia

- **Aim:** better focus on those in need by graduating competitive sectors
- **Overall finding:**
 - Expanding graduation for all agricultural goods would lead to graduation of cut flowers from Ethiopia => *need to add more detailed analysis*
- **Case study findings:**
 - PE analysis: graduation expected to lead to 16% decline in ET flower output
 - Ambiguous social and environmental consequences
 - High vulnerability of ET flower exports to EU: >80% of total flower exports, limited scope for diversion or exports or switch to alternative crops
 - All main competitors to Ethiopia have duty free access to EU (FTAs)
 - Little gain for EU industry, as ET main producers are EU investors
 - ⇒ **Measure would hardly lead to greater focus of GSP preferences on those “most in need”**
 - ⇒ **Basing product graduation only on thresholds may be simplistic**

Changes related to graduation of EBA beneficiaries (B.4) – scenarios & findings

- **Aim:** Ameliorate shock for countries graduating from LDC status
- **Change scenarios:** Amend GSP+ criteria to allow eligibility to all EBA graduating countries (4b); change transition period to 5 years (4c2) or 1 year (4c3)
- **Findings:**
 - 12 countries assumed to graduate within 10 years (but: now unlikely due to covid-19!): 6 expected to face negative shocks, esp. Bangladesh
 - None of the 12 countries meets GSP+ sustainable development criteria (i.e. ratification of all 27 conventions)
 - Bangladesh does not meet vulnerability criterion (export competitiveness) – but given the expected shock (-1.66% real GDP, almost -5% nominal GDP) must be considered vulnerable
 - Valid arguments for both extension and shortening of transition period

Changes related to graduation of EBA beneficiaries (B.4) – conclusions & recs.

- Given negative effects from graduation, consider mitigating actions, e.g. support in meeting GSP+ criteria (ratification of conventions)
- Adjust export competitiveness vulnerability criterion to 16%, or abolish, or replace by different criterion (e.g. based on implied effective mean tariff increase)
- Expand transition period to 5 years
 - in line with investment/business realities (especially in view of new uncertainties about time to graduation in the post-COVID scenario)
 - provides time to beneficiary countries e.g. to meet GSP+ criteria (ratification of conventions)
- Or: consider transition periods on case-by-case basis

Changes to Annex VIII list of 27 international conventions (B.6)

- **Aim:** Ensure continued relevance of Annex VIII
- **Change scenarios:** remove obsolete & add relevant conventions
- **Findings/conclusions/recommendations:**
 - Current list of conventions relevant, except Kyoto Protocol – should be replaced with 2015 **Paris Agreement**
 - 4 conventions proposed for addition:
 - **Convention on the Rights of Persons with Disabilities (CRPD);**
 - **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;**
 - **UN Convention against Transnational Organized Crime**
 - Other conventions could be considered for future addition (currently limited ratification status)
 - Administrative burden for Commission is considered to be limited; beneficiaries might need transition time & EU support

Changes to GSP conditionalities (B.5) – scenarios and findings

- **Aim:** further GSP contribution to sustainable development objective
- **Change scenarios:**
 - extend Art. 19(1) negative conditionality to all Annex VIII conventions (5b);
 - extend positive conditionality (ratification of Annex VIII conventions) to all GSP beneficiaries (5c);
 - extend ratification and implementation requirement to all GSP beneficiaries (5d)
- **Findings:**
 - **Negative conditionality:** insufficient deterrence for GSP countries to refrain from violating principles established in Annex VIII conventions
 - **Positive conditionality:** effective in incentivising GSP countries to ratify & implement conventions if export exposure to EU is high enough
 - Generally ratification performance (5c) among GSP countries is high, but implementation (5d) faces more challenges

Changes to GSP conditionalities (B.5) – conclusions and recommendations

- Continuation of **current conditionality regime**: might not sufficiently leverage Standard GSP and EBA beneficiaries to ratify and implement human rights, ILO, environmental and governance conventions
- Extending **negative conditionality** recommended, but only because of policy coherence considerations – limited effectiveness
- Extending **positive conditionality** (ratification) recommended: could help to contribute to attaining the GSP objectives regarding promotion of sustainable development. But:
 1. Risk of some GSP countries dropping out, with negative effects
⇒ Staged approach with transition periods and EU support
 2. Ratification alone not enough: implementation is key => requires additional resources for both implementation and monitoring
- Gradual changes (not analysed) could be considered, e.g. extending positive conditionality to Standard GSP but not EBA

Changes to GSP+ monitoring process (B.7)

- **Aim:** foster transparency & inclusiveness of GSP+ monitoring practices
- **Change scenarios:** amend implementation of monitoring to allow for more civil society involvement (7b); introduce formal structures for civil society involvement (7c); extend monitoring cycle from 2 to 3-4 years (7d)
- **Findings/conclusions/recommendations:**
 - Transparency has increased but more could be done to clarify how and on what basis monitoring is undertaken
 - ⇒ Make lists of issues publicly available, complemented with more specific time-bound commitments on progress by beneficiaries
 - Develop system for CSO involvement: individual DAGs (but: resource intensive!) or one GSP+ CSO intermediary body (e.g. funded by EIDHR)
 - Alignment of GSP+ monitoring cycle with UN/ILO monitoring cycles for conventions is not possible
 - ⇒ Extend to 3-year cycle, coupled with option for out-of-cycle monitoring

Changes to process for temp. preference withdrawal (B.8) – scenarios & findings (1)

- **Aim:** foster transparency, and enhance mechanism for preference withdrawal (Art. 15 & 19)
- **Change scenarios:** introduce additional steps prior to launch of formal withdrawal procedure (8b); and after launch (8c); introduce partial withdrawal of preferences for specific economic operators (8d)
- **Findings/conclusions/recommendations:**
 - 8b: Transparency has increased but more could be done:
 - More frequent, consistent and reported involvement of local actors
 - Guidance note to explain enhanced engagement process and how the Commission takes decisions
 - Regular reporting on enhanced engagement progress
 - Consider introduction of complaint mechanism (e.g., inspired by other existing mechanism, including the recently launched for TSD chapters)

Changes to process for temp. preference withdrawal (B.8) – findings & recs.

- **Findings/conclusions/recommendations continued:**

- 8c: During formal procedure:

- Include additional step: analysis of potential impacts of preference withdrawal, including for workers and vulnerable groups
- Seek active engagement with stakeholders from EU, beneficiary country and international ones, including business & civil society

- 8d: Targeting or excluding economic operators by/from preference withdrawal:

- Targeting of operators raises legal issues regarding who is responsible for non-compliance with international conventions
- Exemptions of operators (e.g. those complying with due diligence mechanisms or voluntary sustainability schemes) could be considered. But: risk of passing the burden of ensuring compliance with rights enshrined in international conventions from the beneficiary country government to the private sector

Changes to automatic safeguard mechanism (B.9) – scenarios and findings

- **Aim:** ensure that GSP is not to the detriment of EU industry
- **Change scenarios:** expand automatic safeguards (Art. 29) to all agricultural goods (9b); expand automatic safeguards to cover also EBA countries (9c) for (1) current product scope; (2) also rice & sugar; (3) all agricultural goods
- **Findings:**
 - 9b: Applying current thresholds & rules (application at GSP section level), automatic safeguards for agricultural goods would be triggered very rarely – negligible impact
 - 9c: Automatic safeguards if extended to EBA countries would hardly be triggered (if applied at GSP section level) – negligible impact
 - General: heterogeneous nature of GSP product sections leads to unequal treatment across sections

Changes to automatic safeguard mechanism (B.9) – conclusions & recs.

- Without amending the trigger conditions for automatic safeguards, none of the considered options would have much effect
- Current regime not well connected to purpose of protecting EU industry
- Main recommendation:
 - EU could extend current regime for automatic safeguards (both 9b and 9c3) as an insurance policy of last resort that would be triggered only in extreme circumstances
- *Alternative suggestion:* amend automatic safeguard regime
 - Trigger GSP safeguard automatically whenever EU opens investigation for WTO safeguard on products within the relevant section;
 - Trigger GSP safeguard if total imports “surge” according to some measure **and** imports from a GSP beneficiary perform above average;
 - Calculate import surges based on import values rather than import volumes (due to the heterogeneity of products within sections);
 - Abolish *de minimis* threshold (condition 3) established in Article 29.1(b)
 - Coordinate rules for automatic safeguards and product graduation

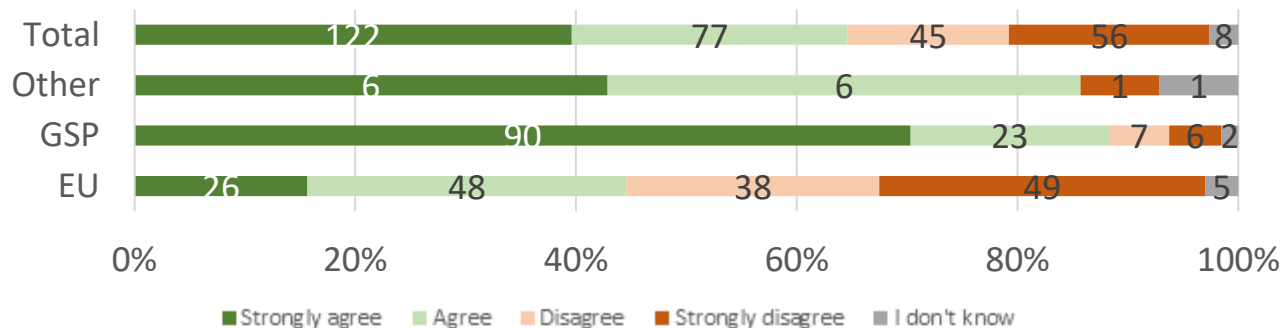
3. Brief on consultations

Consultations

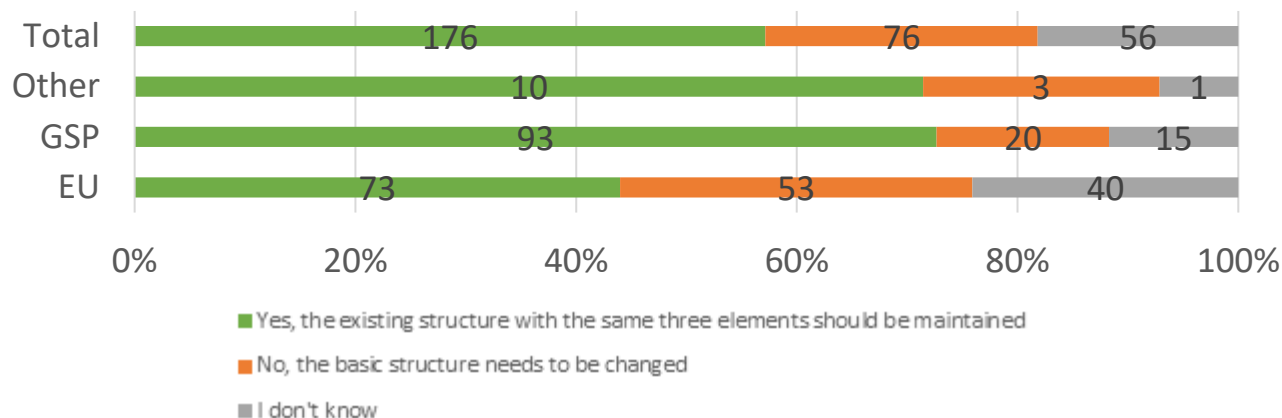
- Online public consultation completed and evaluated:
 - >500 responses; 309 after cleaning (campaigns)
 - Strong support for GSP in beneficiary countries, majority of EU respondents also supporting
 - Diverging views on specific topics
 - Note: results not representative!
- E-communication also as planned, high outreach
- Physical interviews and meetings not possible due to covid-19 – replaced by virtual interviews
- Another round of (virtual) interviews (esp. of GSP country stakeholders) ongoing to discuss interim report findings and recommendations

OPC – 2 snapshots

- Should the EU continue to offer developing countries unilateral access for their exports?



- Should a new GSP scheme maintain the same structure and continue with the three arrangements (Standard GSP, GSP+, EBA)?





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