

# Second report on the effects of GSP and the special incentive arrangement for sustainable development and good governance (GSP+) covering 2016-2017

## **What is GSP?**

Generalised Scheme of Preferences (GSP), consisting of the three arrangements Standard GSP, GSP+ and Everything But Arms (EBA), is the EU's trade preference programme for vulnerable developing countries. It allows them to pay fewer or no duties on exports to the EU in return for improving the implementation of core human and labour rights principles and standards.

The three-pronged GSP provides preferential market access in varying degrees to the EU to help the beneficiary countries expand their exports which would result in creating employment and thus contribute to poverty alleviation with due regard to human rights and sustainable development objectives. This can lead to other positive spill-over effects on investment and non-exporting sectors, and foster long-term economic growth and social development.

- Standard GSP reduces EU import duties for about 66% of all product categories.
- The Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) grants full removal of tariffs on over 66% of product categories in return for the effective implementation of 27 core international conventions on human and labour rights, environmental protection and good governance. The 2012 GSP Regulation sets strict, objective criteria for granting GSP+.
- The EBA arrangement grants full duty free and quota free access to the EU for all products (except arms and ammunition). To be eligible for EBA, a country must be listed by the UN as Least Developed Country (LDC).

More information on the conditions to benefit from GSP is available on DG TRADE's GSP web page.

## **What report(s) are being published?**

According to the 2012 GSP Regulation the Commission has to submit, every two years, a report to the European Parliament and to the Council on the effects of the GSP covering all three preferential arrangements (Standard GSP, GSP+, EBA) during the most recent two-year period. The report is accompanied by 10 country-specific analyses related to the EU's special incentive arrangement for sustainable development and good governance (GSP+), called Staff Working Document(s)

Both documents have been jointly prepared by the Commission and the European

External Action Service (EEAS).

### **Which countries feature in the report?**

The main report on the effects of GSP in general covers all countries benefiting from all three arrangements (23 Standard GSP beneficiaries, 10 GSP+ beneficiaries, 49 EBA beneficiaries) during the reporting period 2016-2017.

The 10 GSP+ beneficiaries during the reporting period 2016-2017 were Armenia, Bolivia, Cabo Verde, Georgia, Kyrgyzstan, Mongolia, Pakistan, Paraguay, the Philippines and Sri Lanka. Since 1 January 2017, Georgia no longer is a GSP beneficiary country due to its preferential market access under a Deep and Comprehensive Free Trade Area (DCFTA) with the EU. Kyrgyzstan became a GSP+ beneficiary shortly after the start of the reporting period (January 2016). Sri Lanka became a GSP+ beneficiary again in May 2017, after having been removed in 2010.

### **How does the GSP report fit in with the overall GSP+ monitoring?**

The GSP+ monitoring mechanism involves two interrelated tools. The first is the list of issues, an annual exchange of information about the beneficiaries' shortcomings on each of the 27 conventions. The key sources of information for those shortcomings are the relevant UN and ILO monitoring and supervisory bodies. The GSP+ countries are encouraged to provide information on their progress against these shortcomings and details of future plans.

The second tool is the 'GSP+ dialogue' which describes the close engagement between the EU and the beneficiary countries to support them to on their path towards sustainable development. The GSP+ dialogue uses existing bilateral fora – for example on trade, human rights, and labour rights.

A GSP+ monitoring cycle lasts two years, culminating in a report to the European Parliament and the Council on the GSP+ countries' progress to effectively implement the 27 international conventions relevant for GSP+. The country-specific assessments analyse the progress made and areas where more efforts are needed during the 2016 to 2017 period. When drawing conclusions on the effective implementation of the relevant conventions, in addition to the information received directly by the EU through GSP+ monitoring, the report considers the conclusions and recommendations of the relevant treaty monitoring bodies as well as information received from civil society, social partners, the European Parliament and the Council.

### **To which areas does GSP+ monitoring apply?**

The second biennial GSP report includes detailed assessments of each GSP+ beneficiary's progress and shortcomings as regards the implementation of 27 international conventions:

- seven conventions on human rights, including prohibition of genocide and torture, protection of the rights of children, elimination of discrimination against women and minorities', protection of freedom of expression and association, the right to a fair trial, and judicial

- independence, as well as economic, social and cultural rights;
- eight fundamental conventions of the International Labour Organisation (ILO), including conventions prohibiting forced and child labour, ensuring workers' rights to freedom of association and collectively organise and bargain, and two conventions that protect workers from discrimination at work, and ensure that women and men receive the same remuneration for work of equal value;
  - eight conventions on environmental protection and climate change, including monitoring of hazardous waste and harmful pollutants, safeguarding of biodiversity and endangered species, as well as UN commitments to tackle climate change;
  - four conventions on good governance, namely the UN Convention against Corruption and three UN conventions seeking to control illegal drugs.

### **What about a detailed assessment of all GSP beneficiaries?**

In contrast to GSP+, the GSP Regulation does not call for detailed assessments of Standard GSP and EBA beneficiaries. However, in line with the Trade for All Strategy of October 2015, the Commission and EEAS have stepped up the dialogue with EBA beneficiaries in particular, namely those where the EU can have most impact regarding human rights breaches. Therefore, using the practice and the methodology of the GSP+ monitoring, the EU has launched an enhanced EBA monitoring process for the two biggest EBA beneficiaries, Bangladesh and Cambodia, together accounting for nearly 85% of all EBA exports to the EU.

### **Who has been involved in the preparation of the report?**

The report has been jointly produced by the European Commission and the EEAS. Authorities in beneficiary countries have contributed through dialogues. Furthermore, civil society, trade unions, international organisations, the European Parliament, EU Member States and local EU Delegations have contributed with information and specific findings.

This second biennial GSP report testifies to the increased involvement of civil society in GSP+ monitoring: 20 NGOs participated in the civil society dialogue dedicated to the GSP report in July 2017. Besides, DG Trade and the EEAS organised and participated in 16 additional civil society dialogues before and during GSP+ monitoring missions in 2016-2017. As part of the GSP+ monitoring process, civil society is encouraged to submit information to the Commission at any time.

EU Member States have been kept informed about the preparation of the report through the Council Working Group on GSP and the European Commission's Expert Group on GSP. Member States' representations in GSP+ beneficiary countries have collaborated and shared information with EU delegations in the beneficiary countries.

The European Parliament's Committee on International Trade (INTA) leads the parliamentary scrutiny of the report.

### **What are the sources of the report?**

The GSP+ monitoring offers a structured approach and a solid basis for the assessment of each GSP+ beneficiary, building on the findings of UN and ILO monitoring bodies and on information provided by the beneficiary countries and third parties, including civil society, social partners, the European Parliament and the Council. GSP+ monitoring has been fully integrated into the EU's bilateral frameworks and dialogues, including the EU Human Rights Dialogues.

### **What is different in the current report compared to the last one?**

The second report on GSP in general comprises new features compared to the first biennial report, published in 2016; namely, snapshots of monitoring missions that took place during 2016-2017, an overview of selected EU-funded technical assistance and development projects relevant to GSP+, and a dedicated illustration of the efforts regarding enhanced engagement with certain EBA beneficiaries.

The accompanying 10 country-specific analyses of the effects of GSP+ seek to illustrate trends as regards effective implementation compared to the first report. They describe the progress made in effective implementation of the 27 GSP+ relevant international conventions by the beneficiaries since the publication of the first report in January 2016. Moreover, the report presents detailed statistics of trade flows under GSP and beneficiaries' utilisation of the trade preferences under GSP.

The composition of countries has changed compared to the first biennial report: Costa Rica, Ecuador, El Salvador, Guatemala, Panama and Peru no longer feature in the report because they concluded trade agreements with the EU. At the same time Kyrgyzstan and Sri Lanka are covered in the report for the first time.

### **What conclusions can be drawn from the report?**

The report shows that EU trade preferences under GSP continue to support developing countries through increased trade with the EU. Especially, EU imports from least developed countries, benefiting from zero tariff duties on all exports except arms and ammunition, increased considerably between 2014 and 2016 – by around 38% to €23.5 billion.

Moreover, the report lists numerous examples of positive developments in the beneficiary countries that were incentivised by GSP+, such as the promotion of gender equality in the Philippines, CITES-aligned national legislation in Paraguay, action on the rights of women and children in Pakistan.

Overall, GSP+ countries have demonstrated progress in strengthening their national institutions and adopted legislation to promote human rights, labour rights, environmental protection and good governance. Furthermore, all GSP+ countries have improved their reporting to the international treaty bodies (UN and ILO), thus contributing to strengthening the international organisations' supervisory mechanism.

At the same time, the problems outlined in these analyses are complex and

require long-term engagement. Virtually all beneficiaries need to step up efforts on effective implementation, enactment and enforcement of legislation, providing action plans and policy frameworks to bring about change on the ground.

Often, GSP+ beneficiaries lack institutional capacity and technical expertise to effectively implement the 27 international conventions. On human rights, what stands out is that many beneficiaries face issues of discrimination, in particular against women and religious/ethnic minorities, domestic violence and child abuse.

Each GSP+ beneficiary seeks to meet its commitments in its specific national context – facing different issues, challenges and constraints. Ranking or comparing performances would not do justice to country specificity and run counter to the goal of constructive dialogue and long-term engagement. The report therefore draws conclusions on progress and challenges in implementing the four groups of conventions relevant to the GSP+ for each beneficiary country.

The report, however, does not constitute a ‘pass or fail’ test. Instead it assesses, in a factual and objective manner, the progress being made (or lack thereof) by each beneficiary country in implementing the 27 conventions.

If needed, the GSP report is taken into account by the Commission when considering if there are sufficient grounds for initiating the procedures for temporarily withdrawing GSP+. This could happen if a GSP+ beneficiary does not make progress (without legitimate and objective reasons) or if there is serious backtracking on commitments.

### **What about the economic impact of GSP?**

The reformed GSP started to apply in 2014 and since then has had a remarkable impact on trade flows.

- Between 2014 and 2016, EU imports under GSP in total increased by 23% to €63 billion. Least developed countries benefited the most as EU imports from them increased by around 38% to €23.5 billion during the period.
- Specifically, between 2015 and 2016, imports under EBA increased by 6% to €23.5 billion, imports under Standard GSP by 3% to €32 billion, imports under GSP+ increased by 5% to €7.5 billion.
- In 2016, textiles and apparel made up 48% (€30 billion) of total imports under GSP while the second biggest import section under GSP (footwear) constituted only 9% (€5.8 billion) of total EU imports under GSP.
- Within EBA, apparel and clothing represented 80% (€19 billion) of all EU imports, followed by footwear (€923 billion). 66% of all EU imports under EBA come from Bangladesh (€15.6 billion), followed by Cambodia (18% or €4.2 billion) and Mozambique (4% or €965 million).
- EU imports under the Standard GSP arrangement are more diversified. Still, apparel and clothing as well as footwear constitute the two biggest EU imports, with shares of 23% (€7 billion) and 15% (€5 billion) respectively. Most EU imports benefiting from trade preferences under Standard GSP come from India (53% or €16.6 billion), followed by Vietnam

(23% of €7.1 billion) and Indonesia (16% or €5.2 billion).

- Under GSP+, apparel and clothing make up 53% of EU imports (€4 billion), followed by other textiles and fabrics (20% or €790 million), animal or vegetable fats and oils (6% or €481 million). 74% of all EU imports under GSP+ come from Pakistan (€5.5 billion), 22% from the Philippines (€1.7 billion), 1% from Armenia (€1.7 billion). The smallest beneficiary of GSP+ is Kyrgyzstan from which the EU imported only goods worth €3.2 million in 2016.

### **What about the sustainability effects of GSP+?**

GSP+ beneficiaries' challenges to implementation are often underpinned by long-term and complex problems which cannot be solved overnight and which require major reforms and sustained government action over time. GSP+ is therefore designed to offer long-term support through its 10-year initial lifespan, and its continuous monitoring process.

During the reporting period 2016-2017, the setting out appropriate national legislation and action plans to effectively implement the GSP+ relevant international conventions were key achievements for many beneficiaries. For instance, the Armenian Government adopted a new National Human Rights Action Plan for the period 2017-2019. Elsewhere, Sri Lanka has taken important steps to improve governance and respect for human rights, one example being the 19th Constitutional amendment, which re-establishes the independence of key institutions such as the National Human Rights Commission.

However, effective implementation and enforcement are the most important challenge for all GSP+ beneficiaries. This needs to be followed up and supported.

### **Will the beneficiary countries have a chance to react to the report?**

The conclusions of the report will not come as a surprise to the beneficiary countries. The report is the result of two years of close collaboration between the beneficiaries and the EU during which shortcomings and remedial action have been extensively discussed. It is largely based on information provided by beneficiaries to international monitoring bodies, or by beneficiaries directly to the EU as well as on inputs from civil society and other actors.

Beneficiary countries will have a chance to respond to the report as part of the ongoing GSP+ monitoring process or in public. The Commission will particularly encourage the beneficiaries to respond to the areas in the report requiring further efforts, including with regard to future plans and envisaged actions. Such a formalised exchange of information will take place in spring 2018.

### **What will be the follow-up to this report?**

During the next GSP+ monitoring cycle in 2018-2019, the EU will follow-up with each GSP+ beneficiary on the conclusions and priority actions stated in the report. The Commission and EEAS will continue the close dialogue with

civil society prior to and during the GSP+ monitoring missions. Joint EEAS-Commission monitoring missions will visit all GSP+ beneficiaries every two years and specifically focus on beneficiaries where enhanced monitoring efforts are required due to more serious shortcomings.

### **How is the commission supporting beneficiaries to better implement the relevant international conventions?**

Beyond support through GSP+ monitoring, the Commission has launched several capacity-building projects to support beneficiaries. The EU is supporting relevant trading partners and several of the GSP+ beneficiaries through grants to the International Labour Organisation. These projects contribute to the application of the ILO core labour rights conventions as well as capacity-building to comply with reporting obligations. The GSP+ countries that are currently supported by EU-funded ILO projects are: Armenia, Cabo Verde, Mongolia, Pakistan, the Philippines, and Paraguay.

Moreover, the European Instrument for Democracy and Human Rights includes dedicated support of €4.5 million to empower civil society actors to contribute to the monitoring and effective implementation of the 27 relevant conventions ratified by GSP+ beneficiary countries.

### **How will the EU continue to support the sustainable development of GSP+ beneficiaries transitioning to trade agreements?**

Moving from GSP+ to a trade agreement is a significant step: the EU's engagement is no longer unilateral. Instead, the relationship becomes a partnership in which both parties seek to promote their trade and sustainable development values and agree to abide by common rules. For the partner country a trade agreement provides a long term framework for its economic development through trade and investment, thus helping it to meet its sustainable development objectives.

Recent EU trade agreements, like the trade agreement with Colombia and Peru, include commitments to effectively implement the ILO fundamental labour Conventions, concerning for instance forced and child labour, that are also referenced in the GSP+. Similarly they also include commitments to implement Multilateral Environmental Agreements (MEAs), including those referenced in the GSP+. Where EU trade agreements form part of a broader Association Agreement, like with Georgia, the human rights and good governance parts of the GSP+ form part of the political dialogue foreseen under such agreements.

Thus there is a large degree of continuity between the GSP+ commitments and those in trade and association agreements. This means that capacity building programmes established under GSP+ can continue to serve joint EU-partner objectives under a trade agreement, as was the case with projects for Guatemala and El Salvador concerning ILO fundamental conventions.

### **What happens if a beneficiary does not meet its commitments under GSP?**

Standard GSP and EBA may be withdrawn in five specific cases listed in Art. 19(1) of the GSP Regulation – most importantly in case of serious and

systematic violation of principles laid down in the human rights and labour rights conventions. These are the 7 UN human rights and 8 ILO fundamental labour rights conventions. Withdrawal of Standard GSP automatically extends to GSP+.

Furthermore, there are withdrawal criteria specific to GSP+. In addition to human and labour rights violations, GSP+ withdrawal can be also linked to violations of environmental and good governance conventions. GSP+ withdrawal may not necessary lead to withdrawal of Standard GSP.

Beneficiaries should demonstrate at any moment a positive record of compliance with the commitments made upon entry into the GSP+. Under the GSP Regulation, if at any time the Commission has reasonable doubt that a beneficiary is not respecting its binding commitment to comply with the reporting obligations under the international conventions, or to cooperate with the relevant monitoring bodies and the Commission, or to maintain ratification and ensure the effective implementation of the relevant international conventions, then the Commission can initiate the procedure for temporary withdrawal.

GSP withdrawal is an option of last recourse when other forms of dialogue and cooperation have not produced the desired improvements.