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JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the Generalised Scheme of Preferences covering the period 2020-2022

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1. INTRODUCTION

The EU's Generalised Scheme of Preferences (GSP) unilaterally provides preferential access to the Union market through reduced or removed EU import tariffs, to foster the sustainable development of lower income countries and to reduce poverty through international trade. GSP benefits are linked to beneficiary countries' respect of international standards on human rights, labour rights, environment and climate, and good governance.

This report is a key part of the regular monitoring and reporting activities on the implementation of the GSP to the European Parliament and the Council, as provided for in the GSP Regulation ([1]). It covers the implementation and impact of the GSP over the 2020 to 2022 period (the "reporting period") across its three arrangements: Everything But Arms (EBA) applying to least developed countries (LDCs), standard GSP, and the special incentive arrangement for sustainable development (GSP+). As was the case for the latest such GSP report from 2020 ([2]), the current report is accompanied by ten Staff Working Documents (SWDs): one for each of the nine GSP+ beneficiaries during the reporting period, and one for the three EBA beneficiaries under enhanced engagement.

The present report covers a longer period than the usual two-year reporting cycle, due to the challenges to implementation and monitoring resulting from the impact of COVID-19 and the related restrictions in 2020 and 2021. GSP engagement and monitoring continued remotely in written and virtual forms despite these challenges. The report also reflects the monitoring missions to beneficiary countries which were possible again as of late 2021 and developments in the beneficiary countries enabled by loosening restrictions and freed up resources after the height of the pandemic.

The report is based on the engagement with beneficiary countries, civil society, business communities, and UN monitoring bodies and other international organisations through the work of the European Commission Services and the European External Action Service (EEAS), including in EU Delegations. Moreover, a dedicated civil society dialogue took place on 6 September 2022 to further support the report's preparation.

This report is also significant in view of the expiry of the current GSP Regulation at the end of 2023. It assesses the longer-term impact of the GSP, with respect to both economic effects and sustainable development, and how to ensure continued engagement in the scheme among GSP beneficiaries. The legislative procedure to adopt a new revised GSP Regulation is still ongoing; in the meantime, a proposal for a prolongation of the current rules until the end of 2027 has been adopted by the European Commission to ensure continuity and legal certainty ([3]). The report and its accompanying SWDs also provide valuable information and recommendations for current GSP+ beneficiaries – in light of a potential requirement to reapply to benefit from the GSP+ arrangement under the new GSP Regulation.

([1]) 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.

([2]) Report on the Generalised Scheme of Preferences covering the period 2018-2019, JOIN(2020) 3 final.

([3]) At the time of finalization of the GSP report, the European Parliament and the Council have voted in favour of the prolongation of the current rules. The legislative procedure is still ongoing.

2. HIGHLIGHTS

The GSP is an important trade tool for the EU to support sustainable development in lower income countries. Its structure with three distinct arrangements ([4]) constitutes an objective and transparent framework to address the specific development needs and ambitions of different beneficiary countries.

The GSP is economically valuable for beneficiaries ([5]), as substantiated also in part 4.1 of this report. Between 2014 and 2019, i.e., before the COVID-19 pandemic, EU27 total preferential imports from current GSP beneficiaries increased by 56%, at three times the pace of its overall imports from third countries; this contributes also to faster growth in the GSP countries than would have been the case without the preferences offered by the GSP. Moreover, despite less dynamic exports during and after the pandemic, beneficiary countries' continued exports to the EU benefitting from GSP play a crucial role for economic stability, particularly at times of crisis. Overall, increased international trade and participation in global value chains have supported the socio-economic development of GSP beneficiaries. Testimonies to that are several countries' improvements in the World Bank income classification, as well as graduations from LDC status based on United Nations' (UN) decisions (with the corresponding changes to the preferences under the GSP).

A series of crises have been threatening the global economy in recent years ([6]) from the COVID-19 pandemic – and its negative impacts not only on health, but also on sustainability, economic activity, and trade – to the broader impacts of Russia's unprovoked military aggression against Ukraine and the related energy, debt, food, and cost of living crises that accelerated in 2022. In this difficult context, the continued availability of tariff-free exports to the EU, the world's largest trading bloc ([7]), provides a fundamental element of stability for fragile economies. While some beneficiaries' economies have shown strong resilience, the United Nations Development Programme (UNDP) has warned that at least 54 developing economies have been suffering from severe debt problems ([8]). In the UN, decisions about previously planned LDC graduations have been postponed, reflecting these challenges ([9]). The same applied to the World Bank income status of other GSP beneficiaries, which stalled or downgraded because of their affected economies, including trade, as well as some foreign investments and remittances.

The GSP+, with its additional benefits and obligations, has remained attractive to beneficiaries ([10]). As the analysis of the implementation of the GSP+ in the accompanying SWDs shows, this arrangement has proven a successful incentive for the effective

([4]) Everything But Arms (EBA), standard GSP and GSP+ arrangement.
([5]) https://policy.trade.ec.europa.eu/analysis-and-assessment/impact-assessments_en
All links provided in this report were up to date as of 20 October 2023.
([6]) A 2022 World Bank report estimated that in 2020 alone, the number of people living below the extreme poverty line had risen by over 70 million. That is the largest one-year increase since global poverty monitoring began in 1990. Income losses of the poorest 40% of world's population were twice as high as those of the richest 20%. Global median income declined by 4% in 2020 - the first decline since measurements of median income began in 1990. https://www.worldbank.org/en/publication/poverty-and-shared-prosperity
([7]) https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/eu-position-world-trade_en
([8]) https://www.undp.org/publications/dfs-avoiding-too-little-too-late-international-debt-relief
([9]) https://www.un.org/ohrlls/content/triennial-reviews-and-graduation-decisions
([10]) GSP+ eligible countries need to apply for the scheme to gain access. They must be considered vulnerable due to a lack of export diversification and insufficient integration within the international trading system. Additionally, they should have ratified the 27 GSP-relevant conventions and show no serious failure of implementing them.

implementation of international standards in the areas of human and labour rights, climate and environmental protection, and good governance by offering additional access to the EU market compared to the standard GSP arrangement. The attractiveness of the GSP+ is further testified by the fact that a new GSP+ beneficiary (Uzbekistan) joined the arrangement during the reporting period, Tajikistan formally applied to join the GSP+ in April 2023 and other countries continue to show interest to do so. Current GSP+ beneficiaries have expressed their commitment to maintain the preferences under the EU's new GSP framework. Several current EBA beneficiaries which are expected to graduate from LDC status are actively considering paths towards joining the GSP+ arrangement, in order to benefit from the more preferential tariffs than the standard GSP once they leave the EBA arrangement.

The GSP encourages GSP beneficiary countries to integrate into multilateral governance structures through the need to abide by the principles of international conventions, and for GSP+, the conditionality to ratify and effectively implement such conventions. Ratification efforts of GSP beneficiaries go beyond the relevant conventions listed in the current GSP Regulation – for example, all nine GSP+ beneficiaries under review in this report have ratified the Convention on the Rights of People with Disabilities and the Paris Agreement. GSP beneficiaries are also advancing in the ratification of the newly established fundamental International Labour Organization (ILO) conventions relating to occupational safety and health, as well as other ILO conventions, for example on labour inspections and tripartite consultation.

During the reporting period, many GSP beneficiaries have shown important progress related to the implementation and respect of international standards ([11]), even if on some fronts they continue to face challenges in complying with them. Typical areas of backtracking or insufficient progress in certain beneficiary countries include increasing pressure on the freedom of expression and civil society space, the rights of women and children and protection against domestic violence during the COVID-19 pandemic, as well as the fight against corruption and ensuring the independence of the judiciary. The global crises mentioned above occurring during this reporting period have put a strain on labour markets and on workers. In this context, the EU GSP monitoring and implementation work help to ensure that core international ILO standards on workers' rights are respected.

Furthermore, and notably in relation to the international environmental standards, many lower income countries are facing very significant negative consequences of climate change, have undertaken ambitious commitments and have called for common action across the international community to address climate change and its impacts. However, capacity and resource constraints often limit their ability to move from ambition to domestic implementation.

The GSP brings important benefits to the EU, in addition to the economic and sustainability benefits for beneficiaries. First, it helps to strengthen economic and political partnerships with beneficiary countries, based on shared values and goals, and hence it helps to promote the international sustainability and development agenda. GSP monitoring fosters direct contacts between institutions and civil society in the EU and in beneficiary countries. The EU's investors and importing companies can also promote sustainable practices and international standards in GSP countries with respect to human rights, labour rights, climate and environment, and good governance. In economic terms, the GSP helps to improve choice and affordability for EU companies and consumers of the goods traded under the GSP. In addition, EU companies gain more diversified and efficient access to

([11]) As highlighted in section 4.2 below and also in the country specific SWDs accompanying the present report.

supplies. For example, preferential tariffs granted under the GSP allowed companies in total around €6.2 billion of savings in import duties in 2022.

Reaping the full benefits from the GSP – in terms of poverty reduction, economic diversification, and sustainable development – requires strong and continuous reform efforts by authorities and stakeholders in all GSP countries, as the benefits on the ground cannot be achieved and do not occur immediately or automatically. The EU remains committed to continue supporting such efforts via capacity building and other measures.

3. LEGISLATIVE DEVELOPMENTS DURING THE REPORTING PERIOD

3.1. Developments in implementation

The Commission adopted several legal acts relating to the implementation of the GSP Regulation during the reporting period:

- <u>Country graduation from GSP</u>: Nauru, Samoa, and Tonga reached Upper Middle-Income status as classified by the World Bank for three consecutive years and, therefore, do not benefit from standard GSP since 1 January 2021 ([12]). For the same reason, Armenia no longer benefits from GSP+ (nor standard GSP) since 1 January 2022. The EU-Vietnam preferential Free Trade Agreement (FTA) applies since 1 August 2020 and, therefore, Vietnam graduated from standard GSP as of 1 January 2023 ([13]).

- <u>Transition from EBA to standard GSP</u>: Vanuatu graduated from LDC status on 4 December 2020 based on a UN decision. Following a three-year transition period and taking into account procedural and statistical considerations, Vanuatu will cease to benefit from EBA and transition to standard GSP as of 1 January 2025 ([14]).

- <u>Transition from standard GSP to GSP+</u>: Uzbekistan joined GSP+ in April 2021 ([15]), after formally applying for the scheme in June 2020.

- <u>Product graduation</u>: standard GSP tariff preferences were suspended for the year 2023 for several products imported from India, Indonesia, and Kenya after attaining the relevant import thresholds ([16]).

([12]) Commission Delegated Regulation (EU) 2020/128 of 25 November 2019 amending Annex II to Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences.

([13]) Commission Delegated Regulation (EU) 2021/114 of 25 September 2020 amending Annexes II and III to Regulation (EU) No 978/2012 of the European Parliament and of the Council as regards Armenia and Vietnam.

([14]) Commission Delegated Regulation (EU) 2021/2127 of 29 September 2021 amending Annex IV to Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences.

([15]) Commission Delegated Regulation (EU) 2021/576 of 30 November 2020 amending Annex III to Regulation (EU) No 978/2012 to include the Republic of Uzbekistan among the countries benefiting from tariff preferences under the GSP+.

([16]) Commission Implementing Regulation (EU) 2022/1039 of 29 June 2022 laying down rules for the application of Regulation (EU) No 978/2012 of the European Parliament and of the Council as regards the suspension for the year 2023 of certain tariff preferences granted to certain GSP beneficiary countries.

Several of the current EBA beneficiaries are scheduled to graduate from LDC status in the coming years, although the UN has revised this schedule to account for the impact of the COVID-19 pandemic and its broad economic implications. Nonetheless, Bhutan is preliminarily scheduled for LDC graduation in 2023 and Angola, São Tomé and Príncipe, and the Solomon Islands – in 2024. These countries would, therefore, graduate from EBA and, depending on their income classification, could move to the standard GSP arrangement following a three-year transition period after their LDC graduation. Five other EBA beneficiaries have been recommended for LDC graduation by the UN: Bangladesh, Lao PDR and Nepal (expected 2026), as well as Tuvalu and Kiribati (no date indicated yet).

Some of the countries graduating from LDC status have expressed interest in joining GSP+ to preserve a higher degree of preferential access to the EU market than under the standard GSP arrangement after losing the generous EBA preferences. During the reporting period Tajikistan, which currently benefits from standard GSP, engaged in pre-application discussions with the Commission and the High Representative and in April 2023 submitted a formal application to join the GSP+.

3.2. GSP after 2023

The current GSP Regulation will expire at the end of 2023. On 22 September 2021, the Commission adopted a legislative proposal ([17]) for the EU's Generalised Scheme of Preferences for the period 2024-2033. The Commission proposed to continue the GSP as a pillar of the EU's trade and sustainable development agenda, while improving some of the features of the current scheme. The aim is notably to ensure the continuity of GSP, respond to the evolving needs and challenges of GSP beneficiaries, and to strengthen the scheme's social, environmental and climate and good governance aspects.

The Commission's proposal is based on the 2018 Mid-Term Evaluation (MTE) ([18]) of the GSP Regulation, the Commission's Impact Assessment ([19]) supported by an external study, and the 2020 open public consultation ([20]); all of which confirmed the relevance and achievements of the GSP so far, but also pointed to the need for targeted changes to improve it. These studies show that the EU's GSP is delivering on its main objectives of contributing to poverty eradication and sustainable development in GSP beneficiary countries, while ensuring adequate protection for EU producers.

Negotiations with the European Parliament and the Council on the Commission's proposal are ongoing. Pending an agreement between the co-legislators, the Commission has proposed to amend the Regulation currently in force by prolonging its expiry date to ensure legal certainty and stability ([21]). Such prolongation requires an ordinary legislative procedure which should be concluded before the end of 2023.

([17]) https://policy.trade.ec.europa.eu/news/commission-proposes-new-eu-generalised-scheme-preferences-promote-sustainable-development-low-income-2021-09-22_en
([18]) https://op.europa.eu/en/publication-detail/-/publication/5638e809-ebfb-11ea-b3c6-01aa75ed71a1/language-en
([19]) https://policy.trade.ec.europa.eu/analysis-and-assessment/impact-assessments_en
([20]) https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/2136-Towards-the-future-Generalised-Scheme-of-Preferences-legal-framework-granting-trade-advantages-to-developing-countries/public-consultation_en
([21]) Commission legislative proposal of 4 July 2023: https://ec.europa.eu/transparency/documents-register/detail?ref=COM(2023)426&lang=en

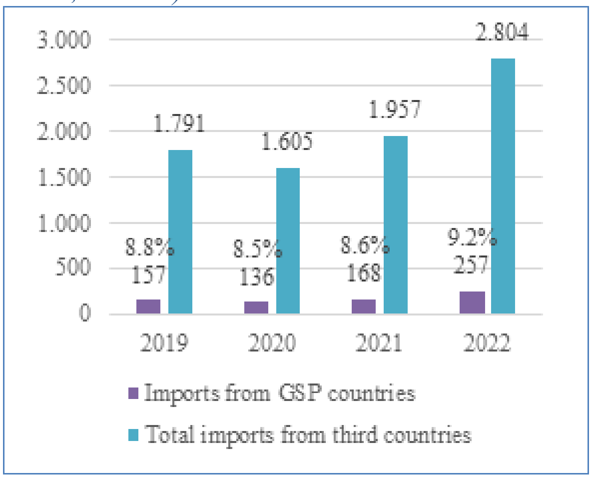
4. Impact of the GSP

The impact of the GSP should be considered against its general objectives, namely, to foster sustainable development of lower income countries and to reduce poverty through international trade. This report, like its previous three editions, focuses on objective measures such as the evolution of trade and the utilisation of GSP preferences during the reporting period. Wider impacts on poverty reduction and sustainability and causal linkages are difficult to establish and assess, given the complex set of factors impacting not only international trade and the global economy, but also the evolution of sustainable development in specific countries. Confounding factors during the reporting period include the COVID-19 pandemic, and volatile economic and political developments both globally and in specific GSP beneficiary countries.

This section (see 4.2) also includes a medium-term perspective to better assess the evolution of the impact of the GSP over time, including qualitative assessments with respect to sustainable development in GSP beneficiary countries, based on UN and EU monitoring. The country-specific Staff Working Documents accompanying this report provide further information in this respect.

4.1. Trade Impacts 2020-2022 (22)

Figure 1: EU27 imports from GSP countries (2019-2022, € billion)



EU imports from GSP beneficiary countries were negatively impacted by the COVID-19 pandemic but recovered since 2021 (see Figure 1). They were hit substantially in 2020, decreasing by 13.4% from €157.3 billion (8.8% of total imports from third countries) to €136.2 billion (8.5%) but rebounded strongly in 2021 and 2022 to €256.7 billion (9.2%) - an increase of 88% compared to 2020, and 63% higher than in 2019. EU imports of goods using the GSP preferences were affected even more by the pandemic, decreasing by 15.4% from €62.1 billion in 2019 to €52.6 billion in 2020. Recovery in 2021 and especially 2022 was strong, with GSP preferential imports reaching €80.6 billion in 2022, almost 30% above 2019 levels.

(22) Source for all statistics: Eurostat, own calculations, data as of September 2023. Due to the aforementioned difficulties to fully isolate the impact of the simultaneous unfolding of the COVID-19 pandemic from other developments, all such data have to be interpreted with caution.

Figure 2: Share of GSP preferential imports in total extra-EU imports

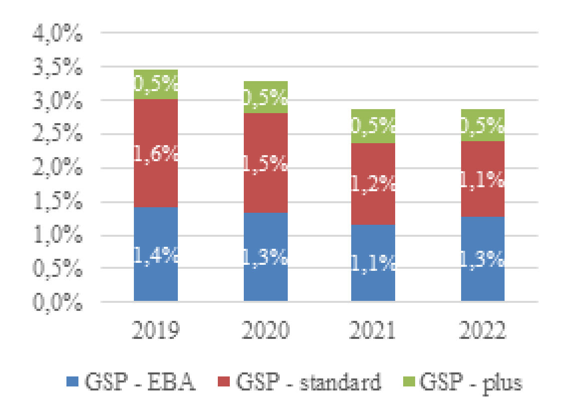
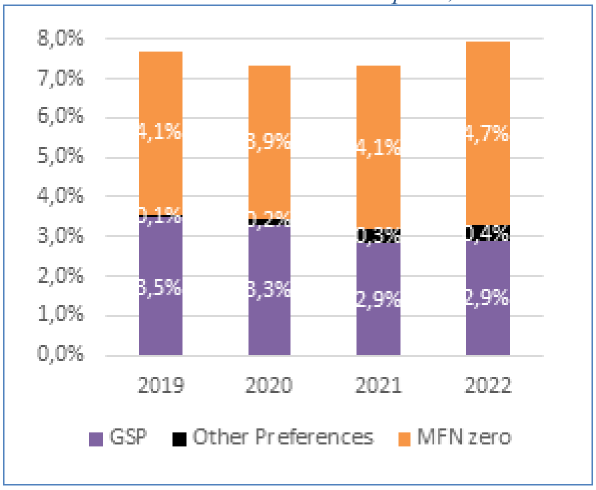


Figure 2 shows that only imports from GSP+ countries maintained their share (0.5%) in overall EU imports since 2019, whereas duty-free quota-free imports from EBA countries decreased from 1.4% to 1.1% in 2021 and then recovered again to 1.3%, and preferential imports from standard GSP countries decreased from 1.6% to 1.1%. Possible explanations are the higher vulnerability of EBA beneficiaries to economic shocks on one hand, and the higher integration of GSP+ tariff preferences in the export strategies of beneficiaries on the other.

Whereas the EU has been a major export destination for several GSP beneficiaries, imports from those GSP beneficiaries have represented a small portion of total EU imports.

Furthermore, between 2019 and 2022 the share of EU imports using GSP preferences has decreased by 0.6 percentage points while with other preferential schemes such as FTAs and zero most-favoured nation (MFN) tariffs, there was an increase (see Figure 3). For standard GSP countries, this decline is primarily the result of a switch from using GSP preferences towards preferential trade under FTAs with the EU (notably Vietnam, see below), indicating a more mature and closer bilateral trade and economic relationship. For EBA beneficiaries, the decline indicates the higher vulnerability to external shocks, as noted above.

Figure 3: Preferential and duty free imports from GSP countries in total extra-EU imports, 2019-2022



The key reason for lower preferential imports under the standard GSP is the increasing importance of EU FTAs with GSP countries: in the period 2019-2022, the share of preferential imports from GSP countries under FTAs in total EU imports has increased from 0.1% to 0.4% (see Figure 3). In absolute terms, this was a more than sixfold increase from € 1.7 billion to € 11.0 billion, largely explaining the reduction of GSP preference shares. This is also an effect of the FTA with Vietnam in particular. It is moreover visible that EU imports of goods from GSP beneficiaries that have a zero MFN tariff have increased compared to their pre-pandemic share in total EU imports, reaching 4.7% in 2022. The share of EU imports from GSP countries that benefitted from reduced or zero tariffs remained almost constant over the reporting period and was 87% both in 2019 and 2022.

Preference utilisation for imports from standard GSP beneficiaries declined between 2019 and 2022 (Figure 4). This led to an increase of the relative share of preferential imports from GSP+ and EBA countries among all GSP beneficiaries (Figure 5). The decline in the utilisation of standard GSP preferences is largely explained by the availability of MFN zero duties or other preferences than GSP for products which are also eligible for standard GSP preferences, such as the transition to FTAs, by which the EU steps up its engagement with the beneficiary country. The use of preferences by other GSP beneficiaries remained stable over the same period.

Figure 4: GSP preferences utilisation by arrangement, 2019-2022 (%)

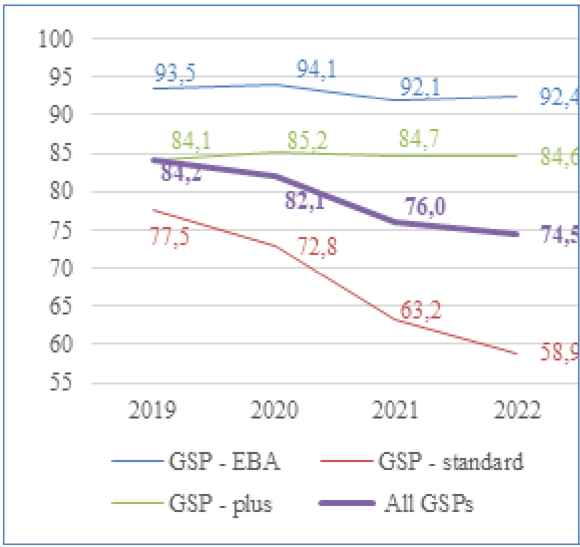
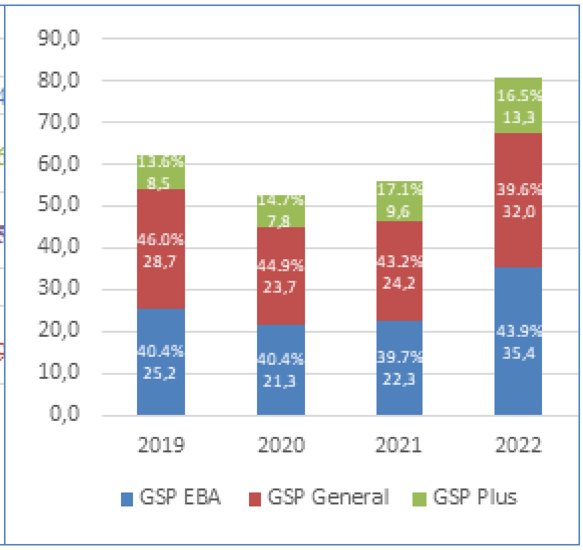
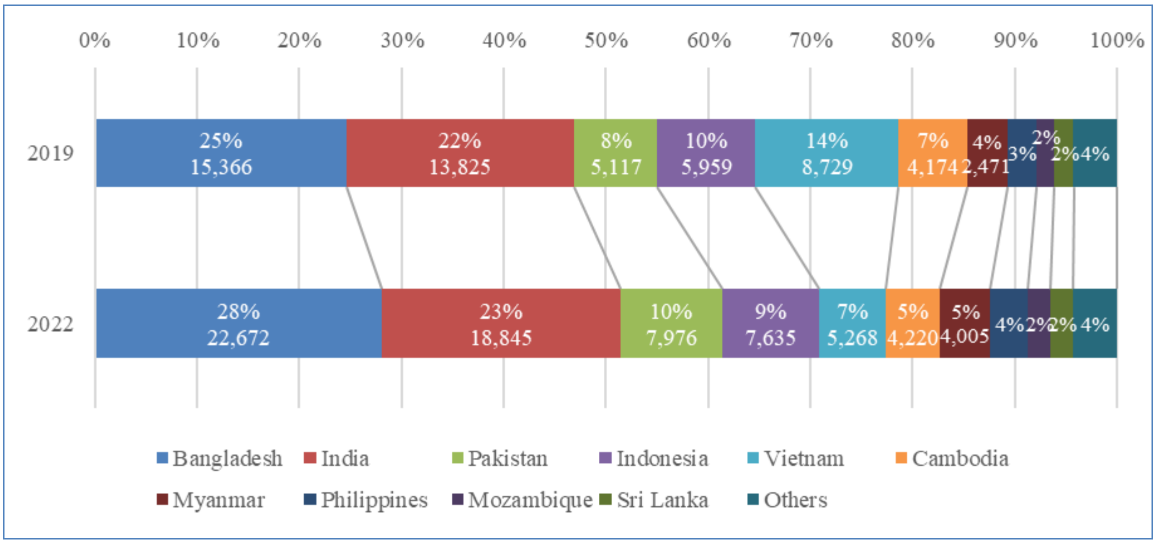


Figure 5: GSP preferential imports by arrangement, 2019-2022 (€ billion and share in total GSP imports)



Most EU imports from GSP beneficiaries come from a limited number of countries, and performance since 2019 has been heterogeneous across beneficiary group and beneficiaries (Figure 6). There are large differences between beneficiary countries regarding EU imports for which GSP preferences were effectively used between 2019 and 2022. Some saw substantial contractions in EU GSP imports ([23]), whereas others managed to increase yearly by double digits. This was in particular the case for EBA countries such as Liberia (+183%), Madagascar (+149%), and Zambia (+49%), and the new GSP+ beneficiary Uzbekistan (+69%), although starting from a low base in the case of Liberia and Madagascar.

Figure 6: GSP preferential imports by supplier, 2019 and 2022 (€ million and % of total GSP imports)



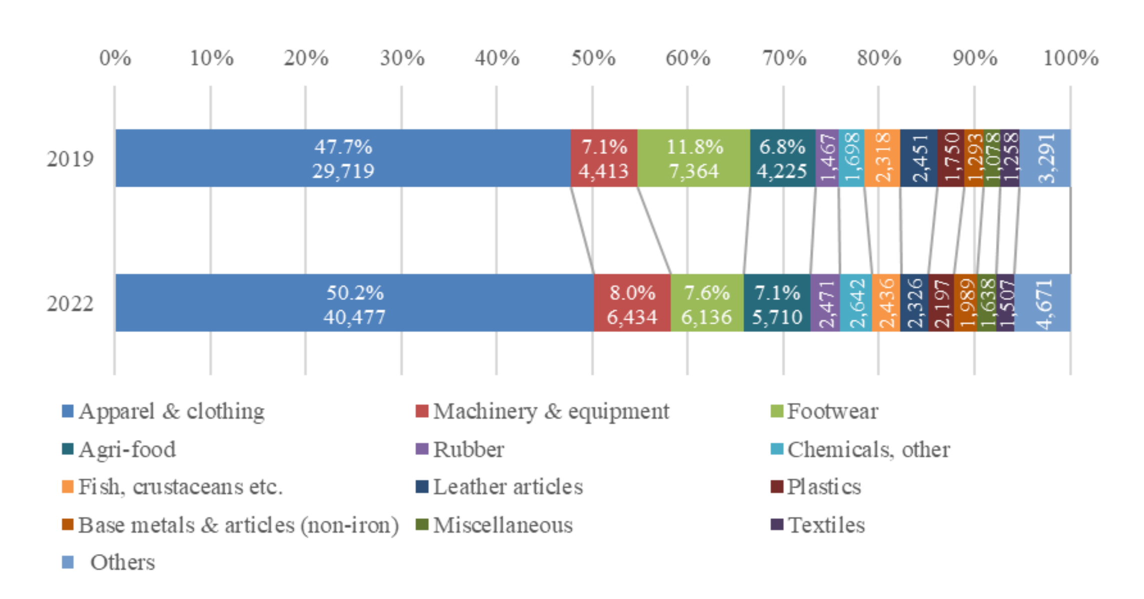
Some of the largest exporters among GSP beneficiaries have already left or are expected to leave the scheme as they have or will have negotiated preferential trade agreements with

([23]) In the case of Vietnam (standard GSP), this decline by about 15% per year on average is due to the entry into force of the country's FTA with the EU on 1 August 2020. For some part of its exports to the EU, Vietnam used FTA preferences rather than GSP preferences in the transition period lasting until the end of 2022. Vietnam's total exports to the EU under all preferences have actually increased from €8.7 billion to €14.4 billion between 2019 and 2022.

the EU (Vietnam) or are in the process of negotiating such agreements (India and Indonesia).

Apparel and clothing products continue to be the most significant sector in EU imports from GSP beneficiaries, but the relative importance of other sectors is shifting (Figure 7). In 2021, machinery and equipment for the first time became the second most significant sector, reaching a preferential import value of €6.4 billion in 2022 (8.0% of the total). Machinery overtook footwear, which decreased from €7.4 billion in 2019 to €6.1 billion in 2022 (7.6% of the total). This decrease is mostly the result of decreasing footwear imports from Vietnam under the standard GSP, as Vietnam has started to increasingly use the FTA preferences (meaning that the total EU import value of footwear from Vietnam decreased much less – from €3.9 billion in 2019 to €3.5 billion in 2021).

Figure 7: Preferential GSP imports by section, 2019 and 2022 (€ million and % of total GSP imports ([24])



The evolution of trade with GSP beneficiaries during the reporting period is further detailed in Section 5 of this report, and its specific subsections on each of the three GSP arrangements (standard GSP, GSP+ and EBA).

4.2. Long-Term view: 10 years since the 2012 GSP reform

Bilateral trade with GSP beneficiaries

Trade statistics over the course of implementation of the current GSP Regulation since 2014 show GSP's positive impact on beneficiary countries' exports to the EU.

Data also show that since 2014 beneficiaries of the GSP+ and EBA arrangements used most of the preferences, with some beneficiary countries accounting for most of the preferences used. Moreover, all GSP beneficiary countries (standard GSP, GSP+ and EBA) tend to concentrate their exports on specific products. The strongest positive impact of GSP has been its contribution to growth and trade diversification through EBA

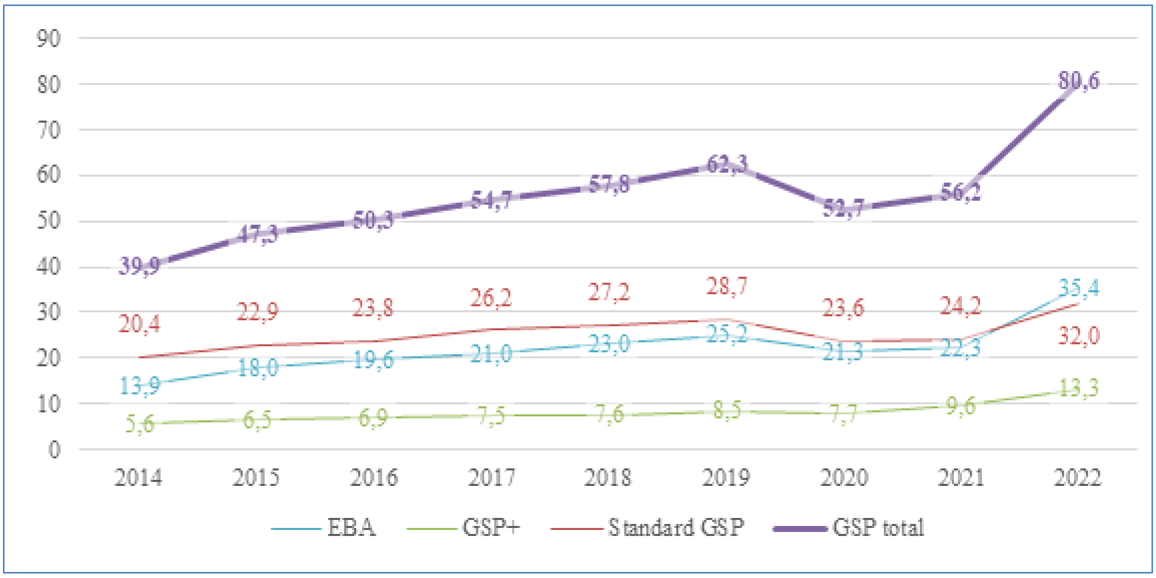
([24]) The category Agri-food in Figure 7 contains preparations of fish (but not fresh fish, which is in the orange category). Cereals, including rice, are about 7% of the agri-food category and about 0.5% of overall GSP imports in value terms.

preferences. During the preparation of the Commission's impact assessment ([25]) for the Commission proposal for a post-2023 GSP regulation, a model-based analysis was carried out based on a computable general equilibrium model (CGE). The results showed that, if preferences were lost, exports from GSP+ beneficiaries to the EU could drop by up to 25% (for Pakistan) and the GDP of GSP+ beneficiary countries could be reduced by up to 0.3% ([26]). In terms of absolute values, the GDP loss would be about €6.6 billion ([27]). Losses for EBA beneficiaries, where preferences are even more generous, have not been simulated in the study and would have to be added on top of the projected losses of €1.6 billion for GSP+ beneficiaries and €5 billion for standard GSP beneficiaries.

Between 2014 and 2019, i.e., before the COVID-19 pandemic, EU27 total preferential imports from current GSP beneficiaries using any of the three arrangements increased by 56%, whereas overall imports from all third countries increased by 17% over the same period. Imports under the EBA arrangement outperformed even more, with an 81% increase over this period (from €13.9 billion in 2014 to €25.2 billion in 2019). During the same time, the share of imports from LDCs using EBA preferences in total EU imports from LDCs increased from less than 50% to over 66%. This suggests a diversification away from fossil fuels and other items for which EBA preferences do not give additional advantages (e.g., because the EU's MFN import duties are already zero).

Despite the impact of the COVID-19 crisis and the exit of Vietnam and other beneficiaries from the GSP scheme between 2019 and 2022 as discussed above, the longer-term trend remains positive, in particular for GSP+ and EBA beneficiaries, and to a certain extent also for countries under the standard GSP arrangement. In fact, imports from the current GSP beneficiaries reached an all-time high in 2022, at €80.6 billion (Figure 8).

Figure 8: GSP preferential imports by arrangement, 2014-2022 (€ billion)



([25]) SWD(2021) 266.

([26]) The baseline was a continuation of the current regime, against which various scenarios were simulated. A scenario of the complete abolition of all three arrangements, which by comparison with the baseline would allow for a quantification of the overall impact, was not simulated as such a policy option was never considered (the EBA arrangement being open-ended). However, an abolition of the standard GSP and GSP+ arrangements was simulated.

([27]) Note that the study made a number of assumptions about countries changing from one GSP category to the other by the end of the projection horizon in 2029. Bangladesh, e.g., which is assumed to be a standard GSP beneficiary by then, is not counted in these numbers.

The duty-free, quota-free EBA arrangement has supported improvements in domestic revenues for the lowest income economies in the world. EBA beneficiaries had strong overall growth in exports to the EU with good performance across all sectors. GSP+ beneficiaries have shown, on average, more resilience to crises compared to standard GSP and EBA beneficiaries; with steady growth of exports to the EU over the years, smaller contractions in 2020, and a significant rebound in 2021.

Compliance with international standards

Alongside the economic benefits of GSP, beneficiary countries have advanced with regard to sustainable development and compliance with international standards. As a prerequisite for joining GSP+, all GSP+ beneficiaries ratified the relevant 27 international conventions, have maintained ratification, and have made no reservations which go against the principles of the conventions. Overall compliance with GSP+ requirements in terms of cooperation with and reporting obligations to UN and ILO monitoring bodies has been relatively high as most reports were submitted on time. In the few instances in which reports were submitted either late or not at all, the Commission and the EEAS have raised this with the countries concerned. Moreover, GSP+ beneficiaries have committed to the effective implementation of the conventions and taken part in detailed monitoring of this commitment with the EU. The special incentives provided through the GSP+ arrangement have been instrumental in achieving this.

The European Commission has established a rigorous process of engagement with GSP+ beneficiaries, using all political and technical channels for cooperation and dialogue. Specific monitoring missions in the GSP+ beneficiaries allow for collections of evidence on the ground and informing of compliance obligations. Such engagement is based on the issues highlighted by the UN and ILO supervisory mechanisms and their reports and recommendations, with the objective to promote progress over time in addressing those issues. The EU is also deploying significant financial and technical support to beneficiary countries in their efforts to effectively implement the international conventions.

In terms of effective implementation on the ground, significant progress was achieved in the field of human rights, notably taking a medium- to long-term perspective, with legislative reforms being carried out in several beneficiary countries to tackle key challenges. Positive developments are apparent especially in terms of efforts to advance women’s and children’s rights, the fight against torture and ill treatment, and the eradication of child labour and forced labour. For example, Pakistan adopted a law against torture and custodial death in 2022; Bolivia introduced a bill that defines torture in line with international standards and established a National Preventive Mechanism. However, despite this positive progress in ensuring a conducive legal framework, effective implementation and enforcement remain challenging. Restrictions to civil society space and freedom of expression are also common concerns in several GSP beneficiaries. Gender-based violence has been a common problem, exacerbated by the COVID-19 crisis and the related restrictions.

Progress has been achieved also in the field of labour rights and working conditions. All GSP+ beneficiary countries have adopted new legislation or amended existing laws to better comply with international standards. For example, Sri Lanka has made significant progress in the fight against child labour; Uzbekistan has eradicated forced and child labour in its cotton harvest through sustained efforts since 2016. However, in several countries, further efforts are required as there is still insufficient compliance with conventions or a lack of effective cooperation with ILO and information on enforcement and effects of policies.

Overall, beneficiary countries are making progress in addressing key environmental and climate change challenges. Positive developments regarding the implementation of the Montreal Protocol and the Convention on Biological Diversity have taken place in all GSP+ beneficiary countries. More ambition in the nationally determined contributions and cooperation in the multilateral fora regarding climate change and biodiversity are also positive developments. Conversely, the effective implementation of the conventions was challenging and reporting obligations remain to be addressed in most of the beneficiary countries as regards the Convention on International Trade and Endangered Species (CITES), the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and the Cartagena Protocol on Biosafety.

With regards to good governance, positive developments have been observed both in terms of efforts towards drug control and anti-corruption measures. Although in general efforts are clearly noticeable, long-term challenges remain, such as the establishment of functional and politically independent anti-corruption agencies.

5. The Three Arrangements

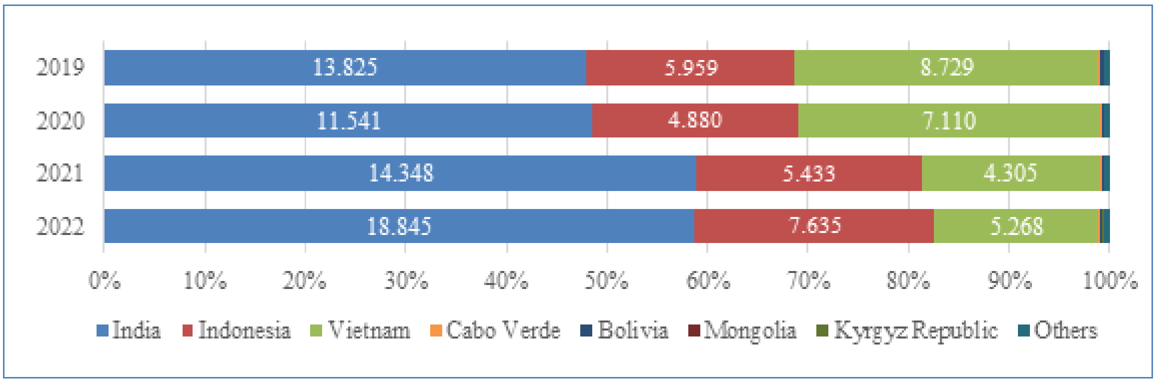
5.1. Standard GSP

There are currently ten standard GSP beneficiaries: the Republic of Congo, Cook Islands, India, Indonesia, Kenya, Micronesia, Nigeria, Niue, Syria, and Tajikistan. This number has declined over the years, including during the reporting period, as standard GSP beneficiaries' income status increases and/or they conclude preferential trade agreements with the EU, therefore no longer qualifying for GSP; or as they successfully apply for GSP+.

As noted already in section 3, Vietnam left the scheme on 1 January 2023, after its FTA with the EU had entered into force on 1 August 2020, and India and Indonesia are currently negotiating preferential trade agreements with the EU.

During the reporting period, standard GSP beneficiaries continued to represent a significant share of total GSP use, with the biggest users of the GSP scheme being India and Indonesia (Figure 9). Clothing (S-11b), machinery (S-16), and footwear (S-12) are the main products using standard GSP: combined, they represented nearly 50% of all standard GSP imports in 2022.

Figure 9: Standard GSP – Imports using preferences by beneficiary country, 2019-2022 (€ million)



Reflecting a high concentration of imports of specific products from certain standard GSP beneficiaries, graduation ([28]) mechanisms have been triggered for certain products from three standard GSP beneficiaries – India, Indonesia, and Kenya – over the reporting period and in 2023, resulting in EU imports of those goods originating from these countries no longer benefitting from the preferences. This is an indication of improved competitiveness of the relevant goods and industry sectors in these standard GSP beneficiaries.

Belarus was formally eligible for standard GSP, but the EU fully withdrew its GSP preferences already in 2006 due to serious labour rights violations. Belarus expressed interest in re-engaging on this issue prior to the fraudulent elections in 2020. Given the continuous deterioration of the situation in Belarus as well as of EU-Belarus relations since then, including in the context of Russia's military unprovoked and unjustified aggression against Ukraine, the withdrawal is maintained.

5.2. GSP+

The special incentive arrangement for sustainable development and good governance, or GSP+, continues to be a key tool to engage with and support vulnerable developing countries. During the reporting period, the nine GSP+ beneficiaries were Armenia, Bolivia, Cabo Verde, Kyrgyzstan, Mongolia, Pakistan, the Philippines, Sri Lanka, and Uzbekistan.

Despite the global economic challenges, one GSP+ beneficiary (Armenia) graduated from the scheme as of 1 January 2022 thanks to its economic development and higher income status.

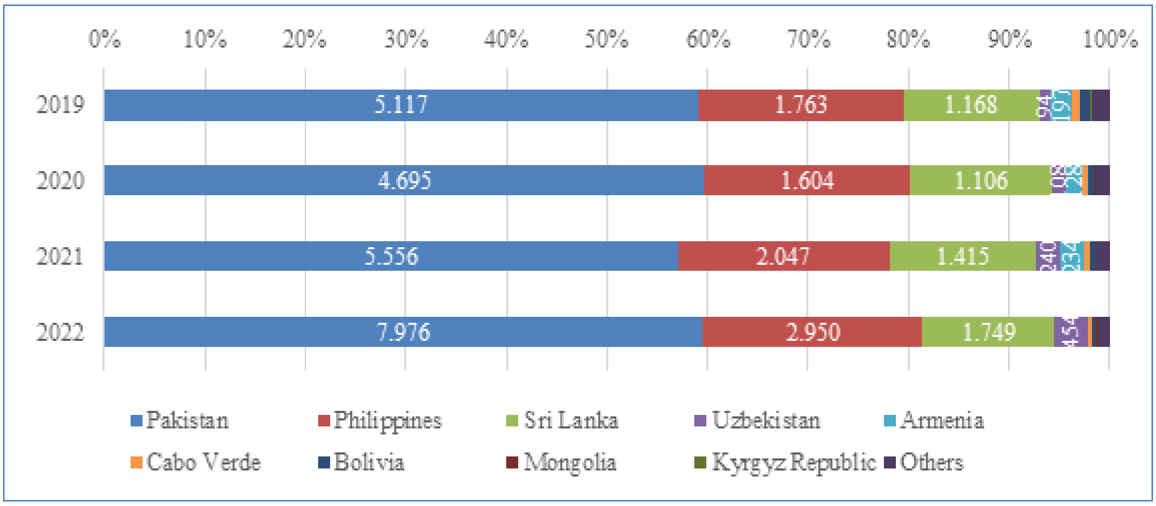
The GSP+ arrangement remains attractive for standard GSP beneficiaries, as demonstrated by efforts by beneficiaries to take additional commitments relating to ratification and effective implementation of the relevant international conventions. This is illustrated for example by Uzbekistan's successful application and joining GSP+ status as of 1 April 2021 ([29]) and Tajikistan's engagement in a pre-application dialogue during the reporting period that led to a formal request to join the GSP+ in April 2023 (see also section 3.1 above).

The top three GSP+ beneficiaries in terms of export value to the EU (Pakistan, the Philippines and Sri Lanka) accounted for over 90% of all imports into the EU under GSP+ during the reporting period, while the new GSP+ beneficiary (Uzbekistan) ranked fourth and with a growing use of the preferences (Figure 10). In terms of products, textiles and clothing combined (S-11a and S-11b) represent nearly 60% of all GSP+ imports into the EU in 2022, followed by electrical machinery (S-16) and oils, fats and waxes (S-3).

([28]) Product graduation ensures that preferences are provided to those countries and products most in need and avoids competitive pressure among GSP beneficiaries.

([29]) Commission Delegated Regulation (EU) 2021/576 of 30 November 2020 amending Annex III to Regulation (EU) No 978/2012 to include the Republic of Uzbekistan among the countries benefiting from tariff preferences under the GSP+.

Figure 10: GSP+ – Imports using preferences by beneficiary country, 2019-2022 (€ million)



The EU's monitoring of GSP+ beneficiaries' respect of their obligations in the reporting period was conducted through written exchanges of information as well as in person dedicated missions as soon as the global health situation allowed: in the reporting period it was possible to conduct missions in Kyrgyzstan, Pakistan, the Philippines, Sri Lanka, and Uzbekistan ([30]). Issues relating to the GSP+ obligations were discussed regularly also in the context of other high-level meetings, including Trade and other Committees and Human Rights Dialogues. Dedicated Staff Working Documents on each of the nine GSP+ beneficiaries accompany this report and cover in more detail the state of implementation of the 27 GSP-relevant conventions per country, as well as the monitoring activities, economic impact of GSP+ and the broader political context for GSP in those countries.

5.3. Everything But Arms arrangement

EBA countries make up the largest group of all GSP beneficiaries – 47 LDCs currently benefit from the tariff-free quota-free access to the EU market under this arrangement. Imports from LDCs accounted for 2% of total EU imports in 2019 and 40% of total imports from all GSP countries. 69% of these imports from LDCs benefitted from EBA preferences ([31]). The top products (each worth over €1 billion) imported under the EBA arrangement in 2022 were clothing and footwear (S-11b and S-12a), followed by base metals and articles thereof (S-15b) and fish and crustaceans (S-1b).

During the reporting period, preference utilisation in EBA countries remained almost constant at an average of 93%. The decrease in preferential imports in 2020 and 2021 (see further section 4 above) is largely the result of the economic crisis linked to the COVID-19 pandemic, which initially turned the performance from 2014 to 2019 on its head: the average annual growth rate of goods imports from EBA beneficiaries in the earlier period (12.6%) was substantially higher than the EU's overall import growth (at 3.2%). However, between 2019 and 2021, the average annual growth of the EU's overall goods imports was 10.6%, while the preferential imports from EBA beneficiaries contracted by an annual average of 5.9%. But the strong performance in 2022 meant that EBA beneficiary countries managed to regain the competitive position that they had reached before the pandemic.

It is also important to note that the decline in 2020 and 2021 was strongly dominated by the reduction in EU imports from Cambodia, Bangladesh, and Myanmar (in that order) which combined accounts for 90% of the decrease in EU preferential imports from all

([30]) Not in Bolivia, Cabo Verde, and Mongolia.
([31]) The remaining imports benefit from other preferential arrangements or MFN zero duties.

LDCs between 2019 and 2021. That means that on average other LDCs hardly decreased their exports to the EU, and 19 LDCs actually increased their exports. In the case of Cambodia and Myanmar, the decrease has largely been explained by country-specific political and economic factors – the partial withdrawal of EBA preferences for the former and the fallout of the 2021 military coup for the latter.

During the reporting period, safeguards measures imposed by the Commission in 2019 on imports of rice from Cambodia and Myanmar applied until January 2022.

The three biggest EBA beneficiaries have been under enhanced engagement during the reporting period (Bangladesh, Cambodia, and Myanmar). In that period, EBA preferences were partially withdrawn from Cambodia as of 12 August 2020 due to serious and systematic concerns related to human rights ascertained in the country ([32]). This report is accompanied by a dedicated Staff Working Document providing more detailed information on this enhanced engagement and on the relevant developments in these three countries.

The European Commission services and the EEAS may, as appropriate, further increase their vigilance regarding the human and labour rights situation also in other EBA countries depending on current and future developments. It is important to recall that continued enjoyment of EBA preferences requires that also EBA beneficiaries respect the principles laid down in all the UN and ILO conventions on human rights and labour rights listed in annex VIII of the GSP Regulation.

6. PARTNERSHIPS AND COOPERATION

6.1. Support for GSP beneficiaries

The GSP is a comprehensive tool to support long-term sustainable development in beneficiary countries, as discussed already in section 1. This goal is further supported by the formulation of Multiannual Indicative Programmes (MIPs) which define the EU's priority areas and specific objectives for development cooperation with the respective countries (most recently for the period 2021-2027). This is done in dialogue with the partner country government, civil society and other stakeholders, in cooperation with international organisations and monitoring bodies, to help the countries meet requirements and maximise utilisation and benefits of the GSP preferences.

A majority of MIPs includes support to sustainable growth and decent jobs, with fair and just working conditions, which will make it possible for the Commission to design, where appropriate, specific actions and measures that contribute towards relevant support to GSP countries. Work towards ratification and effective implementation of conventions and commitments related to good governance, human rights, migration, and environment also have ample support from MIPs generally. As GSP+ countries face specific requirements to be eligible for the additional tariff preferences, this is typically given particular attention.

In 2020, the EU and its Member States together provided €22.9 billion or 40% of global Aid for Trade (AfT), making them the largest AfT donor in the world. The EU's AfT is closely coordinated with its trade policy. Accordingly, 96% of AfT is directed to countries that have preferential access to the EU market, including through the GSP. GSP beneficiary

([32]) EU Regulation 2020/550; https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1469 countries received over one third of the EU's AfT, not considering those who may have other types of preferential access. Among GSP beneficiaries, the majority of AfT goes to countries that have access to the EU market under the EBA.

In 2020, EU AfT directed towards GSP beneficiary countries was relatively more focused on two areas. First, trade policy and regulations, which often includes support to the capacity of designing and implementing trade policy, including specific areas such as frameworks on sanitary and phytosanitary (SPS) measures, intellectual property rights, technical regulations, trade facilitation and customs reforms. Secondly, building trade development related capacity, which often includes a focus on strengthening the utilisation of the GSP and other arrangements through supporting export competitiveness of businesses, creating links with buyers, etc.

EU AfT, including its support to GSP compliance and utilisation, is a tool to deliver on the Global Gateway ([33]). Launched in December 2021, it is a new strategy to mobilise investments totalling €300 billion over 2021-2027. Half of this has been earmarked for the Europe-Africa Global Gateway Investment package. In line with the EU's geopolitical ambitions and commitment to the 2030 Agenda for Sustainable Development, the Global Gateway strategy aims to boost smart, clean and secure investments in digital, energy and transport, and to strengthen health, education and research systems across the world to underpin a lasting global recovery while promoting universal values and high standards, good governance and transparency. The Global Gateway will be delivered through a Team Europe approach, which brings together the EU and EU Member States with their implementing agencies and public development banks as well as European development financing institutions. It also seeks to mobilise the private sector to leverage investments for a transformational impact.

Beyond this general framework, there are further specific opportunities to support GSP goals, some examples of which are outlined below. Further options for GSP beneficiary countries to benefit from EU financed capacity building are for instance Socieux+ ([34]) or TAIEX ([35]).

The Trade for Decent Work project ([36]) (2019-2021, €6 million), co-funded by the EU and Finland and implemented by the ILO, promoted the implementation of ILO fundamental conventions in specific countries under the EU GSP+ and EBA arrangements. The operation of the project was based on two frameworks: (1) a Global Facility, undertaking global initiatives in international labour standards and *ad hoc* support to specific needs of partner countries and (2) a Country-focused Facility providing support for selected target countries each year. The project included several GSP beneficiaries (Bangladesh, Cabo Verde, Mongolia, Madagascar, Mozambique, Pakistan, and the Philippines). The implementation of the project continues in 2022-2024.

The years 2020-2021 marked the conclusion of three GSP+ related projects funded under the European Instrument for Democracy and Human Rights for a total amount of €5.7 million. The overall objective of these projects was to empower civil society actors including trade unions to monitor the effective compliance and implementation of GSP+ related conventions in countries where the special incentive arrangement applies. More specifically, these projects sought to build up the awareness and capacity of civil society

([33]) https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/global-gateway_en
([34]) http://socieux.eu/about/
([35]) https://op.europa.eu/en/publication-detail/-/publication/9a6139af-d5f8-11ea-adf7-01aa75ed71a1/language-en
([36]) https://www.ilo.org/global/standards/WCMS_697996/lang--en/index.htm

actors to conduct the monitoring but also advocate for legal and policy reforms to uphold labour and wider human rights in GSP+ beneficiary countries. This was achieved for example by setting up Monitoring Task Forces to follow-up the implementation of main agreements related to UN and ILO Conventions, to build up constructive policy dialogue between civil society organisations (CSOs), social partners and state actors on these topics or conduct outreach to an external public audience through extensive media coverage, national human rights education campaign or submission to the Treaty Bodies and Universal Period Reviews. For example, in Bolivia, EU-funded Actions focused on CSO monitoring and advocacy on ratified human rights conventions before national and international instances such as the Inter-American Commission on Human Rights (IACHR) and UN. The high relevance and the broad impact of these projects has been underlined in several evaluations and in particular, the enhanced general understanding about the GSP+ arrangement, the increased dialogue and engagement with State actors, and the increased capacity of CSOs to assess and report about its compliance.

The EU also supported the provision of comprehensive, transparent, centralised information on GSP for beneficiaries, businesses, civil society, and policy makers alike via the GSP Hub project. The GSP Hub (2019-2021, €400,000) aimed to improve awareness and transparency of the GSP, its economic benefits and its monitoring, via a dedicated website ([37]), written publications, and a series of awareness events in Europe and in GSP beneficiary countries. The maintenance and update of the website will continue through 2024.

Beyond support to implementation of GSP+ relevant conventions, the EU has also provided sector-specific assistance for beneficiary countries to achieve maximisation of GSP+ preference utilisation. The EU-Sri Lanka Trade Related Assistance Project (€8 million) for example provided sector specific assistance on sanitary and phytosanitary compliance, packaging and labelling, export management and marketing, and market linkages in the spices and processed foods sectors. The project also facilitated the formulation of a National Export Strategy as well as contributed to the approval of a National Quality Infrastructure Strategy and action plan, and the publishing of a GSP+ Business Guide.

6.2. Way ahead

In the coming years, the general direction of support to GSP+ beneficiaries will be defined by the continued application of the NDICI-Global Europe ([38]), the EU's new main financing instrument for its external action in the period of 2021-2027, as mentioned in Section 6.1. A mid-term review will be completed in 2024, providing the opportunity to adjust priorities and resources where needed for the period of 2024-2027. Based on MIPs, Annual Action Plans and other measures defining specific actions to be carried out are established. The preparation of MIPs and Action for GSP beneficiaries takes into account their trade facilitation needs, including to increase GSP utilisation, as well as the priorities established under GSP+ monitoring and EBA enhanced engagement. Additionally, support for GSP beneficiaries will consider the changes in the GSP post-2023, when the new Regulation is expected to enter into force, notably supporting the ambitions of current GSP+ beneficiaries and future graduating LDCs to be part of the new GSP+ for example by supporting ratification and implementation efforts.

([37]) https://gsphub.eu/
([38]) Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe.

These efforts will be further supported by the EU's Global Gateway described above. Accordingly, trade-related support will leverage innovative de-risking tools to catalyse private sector investment. The Global Gateway strategy aims to boost smart, clean and secure investments in digital, energy and transport, and to strengthen health, education and research systems across the world to underpin a lasting global recovery while promoting universal values and high standards, good governance and transparency ([39]).

7. CONCLUSION

As ample evidence indicates and as detailed in this report, the GSP provides substantial economic benefits to its beneficiaries, with the strongest impact on the EBA beneficiary countries. Between 2014 and 2019, preferential imports from EBA beneficiaries increased by 81% (from €13.9 billion to €25.2 billion in 2019). In the absence of GSP+ preferences, the GDP of GSP+ beneficiaries could be reduced by up to 0.3% - in absolute terms, up to €6.6 billion - and exports from GSP+ beneficiaries to the EU could drop by up to 25%.

Furthermore, the GSP is an effective instrument to engage with and support developing countries to launch the necessary reforms towards the effective implementation of international standards of human rights, labour rights, environmental and climate protection, and good governance.

Overall compliance with GSP+ requirements in terms of reporting obligations to UN and ILO monitoring bodies is relatively high, reflecting a clear commitment by beneficiary countries to this key prerequisite for participation in the scheme and adherence to international standards. This commitment also provides a basis for assessment by treaty monitoring bodies, which is in turn the key component of the EU's monitoring and engagement.

On this basis, the Commission services and the EEAS are monitoring the respect of GSP obligations to comply with international standards for all beneficiaries, and more particularly for the beneficiaries of the GSP+ arrangement and some EBA beneficiaries. Monitoring focusses on the implementation of international standards set by the UN and ILO on their respective conventions. Engagement with beneficiary countries makes use of all opportunities and means of communication available, including existing formal *fora* like dialogues and joint commissions, as well as monitoring missions and other more informal means of exchange. In this process, the inputs of civil society partners, both in the beneficiary country and internationally, are of primary importance. Technical and development cooperation projects also contribute towards the goal of sustainable development and the implementation of international standards.

Beyond the implementation of existing obligations, the accompanying Staff Working Documents show beneficiaries' commitment to international standards beyond the formally established list of conventions listed in the GSP Regulation. For example, GSP+ beneficiaries have ratified the Convention on the Rights of People with Disabilities and the Paris Agreement, which are not listed in the GSP Regulation. Moreover, several GSP beneficiaries are advancing in ratification of the newly established fundamental ILO

[39] https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/global-gateway_en

conventions relating to occupational safety and health, as well as ILO conventions on labour inspections and tripartite consultations, not listed in the GSP Regulation either.

Against the background of these incentives and monitoring, over the last few years significant progress was achieved in many beneficiary countries in terms of efforts to advance women's and children's rights, the fight against torture and ill treatment, as well as labour rights and working conditions, including eradication of child labour and forced labour in GSP beneficiary countries. Examples include Sri Lanka, which has made significant progress in the fight against child labour. Uzbekistan eradicated forced and child labour in its cotton harvest through sustained efforts since 2016. Beneficiary countries are making progress in addressing key environmental and climate change challenges, as well as in deploying efforts towards drug control and anti-corruption measures.

In conclusion, the EU GSP contributes to positive economic and sustainable development in beneficiary countries by supporting GSP countries' integration in the international global value chains and their compliance with the respective GSP obligations. The EU GSP's incentive-based approach of engagement has proven successful, and it should, therefore, continue. This implies establishing effective and trust-based interactions with GSP governmental authorities over issues that are often politically sensitive and that require time to be tackled successfully. The EU GSP acts as a facilitator to achieve progress on the ground, in a way that is sustainable over time, through closer relations and positive engagement between the EU and beneficiary countries.

It is fundamental to provide continuity and legal certainty for GSP beneficiaries and business. In view of the upcoming expiry of the GSP Regulation at the end of 2023 and the still on-going negotiations for a new Regulation, the Commission has proposed an extension of the current rules, which was welcomed by the European Parliament and the Council. During the period of prolongation of the current rules, monitoring and engagement will continue as usual, and beneficiary countries should continue to make reform efforts. Beyond the extension, a revised GSP Regulation is expected to provide continuity and maintain the essential features of the scheme, while being flexible to respond to future political challenges such as changes in the GSP countries' economic status, new sustainability demands and improving communication and transparency of the GSP monitoring and reporting work.