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Midterm Evaluation of the Generalised Scheme of Preferences

Accompanying the document

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

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Glossary

| | |
|----------|--------------------------------------------------------------------------------------------------------------------------------|
| CBD | Convention on Biological Diversity |
| CITES | Convention on International Trade in Endangered Species of Wild Fauna and Flora |
| CPI | Corruption Perception Index |
| CPIA | Country Policy and Institutional Assessment |
| CRC | Convention on the Rights of the Child |
| DG TRADE | The Directorate General for Trade |
| EBA | Everything but Arms |
| EEAS | European External Action Service |
| FTA | Free Trade Agreement |
| GHG | Greenhouse Gas |
| GSP | Generalised Scheme of Preferences |
| GSP+ | Special Incentive Arrangement for Sustainable Development and Good Governance |
| NGO | Non-governmental Organisation |
| PUR | Preference Utilisation Rate: GSP preferential imports as a percentage of eligible imports under the respective GSP arrangement |
| SME | Small and Medium Sized Enterprise |
| SPS | Sanitary and Phytosanitary Standards |
| TFA | Trade for All |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| WTO | World Trade Organization |

1. Introduction

In 1971, the European Community introduced a Generalised Scheme of Preferences (GSP) following a resolution of the United Nations Conference on Trade and Development (UNCTAD) to create a system of trade preferences to support developing countries. The GSP is also based on the World Trade Organisation's enabling clause, which permits developed countries to grant unilateral and non-reciprocal tariff preferences to support developing countries. Since that time, the EU's GSP has assisted developing countries in their efforts to reduce poverty, promote good governance and support sustainable development. By providing preferential access to the EU market, the GSP helps developing countries to generate additional income growth through international trade.

Throughout the following decades, the GSP was amended with regards to product coverage, eligibility of beneficiary countries, as well as the introduction of special arrangements to support developing countries in their engagement concerning human and labour rights, environmental protection and good governance, including combatting drugs production and trafficking.

The current legal framework for the GSP is Regulation (EU) No 978/2012 of the European Parliament and the Council of 25 October 2012 applying a Scheme of Generalised Tariff Preferences ('the GSP Regulation').¹ The tariff preferences provided under the GSP Regulation are applied from 1 January 2014 and remain in force for a period of ten years.

According to Article 40 of the GSP Regulation the Commission "shall submit, to the European Parliament and to the Council a report on the application of this Regulation". The Directorate General for Trade (DG Trade) contracted an external consultant to carry out a study to inform the Commission's report on the application of the GSP Regulation, as well as this Staff Working Document accompanying the Commission's report. The final report produced by the external consultant² is made public alongside the Commission's report and the accompanying Staff Working Document.

Recital 34 of the GSP Regulation states that the report on the application of the Regulation and the assessment of the need to review the GSP include the GSP+ arrangement and the temporary withdrawal provisions of tariff preferences, taking into consideration, inter alia, the fight against terrorism and the field of international standards on transparency and exchange of information in tax matters. The implications for development, trade and financial needs of beneficiaries should also be taken into account. A detailed analysis of the impact of the GSP Regulation both on trade and on the Union's tariff income, with particular attention to the effects on beneficiary countries, should be included. Recital 34 also foresees that, where applicable, compliance with Union sanitary and phytosanitary legislation should be assessed. Furthermore, an analysis of the effects of the GSP with regard to imports of biofuels and sustainability aspect should be included.

Aspects relating to biofuels, sanitary and phytosanitary measures, which were covered by the external consultant's study are addressed in a separate section. Aspects related to the fight against terrorism are also covered in that section and were reviewed by the Commission

¹Regulation (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, available at: http://trade.ec.europa.eu/doclib/docs/2012/october/tradoc_150025.pdf

² <http://trade.ec.europa.eu/doclib/html/157270.htm>

services. Issues related to the exchange of information in tax matters have not been addressed. The reason being that this issue is not part of the GSP Regulation and has therefore not been monitored in the context of its application. Consequently, there is no information or data on which an analysis can be based.

The Commission Implementing Regulation (EU) No 1213/2012 of 17 December 2012 amending the list of graduated products, as well as several delegated acts from 2012 to 2015, which amended the lists of beneficiary countries, the graduation threshold, the vulnerability threshold, as well as the procedures for the temporary withdrawal of tariff preferences and adoption of general safeguard measures were also taken into consideration.³

The overall purpose of the midterm evaluation was to assess, on the basis of the results to date of the GSP, whether the objectives set by the GSP Regulation are on track to be achieved. In general terms, the midterm evaluation has sought to provide a detailed assessment of the following issues:

- the economic, social, human rights and environmental impacts of the GSP;
- the present GSP's effectiveness and efficiency in light of its objectives, including costs and benefits;
- possible unintended consequences associated with the implementation of the GSP;
- the relevance of the GSP with respect to the developmental and other needs of developing countries, and in particular, of Least Developed Countries;
- the GSP's coherence with EU foreign, trade and development policy and other relevant policies; and
- the potential for regulatory simplification and burden reduction both for the EU and the beneficiary countries.

The issues listed above are examined in accordance with the evaluation criteria established in the evaluation roadmap: effectiveness, efficiency, coherence and relevance. EU added value is not covered, since the scheme falls under the EU's exclusive competence for the common commercial policy (TFEU Art. 3(1)(e))⁴.

For comparison purposes, two separate time periods were analysed by the external consultant: the three-year period prior to the application of the GSP Regulation (referred to as the 'pre-reform period'); as well as the three year period following entry into force of the GSP Regulation (referred to as the 'post-reform period'), respectively 2011-2013 and 2014-2016.

The following countries were examined under the three respective GSP arrangements:⁵

- i. **Standard GSP arrangement** (23 countries) - Cameroon, Congo, the Cook Islands, Cote d'Ivoire, Fiji, Ghana, India, Indonesia, Iraq, Kenya, the Marshall Islands,

³ A list of the Delegated Acts and Implementing Acts to Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012 is available at: http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155839.pdf

⁴ The Analytical Framework for the MTE contained in Annex I of this Report details the six evaluation questions, the judgement criteria employed, the required evidence and analysis/indicators utilised, the sources of evidence/methodological tools, as well as coverage in the Final Report.

⁵ Refer to page 9 for full descriptions of the three arrangements.

Micronesia, Nauru, Nigeria, Niue, Sri Lanka⁶, eSwatini (formerly Swaziland), Syria, Tajikistan, Tonga, Ukraine⁷, Uzbekistan, and Vietnam.

- ii. **GSP+ arrangement** (8 countries) - Armenia, Bolivia, Cape Verde, Kyrgyzstan, Mongolia, Pakistan, Paraguay, and the Philippines.⁸
- iii. **Everything but Arms arrangement** (49 countries) - Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros Islands, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, People's Democratic Republic Lao, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar/Burma, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Tanzania, Timor-Leste, Togo, Tuvalu, Uganda, Vanuatu, Yemen, and Zambia.

In total, 80 GSP beneficiary countries are covered across the three arrangements.⁹ These countries consistently traded under one or more of the EU's GSP arrangements in both the pre-reform and post-reform periods.¹⁰

2. Background to the intervention

Description of the intervention and its objectives

The EU's GSP has undergone several transformations over the decades always with the objective to increasingly promote sustainable development. Most recently, Regulation (EU) No. 978/2012 introduced reforms to the scheme with the aim to better focus preferences on those countries most in need, in particular, least developed countries and other low and lower-middle income developing countries. The 2012 GSP reform significantly reduced the number of beneficiaries from 178 to 92 countries. Countries which were classified by the World Bank as in the upper middle income category and higher were excluded from GSP preferences, as well as countries benefitting from other preferential market access arrangements with the EU, which grant at least the same level of tariff preferences as the GSP for substantially all trade.

The objectives of the 2012 GSP reform are threefold: (i) to contribute to poverty eradication by expanding exports from countries most in need; (ii) to promote sustainable development and good governance; and (iii) to ensure a better safeguard for the EU's financial and economic interest.

⁶ Sri Lanka's preferential treatment has been reinstated in the GSP+ arrangement as of 19 May 2017. However, given that it benefitted from Standard GSP preferences over the period of the investigation, it was included in the first group.

⁷ While the Ukraine was part of the group of countries examined, it should be noted that Ukraine was removed from GSP from 1 January 2018 due to a Deep and Comprehensive Free Trade Agreement with the EU.

⁸ Pakistan, the Philippines and Kyrgyzstan transitioned from the Standard GSP arrangement to the GSP+ arrangements in the years 2014, 2015, and 2016, respectively. Georgia graduated from the GSP+ arrangement in January 2017 and was not considered as a part of the selected 80 beneficiary countries.

⁹ This is based on trade under specific GSP arrangements as at 1 January 2017.

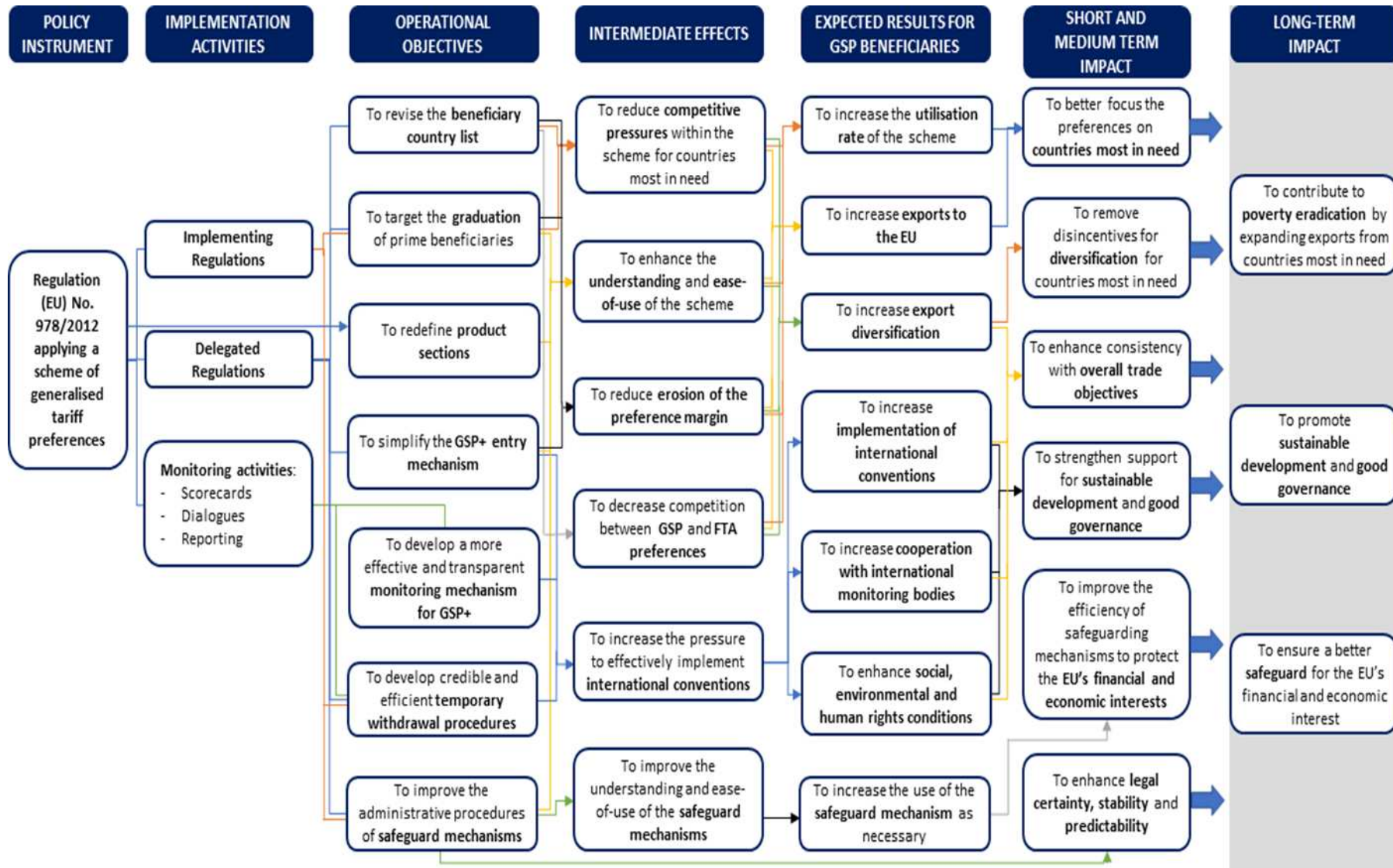
¹⁰ This is with the exception of the Myanmar and South Sudan that started to trade under EBA preferences in 2013.

These general objectives were further translated into six specific operational objectives for Regulation 978/2012:

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

The intervention hypothesis which underpins the GSP as implemented under Regulation 978/2012 was revised and reconstructed for the purpose of the mid-term evaluation and is shown in Figure 1 (overleaf). It highlights the linkages between the Regulation's implementation activities, its operational objectives, the intermediate effects and the expected results for the beneficiaries as well as the expected short, medium and long-term impacts. The figure illustrates the channels through which the GSP achieves its objectives and impact.

Figure 1: Intervention logic for the GSP Regulation



In order to fulfil its objectives, the GSP has three different preference arrangements:

1. **A general arrangement** ('Standard GSP'), which grants duty reductions for around 66% of all EU tariff lines to low-income or lower-middle income countries that do not benefit from other preferential trade access to the EU market;
2. **A Special Incentive Arrangement for Sustainable Development and Good Governance** ('GSP+') for vulnerable countries, which grants full duty suspension for essentially the same 66% of tariff lines as Standard GSP to eligible countries vulnerable in terms of economic diversification and export volumes. In return, beneficiary countries must ratify and effectively implement 27 core international conventions, as listed in the GSP Regulation, which cover human and labour rights, environmental protection and good governance (hereafter referred to as 'GSP+ Conventions'); and
3. **A Special Arrangement, the Everything But Arms** ('EBA') for Least Developed Countries, which grants full duty-free, quota-free access for all products except arms and ammunition to countries classified by the UN as Least Developed Countries. Unlike the case for countries that benefit from Standard GSP and GSP+ preferences, countries do not lose EBA status by entering into a Free Trade Agreement (FTA) with the EU.

Base line / point of comparison

The point of comparison is the GSP applied before 1 January 2014, established by Council Regulation (EC) No. 732/2008. That GSP had the following main features:

Eligibility to GSP was based on two negative principles: 1) high income countries as classified by the World Bank were not eligible unless their economies were not sufficiently diversified (as measured by the concentration of their imports to the EU); and 2) countries with a FTA with the EU were also not eligible.

There were three preference arrangements: 1) a general arrangement with 111 beneficiaries, a product coverage of around 6200 tariff lines and in principle offering full duty suspension for non-sensitive products and duty reductions for sensitive products; 2) GSP+ with 15 beneficiaries), with essentially the same product coverage as the general arrangement but offering almost full duty suspension on all covered products; and 3) EBA with 49 beneficiaries offering full duty suspension for all products except arms and munitions.

GSP+ eligibility criteria based on a countries import share to the EU and the concentration of those imports. GSP+ entry criteria were based on ratification and effective implementation of 27 international conventions related to human rights, labour rights, protection of the environment and good governance.

Product graduation, i.e. a set of criteria applied for removal of specific product sections for a given beneficiary country because the exports of those products are deemed as competitive and thus no longer in need of tariff preferences, which applies to both the general arrangement

and GSP+. Several beneficiaries¹¹ had been subject to product graduation, the majority of cases related to China.¹²

Mechanisms for the withdrawal of GSP in case of the serious and systematic violations of principles laid down in core human and labour rights conventions and other grounds such as unfair trading practices and shortcomings in customs controls. In addition, GSP+ may be temporarily withdrawn in case a beneficiary no longer maintains ratification of a convention or it is not effectively implemented. GSP was withdrawn from Belarus in 2006 for serious and systematic violations of labour rights and GSP+ from Sri Lanka in 2010 for non-effective implementation of certain human rights conventions.

Safeguard measures which may be applied where imports from beneficiary countries cause or threaten to cause "serious difficulty" to a Union producer. No safeguard measure was taken.

The 2012 GSP reform introduced major changes to that baseline:

1. The eligibility criteria for countries to qualify as a GSP beneficiary were tightened to only include developing countries below upper-middle income status or that did not have a Free Trade Agreement with the EU.
2. Product graduation criteria were revised.
3. The product coverage was slightly expanded to offer more generous preference coverage, mainly for raw materials.
4. The GSP+ entry mechanism was simplified and the GSP+ monitoring mechanism enhanced.
5. The procedural requirements for temporary withdrawal and the safeguard mechanism have been amended, empowering the Commission to act rapidly in urgent cases.
6. The expiration period was extended from 3 to 10 years for the GSP and GSP+ schemes, while the EBA scheme has no expiration date.

3. Implementation / state of play

The 2012 GSP reform came into effect on 1 January 2014, allowing for an important transition period from the moment the GSP Regulation was adopted on 25 October 2012. This transition period provided all relevant stakeholders, including beneficiary country governments and economic agents, the necessary time to adapt to the new provisions.

The main goal of the 2012 GSP reform was to better focus the GSP's tariff preferences on the countries most in need by graduating those countries and sectors which were competitive

¹¹ Commission Implementing Regulation (EU) No 1231/2012 of 17 December 2012 suspending the tariff preferences for certain GSP beneficiary countries in respect of certain GSP sections in accordance with Regulation (EU) No 978/2012 of the European Parliament and of the Council applying a scheme of generalised tariff preferences (for the period 2014-2016): China, Costa Rica, Ecuador, India, Indonesia, Nigeria, Ukraine, Thailand

Commission Implementing Regulation (EU) No 2016/330 of 8 March 2016 suspending the tariff preferences for certain GSP beneficiary countries in respect of certain GSP sections in accordance with Regulation (EU) No 978/2012 applying a scheme of generalised tariff preferences for the period 2017-2019: India, Indonesia, Kenya, Ukraine

¹² Commission Implementing Regulation (EU) No 1231/2012 covered 44 product cases out of which 27 related to China. Commission Implementing Regulation (EU) No 2016/330 covered 12 product cases.

under the previous GSP. Through the tightening of the eligibility criteria of GSP, the total number of GSP beneficiaries decreased from 178 to 92.

Overall import value

GSP imports as a share of all EU imports decreased from 6.1% in 2013 (the last year before the GSP Regulation came into force) to 4.9% in 2016, which fits with the lower number of beneficiaries. Three sets of regressions which were undertaken by the external consultant as part of the accompanying econometric analysis support the fact that these changes are indeed attributable to the 2012 GSP reform.

Table 1: Pre- and post-reform EU imports by GSP arrangement¹³

| | Total GSP | Standard GSP 23 countries | GSP+ 8 countries | EBA 49 countries |
|-----------------------------|-----------|---------------------------|------------------|------------------|
| EUR billion | | | | |
| 2011 | 47.049 | 30.838 | 4.906 | 11.305 |
| 2012 | 47.542 | 29.963 | 4.599 | 12.980 |
| 2013 | 48.004 | 29.636 | 3.912 | 14.457 |
| 2014 | 50.797 | 27.685 | 6.071 | 17.042 |
| 2015 | 60.213 | 30.856 | 7.113 | 22.244 |
| 2016 | 62.564 | 31.588 | 7.453 | 23.524 |
| Average pre-reform | 47.532 | 30.146 | 4.472 | 12.914 |
| Average post-reform | 57.858 | 30.043 | 6.879 | 20.936 |
| Percentage Added (post/pre) | 21.7% | -0.3% | 53.8% | 62.1% |

Source: external consultant's calculations based on trade and tariff data supplied by the European Commission.

Nevertheless, the relevance of the GSP remained stable or increased for those countries that remained within the scheme. The table above shows the import values relating to the three different arrangements in the pre-reform period and the post-reform period. Most notably, the total import value from the 49 EBA beneficiaries increased by 62.1% on the average of the three years post-reform, compared to the average of the three pre-reform years. Similarly, the import value for GSP+ countries went up by 53.8%. Import value from Standard GSP countries remained mostly stable, falling by only 0.3%.

GSP's share of overall imports

Following the GSP reform, the share of imports into the EU under the GSP+ and EBA arrangements in relation to total imports into the EU from GSP and EBA countries increased substantially. Imports under EBA represented only 37.4% of total EU imports from the EBA countries in 2011. By 2016 that figure was up to 65.4%. Similarly for GSP+, their share of duty-free imports benefitting from the scheme went from 9.5% to 51.2% during the period.

¹³ Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, page 47

Table 2: Share of EU imports from GSP beneficiary countries by tariff regime¹⁴

| EBA Countries | | | | | | |
|-------------------------------|----------------------------------------------|------------------------------------|-----------------|--------------------|---------------|--------------|
| | Most Favoured Nation¹⁵ = 0 | Most Favoured Nation > 0 | EBA = 0 | EBA > 0 | Others | Total |
| 2011 | 52.7% | 3.4% | 37.4% | 0.0% | 6.6% | 100% |
| 2012 | 50.8% | 2.9% | 40.3% | 0.0% | 5.9% | 100% |
| 2013 | 50.3% | 2.7% | 41.5% | 0.0% | 5.5% | 100% |
| 2014 | 47.6% | 2.6% | 45.5% | 0.0% | 4.3% | 100% |
| 2015 | 36.7% | 2.4% | 59.1% | 0.0% | 1.8% | 100% |
| 2016 | 28.8% | 2.7% | 65.4% | 0.0% | 3.1% | 100% |
| GSP+ Countries | | | | | | |
| | Most Favoured Nation = 0 | Most Favoured Nation > 0 | GSP+ = 0 | GSP+ > 0 | Others | Total |
| 2011 | 52.6% | 8.1% | 9.5% | 29.5% | 0.3% | 100% |
| 2012 | 47.8% | 8.6% | 11.3% | 32.0% | 0.3% | 100% |
| 2013 | 47.2% | 8.4% | 11.3% | 24.1% | 8.9% | 100% |
| 2014 | 43.7% | 8.0% | 43.2% | 4.6% | 0.5% | 100% |
| 2015 | 43.4% | 7.7% | 47.9% | 0.2% | 0.8% | 100% |
| 2016 | 40.6% | 7.5% | 51.2% | 0.2% | 0.6% | 100% |
| Standard GSP Countries | | | | | | |
| | Most Favoured Nation = 0 | Most Favoured Nation > 0 | GSP = 0 | GSP > 0 | Others | Total |
| 2011 | 62.9% | 10.9% | 11.3% | 12.4% | 2.5% | 100% |
| 2012 | 66.7% | 9.9% | 10.9% | 10.3% | 2.2% | 100% |
| 2013 | 65.4% | 10.3% | 11.1% | 11.0% | 2.3% | 100% |
| 2014 | 63.5% | 13.0% | 8.6% | 11.8% | 3.1% | 100% |
| 2015 | 59.7% | 13.7% | 9.3% | 13.0% | 4.3% | 100% |
| 2016 | 55.9% | 15.0% | 10.1% | 14.2% | 4.8% | 100% |

Source: external consultant's calculations based on trade and tariff data supplied by the European Commission.

Erosion of preference margins

The erosion of preference margins refers to the value of GSP preferences being reduced, for example due to the conclusion of trade agreements. The degree of preference erosion after the

¹⁴ Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, page 52

¹⁵ Most Favoured Nation (MFN) tariff means tariffs applicable to all countries that are members of the WTO and are not subject to preferences. MFN tariffs can either be zero or higher than zero.

implementation of the GSP Regulation is very limited, with most Harmonized System sections under analysis showing a 0% change throughout the period of analysis. According to the external consultant, this is mainly due to the fact that there were only minor changes in the Most Favoured Nation tariffs throughout the period. The table below shows the main Harmonized System Sections analysed in the study, as well as the percentage change in preference margin for each GSP arrangement.

Table 3: Preference margins by Harmonized System section compared to Most Favoured Nation tariffs (2011 and 2016)¹⁶

| Harmonized System Section | Description | Change in Preference Margin | | |
|---------------------------|-------------------------------------------|-----------------------------|------|--------------|
| | | EBA | GSP+ | Standard GSP |
| Section I | Live Animals; animal products | 0.7 | -0.2 | -0.7 |
| Section II | Vegetable products | 0.1 | 0.0 | -0.5 |
| Section III | Animal or Vegetable fats and oils | -0.1 | -0.1 | -0.1 |
| Section IV | Prepared foodstuffs | 0.4 | 0.3 | -0.6 |
| Section V | Mineral products | 1.7 | 1.7 | 1.1 |
| Section VI | Products of the chem. & allied industries | -3.5 | -3.5 | -3.0 |
| Section VII | Plastics and Articles thereof | -0.3 | -0.5 | -0.3 |
| Section VIII | Raw hides and skins, leather, fur skins | 1.6 | 1.6 | 1.6 |
| Section IX | Wood and articles of wood | 0.8 | 0.6 | 0.3 |
| Section X | Pulp of wood or other fibrous | 0.0 | 0.0 | 0.0 |
| Section XI | Textiles | 0.0 | 0.0 | 0.0 |
| Section XII | Footwear, headgear, umbrellas | 0.2 | 0.2 | 0.0 |
| Section XIII | Articles of stone, plaster, cement | 0.0 | 0.0 | 0.0 |
| Section XIV | Pearls, precious, semi-precious stones | 0.0 | 0.0 | 0.0 |
| Section XV | Base metals and articles of base metal | -1.8 | -1.8 | -1.5 |
| Section XVI | Machinery and mechanical appliances | -0.6 | -0.7 | -0.7 |
| Section XVII | Vehicles, aircraft, vessels, transport | -2.6 | -2.6 | -1.0 |
| Section XVIII | Optical, photographic instruments | 2.4 | 2.4 | 0.8 |
| Section XIX | Arms and ammunition | 0.2 | 0.2 | 0.1 |
| Section XX | Miscellaneous manufactured articles | 0.0 | 0.0 | 0.0 |
| Section XXI | Works Of Art, collectors' pieces | 0.0 | 0.0 | 0.0 |

Source: external consultant's calculations on the basis of data provided by the European Commission.

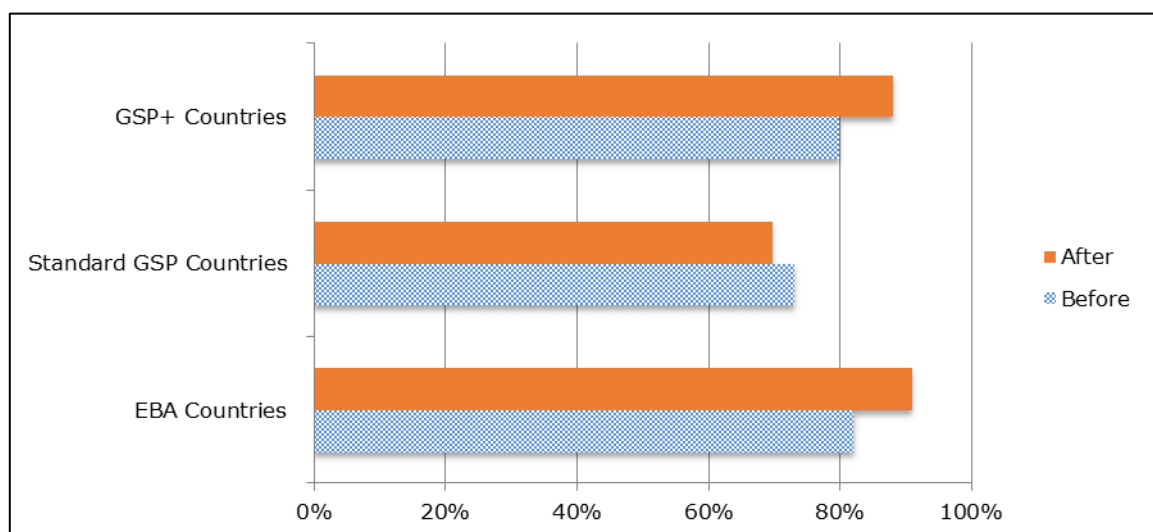
Preference utilisation rates

Preference utilisation rates are defined as the percentage of GSP preferential imports out of all eligible imports under the respective GSP arrangement.

GSP+ and EBA groups recorded overall increases in their utilisation rates, while Standard GSP countries saw a small decline.

¹⁶ Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, page 55

Figure 2: Utilisation rate per GSP arrangement¹⁷



Within each group, however, results showed a large degree of variance.

Under the Standard GSP group, 9 out of the 23 beneficiary countries recorded increases in their preference utilisation rates. It is noted that several of those countries had very low preference utilisation rates prior to the 2012 GSP reform because they were using the EU's Market Access Regulation (MAR) programme for African countries instead of GSP.

GSP+ beneficiaries show much higher preference utilisation rates both before and after the 2012 GSP reform. Most notably, the two countries which recorded the largest changes in preference utilisation were Kyrgyzstan and Pakistan, which transitioned from Standard GSP to GSP+ during the period (2016 and 2014 respectively); the former saw a 30.1% increase in its utilisation of preferences, while Pakistan increased by 10.8%.

Within the EBA group, results were very mixed, with 21 countries under analysis recording increases and 26 recording declines in their preference utilisation rates. Nevertheless, utilisation of preferences remains highest amongst EBA countries compared to the other GSP arrangements, showing the continued importance of EBA.

¹⁷ Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, page 61

Table 4: Utilisation rate per GSP+ beneficiary (2011-2016)¹⁸

| Country | a. Average (2011-2013) | b. Average (2014 -2016) | Change (b-a) |
|-----------------|------------------------|-------------------------|--------------|
| Kyrgyz Republic | 34.0% | 64.1% | 30.1 |
| Pakistan | 84.9% | 95.8% | 10.8 |
| Paraguay | 88.3% | 91.9% | 3.6 |
| Philippines | 66.3% | 68.9% | 2.6 |
| Cape Verde | 96.7% | 96.9% | 0.2 |
| Bolivia | 95.3% | 95.4% | 0.0 |
| Armenia | 94.0% | 91.0% | -3.0 |
| Mongolia | 92.7% | 85.0% | -7.7 |

Source: external consultant's calculations based on trade data supplied by the European Commission

Export diversification

The external consultant's analysis of export diversification consisted of two metrics: the number of tariff lines reporting actual trade ("non-zero trade") and the Herfindahl Index.¹⁹

Similarly to the results found in the preference utilisation analysis, the results with regards to export diversification are mixed. The best results were obtained by EBA countries, which as a group recorded an increase of 19% in the number of tariff lines reporting positive levels of trade. Out of the 49 countries in that group, only 10 recorded declines in this figure. Herfindahl Index results on the other hand varied too much to yield a clear trend. In some cases (such as Cambodia and Bangladesh), diversification at the product level was not accompanied at the sectoral level, indicating that new tariff lines reporting trade came mostly in the same sectors. It is also noted that, whilst EBA countries saw the best results in terms of diversification of trade, they came from a much lower starting point compared to the Standard GSP and GSP+ groups. Standard GSP beneficiary countries recorded on the whole a 4% increase in the number of tariff lines reporting trade, with only three countries displaying negative results (one of which was Syria, whose sharp decline coincided with the intensification of conflict in the country). GSP+ also saw a modest 6% increase in this figure.

The external consultant identified modest overall improvements in export diversification but could not establish a clear link with the GSP Regulation. Changes in export diversification could also largely be due to domestic level policies and supply-side constraints in the beneficiary countries, and not to the GSP Regulation itself.

¹⁸ Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, page 55

¹⁹ The Herfindahl Index is an indicator which measures the diversification of a country's export portfolio.¹⁹ The HI measures the sum of squared shares of each product in total export. A country with a highly diversified export portfolio will have an index close to zero, whereas a country which exports only one export will have a value of 1 (least diversified export portfolio). It is important to note that the Herfindahl Index does not only record the incidence of trade flows, but also takes into account the value of the trade taking place.

4. Method

The external consultant used three complementary approaches to analyse the functioning and impact of the GSP in the beneficiary countries and the EU, namely: (i) quantitative and qualitative desk research and data analyses; (ii) an inclusive and extensive stakeholder consultation process; and (iii) country and sector case studies.

For the economic analyses of the GSP Regulation, the most up-to-date economic, trade and tariff data provided by Eurostat was used. Tabulation was undertaken to assess the evolution of trade for the EU's trading partner in the post-reform period (2014-2016) as compared to the pre-reform period (2011-2014), as well as to assess to what extent eligible trading partners have utilised trade preferences throughout the period 2011-2016. Additionally, indicators were compiled to analyse the social, environmental and human rights impact in the beneficiary countries. This research was complemented by qualitative research based on literature sources as well as econometric estimation of the determinants of trade flows using gravity modelling.

The analytical framework for the midterm evaluation is presented in Annex I. It outlines the approach to assess the application and impact of the current GSP scheme from economic, social, human rights, and environmental standpoints. The analytical framework includes six evaluation questions, the judgment criteria for each question, the required evidence and indicators for the analysis, and the sources of evidence and methodological tools to be utilised. It also specifically outlines the sections in the Final Report where the analytical questions have been addressed.

The methodology used by the external consultant for the economic, social, human rights and environmental impact analyses is as follows. A similar approach was also taken to the four country case studies and the two sectoral case studies:

- **Economic impact analysis:** The extent to which the GSP could have positive economic impacts on developing countries depends on multiple factors, including the importance of the EU market in the country's overall exports and level of preferential market access utilization. Additionally, the GSP's effectiveness and efficiency will also depend on other factors including the domestic institutional environment and appropriate domestic policies to stimulate exports. Taking these factors into account, the external consultant conducted an analysis of the economic impacts of the different GSP arrangements on beneficiary countries using up-to-date economic, trade and tariff data from Eurostat. This analysis was complemented by qualitative analyses in the form of case studies, where more in-depth quantitative work focused on the determinants of preference non-utilisation as well as decomposing the economic and welfare effects of participation in the GSP.

The empirical quantitative economic analysis consists of two main parts: (i) a diagnostic and descriptive analysis of data at the Combined Nomenclature 8-digit level from trade databases such as Eurostat, and UN ComTrade; and (ii) an econometric analysis of trade data from 2011 to 2016, at a Combined Nomenclature 8-digit level disaggregation, using the gravity model in various specifications. For effective econometric modelling, the trade data was cleaned and matched with tariff data by country and by product class at the Combined Nomenclature-8 digit level in order to analyse the impact of the 2012 GSP reform as precisely as possible. Trade data from three years before to three years after the 2012 GSP reform was analysed to obtain a 'before' and 'after' comparison. Any analysis

over a longer period of time would create significant data distortions as a result of influences from different factors and changes in policy over the years. The comparative approach adopted allows an accurate assessment of the impact of the GSP Regulation. To ensure consistency of data, EU import data was used instead of export data from the different beneficiary countries as EU import data records are more reliable and accessible for all the beneficiary countries under assessment. This has enhanced the overall consistency and comparability of the findings.

- **Social and human rights impact analyses:** The external consultant examined the impact of the GSP on the following elements pertaining to social and human rights impacts using a wide range of indicators: employment; Decent Work Agenda (job creation, labour standards, social protection and social dialogue); working conditions; wage levels and their changes over time; poverty reduction; gender equality; human rights; and good governance.
- **Environmental impact analysis:** To carry out the environmental analysis section of the evaluation, extensive research was conducted on the pre-determined indicators and with substantial input from stakeholder engagement activities, to identify the most significant environmental issues that emanate from participation in the GSP. Additionally, the country-specific case studies provide a more in-depth overview of the impact of the scheme on the environment. A wide range of environmental impacts were examined, which include: air and water purity/pollution; waste; natural resources, including forests, wildlife and fisheries; biodiversity; and climate change.

Limitations to the Methodology and Mitigation Measures

Since the GSP Regulation has only been in force for three years as of the start of the mid-term evaluation process, the number of readily available and up-to-date social, human rights and environmental impact indicators is limited. The financial, institutional and human capacities necessary for monitoring and collecting such data are limited for developing countries. Moreover, it takes substantial time and resources for agencies to collect data on indicators and there are long time-lags before statistics become available. As a result, there is often only outdated or incomplete information available. Additionally, it can take considerable time before the effect of changes in trade become visible in these indicators. Furthermore, there are methodological difficulties to isolate the contribution of trade from a number of other factors affecting specific aspects measured in indicators related to, for example, poverty, employment and the environment.

As a result, international databases and indices (such as the Social Progress Index and the ND-GAIN Index) were used to create cross-country comparative assessment.

Also to account for these limitations and to reveal what is happening on the ground in the beneficiary countries, the external consultant conducted case studies to provide a more in-depth analysis of the environmental impact. The case studies rely heavily on literature review to account for the impact not covered by the abovementioned environmental indicators, national statistics and reports, and monitoring reports by international monitoring bodies, such as the UN. Additionally, the analysis in the case studies is based on a wide array of stakeholder consultations and concrete developments in the countries.

The case studies incorporate analysis of locally produced data sources, comparing wherever possible with corresponding figures from the EU or international organisations. Transparency and reliability of domestic institutions are a consistent theme across case studies in this regard as improvement of domestic institutional capacity is closely aligned with the primary objectives of the EU's external sustainable development platform.

The analytical approach to the case studies takes into account country and sector-specific conditions, and it addresses common research questions using available indicators and methodologies. The case studies follow a similar outline to ensure comparability between the countries and sectors. The analysis focuses on the GSP's economic, social, environmental and human rights impacts. Each case study further contains sections detailing any unanticipated effects of the GSP encountered during the course of research, and also characterises and disaggregates the reference country's trade profile with the EU from the rest of the GSP group.

According to the external consultant, consistency across the case studies allows for the constitution of a final qualitative dataset from which systemic conclusions can be drawn. The Commission notes, however, that it is sceptical of the extent to which four country case studies can be used to draw systemic conclusions applicable to a group as large and diverse as that of the 80+ GSP beneficiary countries.

Case studies can only give indications and are not necessarily representative. Therefore, the conclusions drawn on the basis of case studies at this point in time are only indicative. Moreover, the 2012 GSP reform revised certain elements of the GSP, which have not been used yet, such as the withdrawal mechanism and the safeguard mechanism. Therefore, no clear conclusions could be reached on their appropriateness yet. Likewise, there is insufficient data on the effects from leaving the GSP arrangements to enter into reciprocal preferential trade arrangements.

5. Analysis and answers to the evaluation questions

In order to guide the analysis of the performance of the GSP, the mid-term evaluation has sought to provide answers to six specific questions:

1. To what extent are the objectives of the current GSP on track to be achieved? What has been the impact of the present scheme on developing countries and Least Developed Countries?
2. What are the factors (positive and negative) influencing the achievements observed?
3. What unintended consequences, if any, can be linked to the design, implementation, or use of the current GSP?
4. To what extent is the current GSP efficient?
5. To what extent is the current GSP coherent with the EU's relevant policies?
6. To what extent is the current GSP scheme relevant to the development needs which it intended to address?

5.1 Are the objectives of the current GSP on track to be achieved?

5.1.1 2012 GSP reform objectives

The operational objectives of the GSP Regulation as presented in the intervention logic are the following:

- i. to revise the beneficiary country list;
- ii. to target the graduation of competitive beneficiaries;
- iii. to redefine product sections;
- iv. to simplify the GSP+ entry mechanism;
- v. to develop a more effective and transparent monitoring mechanism for GSP+;
- vi. to develop a credible and efficient temporary withdrawal procedure;
- vii. to improve the administrative procedures of safeguard mechanism.

The point of comparison of the current GSP Regulation is the GSP applied before 1 January 2014, established by Council Regulation (EC) No. 732/2008.

Revised beneficiary country list and more targeted graduation

The GSP Regulation tightened the eligibility criteria for a country to qualify as a beneficiary and improved the functioning of the mechanism by which, in the case of Standard GSP countries only, an individual product section can graduate from the GSP if it has become highly competitive.

GSP participation was restricted to countries classified below upper-middle income status by the World Bank (in the previous GSP regulation only high income status countries were not eligible for GSP). Also excluded were countries that benefit from a preferential market access arrangement with the EU, which grants at least the same level of tariff preferences for substantially all trade. The tightening of the eligibility criteria was aimed to reduce the number of GSP beneficiaries in order to better focus the preferences on those countries most in need. And indeed, the 2012 GSP reform lowered the total number of GSP beneficiaries from 178 countries to 92 countries.

With regard to product graduation, which applies to Standard GSP countries only, individual product sections which have achieved a high level of competitiveness are graduated (i.e. removed) from the GSP, whilst the country remains on the list of beneficiaries for all other product sections for which it is eligible. To reflect the smaller number of beneficiaries on the list, the threshold²⁰ for product graduation was increased from 15% to 17.5% (except for textiles, for which it went from 12.5% to 14.5%).²¹ Currently, four beneficiaries are graduated for 12 product sections²², thus out of 736 country-sectors²³ 12 are graduated. This can be

²⁰ Product graduation thresholds are calculated in terms of GSP imports of the particular product section from the country in question out of the total value of imports of the same product from all GSP beneficiary countries.

²¹ Following China's graduation from the GSP, the thresholds for product graduation were once again revised, increasing from 17.5% to 57% (except for textiles, where the thresholds moved from 14.5% to 47.2%).

²² See Commission implementing Regulation (EU) 2016/330

compared to the 2,400 country-sectors and 20 graduated under the previous GSP Regulation. In relative terms the revised product graduation criteria has led to more product sections being graduated for specific beneficiaries.

The revision of the eligibility criteria and the reformed product graduation has led to the graduation of countries and sectors which were competitive beneficiaries under the previous GSP, such as China and Thailand, as well as India with regards to the textiles sector, from the current GSP.

By removing more advanced developing countries and more competitive exporters from GSP, their strong positions are no longer enhanced through the preferential EU market access and thus the competitive pressures faced by other developing countries are reduced. In turn, the remaining GSP beneficiary countries have been able to take more advantage of preferential market access opportunities under the GSP. As shown in Section 3 of this Staff Working Document, the scheme's relevance for the countries that remain beneficiaries has increased substantially. This is reflected in the increasing overall import value relating to GSP and the role of GSP in the export share of beneficiary countries – particularly those in the EBA and GSP+ groups. The total import value from the EBA and the GSP+ beneficiaries increased by 62.1% and 53.8% respectively on the average of the three years post-reform, compared to the average of the three pre-reform years, while the import value of Standard GSP countries remained mostly stable. The share of GSP imports in overall imports into the EU has increased from 37.4% for EBA and 9.5% for GSP+ in 2011 to 65.4% and 51.2% respectively in 2014.

These findings are in line with the 2012 GSP reform's goal of focusing preferences on a narrower set of countries, which are more in need of development, especially the Least Developed Countries. Moreover, the increase in value of GSP+ imports into the EU may provide further incentive for countries to apply for GSP+ status in the future. While some stakeholders who participated in the interview process highlighted the risk of the value of GSP preferences being reduced due to the conclusion of trade agreements, the external consultant found that the extent of preference erosion following the 2012 GSP reform is very small. As a result, there are significant preferential market access benefits to be derived for countries most in need, particularly Least Developed Countries.

Redefined product sections

With the exception of the EBA arrangement – which already covered all products except arms and ammunition – product coverage under the reformed GSP has been slightly expanded. At the same time, the GSP reform expanded the number of product sections from 21 to 32 to create more homogeneous product categories. The product sections under the previous GSP Regulation of contained some cases heterogeneous products, for example, umbrella and footwear industry were treated as one, and so were rubbers and plastics, fish and meat, edible and non-edible vegetables. This could lead to a situation where products that are not necessarily competitive are excluded just because they fall in a category where products from a totally different, highly competitive industry predominate.

²³ 23 non-EBA countries (EBA and GSP+ countries are not subject to graduation) times 32 product sections.

While the larger coverage of product sections is largely uncontested, provided adequate safeguard mechanisms are in place, the redefined product sections are criticised by representatives from some industrial sectors for potentially undermining the product graduation mechanism. For example, stakeholders from the EU tyre industry argue that the graduation mechanism does not sufficiently protect their interests because the graduation mechanism is only applied at the product section level and, as such, does not target product-specific graduation. Business representatives therefore propose a review of the graduation mechanism whereby graduation should be carried out at a more disaggregated product level, rather than at the much more aggregated level of product sections.

In this respect, the Commission notes that product graduation by sections that are neither too wide nor too narrow provide a good balance between providing predictable trade preferences (imports under individual tariff lines are more likely to fluctuate than broader categories) and reasonably addressing the concerns of particular industries.

Simplified GSP+ entry mechanism

The GSP+ entry mechanism and eligibility criteria were simplified with the aim to make the arrangement more attractive for Standard GSP beneficiary countries. Firstly, GSP+ countries are no longer subject to product graduation – a particularly important provision given that, by definition, GSP+ countries must be considered “vulnerable” in terms export diversification, relying excessively on a small number of competitive products. Secondly, the threshold of the vulnerability criterion for beneficiaries to be eligible for GSP+ was increased so that a beneficiary's GSP covered imports can now represent up to 6.5% in value of the total GSP imports to the EU, rather than 1% under the previous GSP Regulation. Additionally, the GSP Regulation accepts applications for GSP+ at any time, as opposed to only every 1.5 years in the past.

At the same time, the condition to ratify and implement 27 international conventions related to human and labour rights, the environment and good governance (the 'GSP+ Conventions'), as well as to fully cooperate with international monitoring bodies and to fulfil the reporting requirements, in order to qualify for the GSP+ arrangement, has triggered a number of candidate countries to ratify those conventions leading up to their GSP+ admission. For example Pakistan, in its efforts to obtain GSP+ status, ratified the Convention against Torture and the International Covenant on Civil and Political Rights in 2010. Furthermore, Pakistan removed reservations to certain human rights conventions in October 2011, reservations which were regarded as incompatible with the objectives of the conventions and if maintained would have disqualified Pakistan from GSP+. Pakistan gained GSP+ status as of 2014. This illustrates that the EU, through conditionality, can have a positive impact on the promotion of labour and human rights, good governance and environmental protection in the beneficiary and candidate countries.

GSP+ has had a total of 16 beneficiary countries (compared to 15 under the previous GSP Regulation). On 1 January 2018 there were 9 beneficiaries (this includes Sri Lanka which became a GSP+ beneficiary in May 2017, but for the purposes of in particular the economic analysis of this evaluation was considered a Standard GSP country). Six GSP+ countries have been removed from GSP altogether since they concluded FTAs with the EU (Costa Rica, Ecuador, El Salvador, Georgia, Guatemala and Panama). Paraguay will be removed from GSP altogether from 1 January 2019 since it has been classified by the World Bank as an upper-

middle income country during three consecutive years. Most countries applied for GSP+ status in the run-up to the entry into force of the GSP Regulation. The Philippines and Kyrgyzstan applied for GSP+ in 2014 and Sri Lanka in 2016.

Improved GSP+ monitoring mechanism

Significant changes were made to the GSP+ monitoring mechanism. Firstly, the reporting cycle was shortened: status reports to the European Parliament and the Council on the compliance of GSP+ countries are now required every two rather than every three years. Furthermore, GSP+ beneficiaries must sign a binding undertaking to, inter alia, maintain ratification of the GSP+ Conventions, respect the reporting obligations under the conventions and fully cooperate with the Commission in GSP+ monitoring. The new monitoring process also instructs the Commission to use other reliable sources of information (such as civil society, including social partners, the European Parliament and the EU Council). Finally, the GSP Regulation reversed the burden of proof, requiring GSP+ beneficiaries to demonstrate compliance with the 'binding undertakings' set out in Article 9(1) of the GSP Regulation.

On the basis of the new provisions, the Commission has developed a practice of GSP+ monitoring which is based on two interrelated tools: (i) a list of issues (also called 'scorecard') covering shortcomings in implementation of the international conventions that the beneficiary country must respond to; and (ii) the GSP+ dialogue, whereby the EU engages with the respective beneficiary countries, focusing on the beneficiary's shortcomings in implementing the GSP Conventions, achieving progress on these shortcomings and on overcoming challenges. This dialogue process also involves and complements existing bilateral human rights dialogues. It also comprises regular on-site monitoring missions to each GSP+ beneficiary (at least once during each monitoring cycle).

The GSP+ monitoring mechanism supports – through the enhanced and constructive interaction and dialogue – the development of a close partnership between the EU and the GSP+ beneficiaries and allows for the better tracking of progress on the effective implementation the GSP+ Conventions. As indicated by the latest biennial GSP+ report, covering the period 2016-2017, the GSP+ beneficiaries overall made progress on the implementation of the GSP+ Conventions. This in turn can be considered to have contributed overall to sustainable development and good governance in the GSP+ countries (see sections on Economic Impact, Social and Human Rights Impact and Environmental Impact below).

For example, Pakistani stakeholders expressed their appreciation for the partnership between the EU and the Government of Pakistan on sustainable development and confirmed that the ratification and implementation of the GSP+ Conventions was not considered as onerous or intrusive, but rather seen as a driver of the country's development processes. It is also noteworthy that the GSP+ arrangement has led to the establishment of Treaty Implementation Cells in Pakistan, which serve as a mechanism to ensure the effective implementation of the GSP+ Conventions. Notably, this mechanism helps in bridging the divide between Federal and Provincial level actors, as well as inter-ministerial, in the effective implementation of the GSP+ Conventions.

The transparency, inclusiveness and accountability of the monitoring mechanism have also been improved following the 2012 GSP reform. Regular and broad stakeholder consultations are held in order to allow all relevant civil society to engage in the process. This is

complemented by meetings with civil society actors in the beneficiary countries during GSP+ monitoring missions, which have the goal of giving the Commission broad and diverse views on the state-of-play of implementation of the GSP+ Conventions on the ground. Furthermore, the Commission has invited civil society organisations to a meeting to solicit their views in preparing the second biennial GSP+ implementation report.

Despite the new measures in place to ensure transparency and inclusiveness in the GSP+ monitoring process, civil society stakeholders across beneficiary countries called for more information and transparency in the GSP+ monitoring process and criticised in particular the written communication between the Commission and the beneficiary countries²⁴. They argued that greater transparency, accountability and standardization of the scorecard mechanism could lead to improved effectiveness of the monitoring process. Indeed, based on input from the stakeholder consultations, the external consultant recommended that transparency in the GSP+ monitoring process could be improved.

The Commission highlights the necessity to preserve a certain degree of confidentiality in conducting international relations with GSP beneficiary countries. This is crucial to foster a process built on mutual trust. This can also be seen as contributing to the efficiency of the monitoring process by giving space for open and frank discussion on many sensitive issues. At the same time transparency, inclusiveness and accountability in the monitoring process is ensured through, inter alia, regular stakeholder consultations and the public biennial report to the European Parliament and the EU Council. Nevertheless, transparency is a key tenet of the Commission's Trade for All strategy and the Commission will examine what practical measures could be taken to further improve transparency and inclusiveness of the GSP+ monitoring process.

As part of the 2012 GSP reform, reducing the GSP+ monitoring cycle from three to two years had the objective of improving the efficiency of the process. While this has led to a more intensified monitoring process, the Commission agrees with the findings of the external consultant that the two-year monitoring cycle has some limitations. This period does not always suffice for beneficiary countries to implement meaningful changes. There may therefore be scope to extend the monitoring cycle from two years to three or four years, in order to better reflect progress in beneficiary countries, and also as a measure to reduce the administrative burden on the EU and beneficiary countries.

The responsibility for implementing the rights and obligations emanating from conventions lies with the ratifying State party. This also includes enforcement of those rights and obligations, including in relation to the private sector where appropriate. Nevertheless, some stakeholders in local workshops, particularly in Pakistan which gathered 66 participants from government, industry and civil society, noted that there was a need to focus more on the private sector and on compliance at the company level, rather than primarily focusing on public institutions. However, focusing compliance reviews by the Commission on the company level would not only be resource-inefficient, but more importantly could be seen as duplicating or even prejudicing the enforcement responsibilities of the ratifying State party.

²⁴ The Commission transmits regularly written questionnaires to GSP+ beneficiary countries asking them to respond on what actions they are taken to address shortcomings in implementing the 27 international conventions. The primary source of information for the preparation of these documents is the reports from the UN and the International Labour Organization monitoring bodies, which are publicly available.

Credible and efficient temporary withdrawal mechanism

Any of the three GSP arrangements may be temporarily withdrawn for all or certain products for serious and systematic violations of principles laid down in core human and labour rights conventions, and on a number of other grounds such as unfair trading practices and serious shortcomings in customs controls. These provisions existed already in the previous GSP regulation.

The 2012 GSP reform introduced specific withdrawal procedures for GSP+. This arrangement can be withdrawn where a beneficiary no longer satisfies the GSP+ conditions, for example, the vulnerability criteria are no longer met or the beneficiary does not maintain ratification of one of the GSP+ Conventions. Furthermore, GSP+ can be withdrawn for all or certain products where a beneficiary country in practice no longer respects the binding undertaking to, for example, ensure effective implementation of the GSP+ Conventions or introduces reservations to the GSP+ Conventions that are prohibited or incompatible with the Conventions.

The impact of the revised withdrawal mechanism remains unclear, as it has not yet been triggered under this GSP Regulation. This is not evidence of the mechanism not working efficiently. The two biennial reports the Commission so far submitted to the European Parliament and the Council on the implementation of GSP+ (covering the periods 2014-2015 and 2016-2017) indicate that all GSP+ beneficiaries overall made progress on the implementation of the GSP+ Conventions. Of course, this does not mean that problematic implementation issues do not remain. In this respect, it should not be forgotten that GSP+ acts as an incentive for beneficiaries to make continuous progress in achieving effective implementation of the GSP+ Conventions. In contrast, serious shortcomings in respecting fundamental human and labour rights were identified in three EBA beneficiary countries: Bangladesh, Cambodia and Myanmar/Burma. Consequently, the EU has enhanced its engagement with them.

GSP+, but also Standard GSP and EBA, give the Commission leverage vis-à-vis beneficiary countries in pushing for the promotion and protection of fundamental rights. In this respect, the study also found that GSP had an overall positive impact on social development and human rights in beneficiary countries.

In order to further facilitate the launching of the withdrawal procedure and thereby make it more efficient, some stakeholders from civil society organisations proposed that withdrawal of preferences is triggered as soon as evidence is brought forward by third actors/stakeholders and monitoring bodies on systematic human rights and labour rights violations, as well as regarding environmentally harmful practices in a beneficiary country. In order to ensure that such withdrawal of GSP benefits is targeted to the sectors concerned, they recommend that withdrawal of preferences is confined to non-compliant sectors only.

As noted above, GSP and in particular GSP+ has as the objective of promoting sustainable economic development in beneficiary countries. Not every problem in implementation, even if sometimes serious, should lead to the withdrawal of GSP, as long as there is a concrete commitment and actions from the country to improve the situation. It is for the Commission to conduct a case-by-case analysis and it is at the discretion of the Commission to assess whether the conditions for withdrawal are met. If the dialogue and enhanced engagement fail

to produce results, the EU is ready to launch the GSP withdrawal procedure with due consideration for the economic and social impact. However, the Commission is always open to receiving information on countries and issues from civil society and other stakeholders.

Improved Safeguard Mechanism

The aim of the safeguard mechanism is to prevent serious difficulties for EU producers as a result of GSP by allowing for the re-introduction of normal Common Customs Tariff duties. The process for applying safeguard measures may be initiated independently by the Commission or after a request by an EU Member State, any legal person or any association. The 2012 GSP reform introduced procedural improvements to tackle issues that were seen as hindering the use of the safeguard mechanism. For example, certain key legal concepts were clarified (e.g. 'serious difficulty'), as well as rights and obligations of parties in the context of the opening of investigations and more detailed rules to enhance transparency and predictability were introduced.

Following the 2012 GSP reform, the Commission can issue delegated acts to immediately reinstate Common Customs Tariff duties in urgent cases. In addition, specific safeguard clauses were introduced by the GSP Regulation for textile, agriculture and fishery products (Article 29 of the GSP Regulation). These are additional to the surveillance mechanism for agriculture and fishery products, which already existed in the previous Regulation. The Commission has regularly monitored imports as called for under the specific safeguard mechanism, but so far the criteria identified for triggering this safeguard have not been fulfilled.

Many of the stakeholders that participated in the Online Public Consultation called for a review of the safeguard mechanism, in light of perceptions of inadequate coverage of sensitive sectors, particularly the rice sector. Stakeholders associated with the rice industry claim that rice imports under the EBA regime cause disruptions in the European rice industry due to the large import volumes of cheap rice from some EBA beneficiaries, such as Cambodia and Myanmar/Burma. They therefore argued that the current design of the safeguard clause does not allow for adequate protection of EU interests in sensitive sectors and called for the need to institute an automatic safeguard as is the case for other sensitive products.

The Commission notes that the safeguard provisions were revised under the GSP Regulation for a more efficient use in duly justified cases. While it is true that the safeguard mechanism has not yet been triggered under the GSP Regulation, it cannot be concluded from this that the safeguard mechanism is inadequate, since the GSP Regulation has only been in force for three years as of the start of the mid-term evaluation process. It should also be noted that in March 2018, the European Commission, upon the request from Italy, initiated a GSP-related safeguard investigation on imports of Indica rice from Cambodia and Myanmar/Burma. The investigation will be concluded by March 2019 and will determine whether the product under investigation is imported in volumes and/or at prices which cause serious difficulties to the Union producers of like or directly competing products and thus justifies the triggering of the safeguard mechanism.²⁵ The ongoing investigations and its findings will be important for

²⁵ [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018XC0316\(02\)#search=%22%22](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018XC0316(02)#search=%22%22)

assessing the functioning of the reformed safeguard mechanism in the future, as well as its appropriateness for the rice sector or other sectors that can be considered as sensitive.

5.1.2 Economic impact

As already indicated in section 3 of this Staff Working Document, the 2012 GSP reform had an overall positive economic impact on GSP beneficiaries. The full extent in terms of coverage, utilisation and export diversification differs per beneficiary country and per arrangement.

There has been a significant **increase of imports** from the GSP beneficiaries into the EU on the average of the three years post-reform compared to the average of the three pre-reform years. This has been especially the case for the 49 EBA countries (+62.1%) and the 8 GSP+ countries (+53.8%). There has been a small decrease in imports from the 23 Standard GSP countries which remained eligible (-0.3%).

In relation to **export diversification**, overall improvements could be identified when comparing the post-reform period with the pre-reform period. Export diversification is measured by number of tariff lines for which actual trade has been recorded. The Standard GSP and GSP+ countries in the aggregate experienced an increase in diversification, with Standard GSP recording a 4% and GSP+ a 6% increase in the number of tariff lines. The EBA countries in the aggregate also experienced an increase of 19%, from a very low initial base, but it was also found that diversification of trade originating from 29 EBA countries did not improve. It must be noted that important determinants of diversification are macro- and micro-economic policies in the exporting countries, relating to investment and business climate and support to innovation at the enterprise level. These domestic policy determinants are beyond the scope of the GSP Regulation and were not affected by the 2012 GSP reform. The GSP Regulation provides market access, but cannot determine the domestic policies to be put in place to realise market entry.

Preference utilisation is one of the most important indicators of a trade arrangement's efficiency, as it indicates to what extent a country is taking advantage of the tariff preferences for which it is eligible. Regarding preference utilisation, progress has been witnessed for the EBA countries. On average, EBA countries have higher utilisation rates than the other GSP beneficiaries. In the pre-reform period, the average utilisation rate was slightly over 80%. During the post-reform period, the average utilisation rate increased by around 10 percentage points for the EBA countries. This was primarily due to an increase in preferential imports from the EBA beneficiaries Bangladesh, Cambodia and Mozambique during this period. EBA countries have also increased their utilisation of duty-free preferences compared to the other GSP arrangements. The extent of the increase in the usage of preferential duty-free rates for EBA countries reveals the growing importance of such preferences in their overall exports to the EU.

Several challenges have been noted by the external consultant that can have prevented the full utilisation of preferential access under the GSP in the case study countries. For example, in Ethiopia non-tariff barriers and increased competition from other GSP beneficiary countries in the EU market have negatively impacted exports. Stakeholders have noted that the obstacles to the full utilisation of EBA preferences are technical barriers to trade (TBTs) and rules of

origin requirements, compounded by other supply-side constraints, which include limited production capacity, a lack of diversification, low industrial development and severe logistics barriers facing the land-locked country. Ethiopia also faces increased competition from Latin American and Asian agricultural exports in the EU market. Furthermore, the section below related to sanitary and phytosanitary (SPS) measures indicate that they can act as barriers to trade and can thus inhibit the full utilisation of GSP, in particular for agricultural products.

EU product regulations in the form of technical regulations or SPS measures, serve legitimate public policy objectives to protect consumer safety and protect human, animal and plant life. While they can be seen as affecting trade (so called non-tariff barriers to trade), the policy response is not remove them but to assist developing countries to meet such requirements. This has also been the approach of the EU.

The exact relevance of the current GSP on **poverty eradication** is difficult to establish. While increased exports and subsequent economic growth could contribute to social development and poverty reduction, the positive impact depends on whether the beneficiary countries have policies in place to effectively channel the extra resources to social and distribution-improving policies as well as adaptation and mitigation measures to limit the potential detrimental effects of increased production on the environment. A comprehensive analysis of the impact on poverty eradication is hampered by an overall lack of data on indicators, as well as long time-lags before statistics become available. Additionally, it can take considerable time before the effect of changes in trade become visible in these indicators. In the case studies conducted by the external consultant in the midterm evaluation, it could be shown that the four countries (Pakistan, Bangladesh, Bolivia and Ethiopia) have been successful in their poverty reduction efforts, due to the increased economic growth and the subsequent improved employment opportunities.

The external consultant also assessed the **possible economic impact of GSP on EU industry** through two case studies, one related to the textile and clothing industry and another on the machinery sector²⁶.

Imports into the EU of textiles and clothing under GSP accounted for 50% of total GSP imports and 36.6% of total imports of textiles and clothing into the EU in 2016. The external consultant found that as the textile and clothing industry is diverse and the production chain is varied, the impact of GSP on producers in the EU differs. EU clothing industry generally benefits from low-cost import of textiles through the global value chain and incorporates textiles as inputs in the production process, while the textile industry is negatively affected by increasing competitive pressure as a result of increased imports. This was also confirmed by stakeholder consultations. European Union producers are both competing with and benefiting from imports under the GSP.

Among the instruments GSP has to safeguard the EU's economic interests are product graduation (i.e. removing product sections from GSP for specific beneficiaries when they are deemed to be competitive) and the safeguard mechanisms (a general safeguard and a special safeguard mechanism under Articles 22 and 29 respectively of the GSP Regulation. While the safeguard mechanisms have not been initiated, India, as a competitive supplier of textiles, was graduated for this product section in 2014. In this respect, one of the reforms introduced in the GSP Regulations was to remove GSP+ beneficiaries from product graduation. Among the

²⁶ Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, sections 5.1 and 5.2.

main reasons for this reform was to increase the incentive of applying for GSP+ status and thus increasing the potential impact of GSP on sustainable development. Furthermore, there was a wish to ensure equal treatment between EBA and GSP+ countries, which share a similar economic profile (i.e. vulnerability because of low and non-diversified export base).

Five GSP beneficiaries (Bangladesh, India, Pakistan, Cambodia and Vietnam) are among the top ten global exporters of textiles and clothing to the EU. In this respect, it should be noted that China, despite being removed from GSP in 2014 due to its income level, remains the top supplier to the EU. Imports of textiles from India continued to increase even after the sector was graduated from GSP in 2014. This indicates that while tariff preferences certainly play an important market access role (as is shown by the increase of imports from Pakistan when it changed from Standard GSP to GSP+ status in 2014), other competitive factors (e.g. wage levels and productivity) also play an important role.

Imports of machinery into the EU under GSP were relatively small and accounted for 7.6% of total EU machinery imports in 2016. They have also seen a declining trend and their composition is different from those imported from the rest of the world. The external consultant found that the negative impact of GSP on EU producers is expected to be relatively small for a number of reasons. These reasons relate to the small and decreasing share of machinery imports under GSP, relatively low preference margins and the low utilisation rate by GSP beneficiaries, in particular for GSP+ and EBA beneficiaries. On the other hand, GSP also provides benefits to EU industry, which relies on imports of machinery parts for its own production process.

5.1.3 Social and human rights impact

The GSP Regulation aims to strengthen the support for social development and good governance in the beneficiary countries. International trade and economic growth can contribute to social development if the beneficiary countries have policies in place to effectively direct their resources to support social development for all layers of society. The social and human rights impact of the GSP will differ per beneficiary country, depending on its national policies and priorities.

In most instances, GSP can be considered to have made, overall, a positive contribution to the furtherance of social and human rights in the beneficiary countries, while noting the possibility that in some countries it may unintendedly have had also some negative impacts. There are indications that the increase in exports has supported economic growth, employment and social development in the beneficiary countries.

The external consultant examined social progress by using the Social Progress Index (SPI) which measures changes in social rights and entitlements across a wide range of countries (does not cover all GSP beneficiaries), enabling comparisons across countries and over time²⁷. The external consultant acknowledges that it is challenging to formulate direct linkages between GSP and social progress. However, several GSP beneficiaries are making slow but steady progress. The overall development among GSP+ countries is positive, with 5 out of 7 countries improving their rankings with an average of 5.4 places when comparing 2017 and 2014 rankings. However, it should be noted that, for example, Pakistan which improved its

²⁷ Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, section 3.5 for a more detailed description of the SPI and results of assessment made.

SPI ranking still faces considerable challenges in social progress and underperforms in certain areas measured by the SPI (e.g. personal safety issues, inclusion and tolerance for immigrants, LGBTI people and minorities and inadequate access to basic knowledge, as well as poor environmental quality). Of all Standard GSP beneficiaries included in the rankings, 9 out of 13 improved their rankings, 3 decreased in ranking and 1 did not move in ranking. Among EBA beneficiaries, of the 28 countries that were ranked, 18 countries improved their ranking, while 6 declined in ranking and the remaining 4 performed according to expectations.

Furthermore, the country case studies (Pakistan, Bangladesh, Bolivia and Ethiopia) suggest that all four beneficiary countries have made progress on a number of social and human rights indicators. However, the case studies also reported that GSP+ beneficiaries are not necessarily improving at a faster rate than EBA beneficiaries, although they are already further ahead in the development process.

GSP can contribute to the ratification and effective implementation of fundamental international conventions on labour and human rights. In particular the GSP+ arrangement provides an incentive to Standard GSP beneficiaries to ratify and effectively implement the conventions on labour and human rights in exchange for a better access to the EU market. For example, GSP contributed to Sri Lanka's implementation of UN Human Rights Conventions. Sri Lanka was temporarily removed from GSP+ in February 2010 due to serious shortcomings in implementing certain UN Human Rights Conventions. The loss of GSP+ had a certain negative impact on the Sri Lankan economy with the loss of jobs, especially in the clothing industry. A new Sri Lankan government was elected in January 2015 with a stated commitment to promote reconciliation, democracy, human rights and good governance. The new government applied for GSP+ in July 2016. The Commission assessed that Sri Lanka's application met all GSP+ entry conditions and after scrutiny by the European Parliament and the Council, Sri Lanka was granted GSP+ in May 2017. In its monitoring of Sri Lanka's implementation of its GSP+ obligations, the Commission has found that overall the human rights situation has improved through concrete actions by the new government. Nevertheless, a number of important reforms remain to be completed, which will continue to be subject to the GSP+ monitoring process. Similarly for Pakistan, the prospect of gaining GSP+ status led the country to ratify the Convention against Torture and the International Covenant on Civil and Political Rights in 2010 and remove a number of reservations to those conventions in 2011.

The EU may decide to withdraw trade preferences in case of serious and systematic violations of fundamental rights, which is an incentive for all GSP beneficiary governments to better guarantee these rights for their people. The EU withdrew EBA preferences from Myanmar/Burma in 1997 as a result of the country's serious and systematic violations of core international conventions on forced labour. When the International Labour Organisation recognised progress in the labour rights situation in Myanmar/Burma, the Commission reinstated EBA preference in July 2013, applied retroactively as of June 2012. Similarly, the EU withdrew GSP trade preference from Belarus due to its non-compliance with the obligations under the International Labour Organisation's Conventions on freedom of assembly and collective bargaining.

As mentioned above, some stakeholders argue that EU should more readily apply the temporary withdrawal mechanism to address instances of severe and systematic violations. But not every problem in implementation, even if sometimes serious, should lead to the withdrawal of GSP, as long as there is a concrete commitment from the country to improve

the situation. Therefore, the Commission considers that in a first instance, the EU should push for concrete actions and sustainable solutions to human rights and labour rights violations through dialogue and enhanced engagement.

The increase in exports and economic opportunities can have unintended negative impacts on fundamental rights and social development, such as land grabbing for the purpose of industrial development. For example in Ethiopia, there have been reported cases of land grabbing or inadequate compensation for granting land to companies in the floriculture industry. In Cambodia there have been many reports of human rights abuses in relation to the granting of sugar land concessions, which were supposed to be used to export sugar to the EU under EBA. As described elsewhere in this document, the Commission has taken action in this respect in the context of its enhanced engagement with certain GSP and EBA beneficiaries. This engagement has led to some results with a process (albeit still in the need of improvement) that has resulted in compensation being made to some land right holders. At the same time, land grabbing is something that can occur in relation to the expansion of economic activities and which is not necessarily always related to trade or GSP.

5.1.4 Environmental impact

The GSP Regulation aims to strengthen the support for sustainable development in the beneficiary countries, including protection of the environment. International trade and economic growth can contribute to sustainable development if the beneficiary countries have policies in place to effectively mitigate the negative effects of intensification of economic activities and to allocate part of their additional resources to support and promote environmental protection and address environmental degradation.

Overall, the external consultant argues that the GSP Regulation has had only a limited and tangential impact on environmental aspects of sustainable development in the beneficiary countries. Under the Standard GSP and EBA arrangements, there is no conditionality for beneficiary countries to comply with international conventions on climate change and environmental protection. The external consultant concludes that the EU has very limited leverage through Standard GSP and EBA to directly contribute to environmental sustainability in the beneficiary countries.

Under the GSP+ arrangement, beneficiary countries need to effectively implement eight UN conventions on climate change and environmental protection. Out of these eight United Nations Conventions, only three directly regulate the international trade of products (the CITES, Montreal, and Basel Conventions). Stakeholders at the national workshop in Pakistan observed that traders and industrialists are not aware about the link between GSP+ preferences and the implementation of the environmental conventions. Therefore, the external consultant found that there was a need for more awareness amongst relevant stakeholders about the relationship between the GSP+ and implementation of essential UN conventions.

The case studies suggest a difference in the level of adherence and implementation, depending on the country's reliance on the EU market. Furthermore, through the additional tariff preferences provided under the GSP+ arrangement, the EU can motivate Standard GSP beneficiaries to ratify and effectively implement the conventions on climate change and environmental protection. This has led, for example, to the ratification and implementation of environmental conventions by Tajikistan in view of possibly applying for GSP+ status.

The case studies and national stakeholder workshops indicate that the theme of sustainable development has become increasingly important in the national policy dialogue. There seems to be increased awareness about the need to find the right balance between economic development and environmental protection, especially because most of these countries are dependent on their natural resources for economic growth. An important indicator of political commitment is the strong focus on sustainable development in the case study countries' development strategies and the recent establishment of responsible ministries and agencies.

5.2 What are the factors (positive and negative) influencing the achievements observed?

The external consultant found from the case studies they conducted that the conditionality associated with participation in GSP+ as well as the resulting export expansion have contributed to increased adherence to fundamental labour and human rights conventions. This is also shown by the latest biennial GSP report, covering the period 2016-1-2017, which indicated that GSP+ beneficiaries overall made progress on the implementation of the 27 GSP+ conventions. It is also suggested from the case studies carried out by the external consultant, as well as the biennial GSP report that the conditionality for the GSP+ countries, including the requirement to adhere to reporting obligations under the conventions, and the reformed GSP+ monitoring mechanisms has – through the better informed and deeper structural dialogues with the EU – contributed to improving the implementation of and compliance with the conventions, which has in turn improved the associated positive impacts in the country concerned. Thus, the external consultant concluded that the GSP Regulation has positively influenced the achievements and contributed to sustainable development and good governance.

The external consultant highlighted that the GSP has been lauded by many stakeholders as an engine for growth in several beneficiary countries, creating dynamism in the corporate sector and resulting in the increased employment for different categories of workers. A notable example is Bangladesh, the largest beneficiary of the EBA arrangement, where significant export revenues have been generated by the ready-made garment industry, as recognised by government and industry representatives during the workshop organised by the consultant. This has in turn led to the employment of a significant number of women in the sector (of the around 4 million people directly employed in Bangladesh's clothing industry, 60-80% are estimated to be women). Hence the scaling up and expansion of exports has been a factor positively influencing the prevalent gender inequality and the lack of access of women to paid employment. However, as noted elsewhere in this document, there are serious issues related to labour rights that still need to be addressed in Bangladesh.

Based on the available evidence, largely from case studies, the external consultant concluded that trade has had some positive effects on the environment in beneficiary countries through changes in production technologies and supply chain sustainability. These changes were attributed to initiatives of private corporations to adopt cleaner and safer technologies. The external evaluation found this to have directly benefitted workers through better occupational safety and health provisions. The external consultant also noted that the changes in production technologies and supply chain sustainability had an indirect impact on the environment. However, the external consultant remarked that the positive impact of technology (greater energy efficiency and sustainable use of natural resources) was often offset by the negative impact of the scale factors (more pollution and emissions of greenhouse gases) and thus did

not allow for a conclusion that the GSP has had significant positive impacts on the environment in beneficiary countries, even in countries which have ratified and implemented environmental conventions in order to qualify for GSP+ status.

The impact of GSP on the environment is more difficult to assess for a number of reasons, e.g. lack of relevant and up-to-date data and indicators, and isolating the effect of GSP from other factors affecting the environment. In practice, the environmental impact of any new economic activity will depend on the policies in place in beneficiary countries to limit any potentially detrimental effects. Textiles and clothing are the main import products under the GSP. There is evidence to suggest that their production can have a detrimental effect on the environment in the absence of adequate environmental and waste management mechanisms.

The difficulty in establishing a clear link between GSP and its impact on the environment is recognised by the external consultant. The Commission therefore considers it could be useful to examine what methodologies, indicators and data could better underpin analysis related to the environment. One avenue could be to look at specific indicators, such as CO₂ emissions or levels of pollution, per unit of production in key economic sectors (especially those responsible for high environmental impact, such as textiles).

5.3 What unintended consequences, if any, can be linked to the design, implementation, or use of the current GSP?

In the case studies performed by the external consultant, there is an indication that GSP had contributed to reducing poverty in the four countries (Pakistan, Bangladesh, Bolivia and Ethiopia), due to the increased economic growth and the subsequent enlarged employment opportunities. This in turn had an important impact on the role of women in society through an increase in female employment, in particular in the textile and clothing sectors, amongst others, in the case study countries Bangladesh and Pakistan. Improved female participation in the labour force, albeit not one of the direct objectives of the GSP, contributes to poverty eradication and sustainable development. This is an unintended positive consequence of the GSP, to be welcomed.²⁸

Another positive spill-over effect is technology transfer. While the extent of this effect is not clear, there are indications in the external study which suggest that EU GSP has facilitated the development of manufacturing sectors, including ready-made garments, leather products, light engineering etc. Due to the strong demand for high-quality products in the EU market, these sectors have adopted the latest technologies to ensure consumer safety in order to remain competitive in the global market. Systems of quality assurance, good manufacturing practices as well as voluntary and mandatory certification, backed up by ISO-certified laboratory facilities, are being developed in GSP beneficiary countries. Furthermore, automated production techniques and new machinery imported in beneficiary countries have contributed to technological development in these countries.

Negative unintended consequences have also been observed by the external consultant. During stakeholder consultations, the external consultant found that EU industries face

²⁸Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, in particular Chapter 6 sections 6.1.5 and 6.2.5.

increased competition from imports that benefit from GSP, thereby threatening the stability of certain sectors in the EU (namely the tyre industry and rice production, see above).

Land grabbing, for example in Cambodia (see above), can be seen as a negative unintended effect of GSP when directly associated with economic activity associated to trade under GSP. One of the findings from the open public consultation conducted by the external consultant was that many respondents were of the view that the current GSP does not fulfil the objective of reducing poverty in the beneficiary countries since it mainly benefits large industries and not small business. It is not clear on what basis this view is expressed, but the country case studies revealed that there was a lack of awareness of GSP among a broader segment of businesses that could benefit from it. It was mainly the larger and traditional export sectors that mainly made use of GSP. Continued efforts to create awareness seem called for.

From a conceptual point of view, the external consultant assesses that the negative environmental impacts of the GSP due to scale effects can be considered as unintended. Nevertheless, the external consultant assesses that these impacts could be reduced and better managed through initiatives supporting beneficiary countries in monitoring and mitigating adverse environmental effects. The external consultant notes that, although not linked to the GSP Regulation, technical assistance and greater involvement of the private sector (e.g. building on positive examples of environmentally beneficial technology transfer and supply chain sustainability initiatives) could be further used to improve environmental protection in the implementation of each of the three GSP arrangements.

5.4 Efficiency – to what extent is the current GSP efficient?

The 2012 GSP reform aimed to improve the efficiency and effectiveness of the scheme through a number of changes.

The reformed eligibility and product graduation criteria has allowed to better target the preferences to the countries and sectors most in need, while reducing the overall costs for the EU in terms of duties lost because of the GSP. Indeed, GSP imports as a share of all EU imports decreased from 6.1% in 2013 to 4.9% in 2016, reflecting the lower number of GSP beneficiaries. The 2012 GSP reform reduced the total number of GSP beneficiaries and thereby removed competitive beneficiaries under the previous GSP. In turn, the remaining GSP beneficiary countries can take better advantage of preferential market access opportunities under the GSP. As described in Sections 3 and 5.a the following trends can be associated to the reformed GSP: 1) a significant increase in imports from remaining GSP beneficiaries into the EU, in particular for the EBA and GSP+ countries; 2) overall improvements in export diversification under all the three arrangements; and 3) preference utilization rates and preference margins have overall increased or remained largely unchanged. Taken together, these indicators point to a greater efficiency of the GSP Regulation in terms of generating more diversified preferential exports to the EU at a lower cost to the EU budget.

The improved GSP+ monitoring mechanism has increased the effectiveness of the scheme. Indeed, the monitoring of the implementation of the GSP+ Conventions in the beneficiary countries has been substantially upgraded and intensified in terms of frequency and scope. Most notably, the GSP Regulation shortened the monitoring cycle from three to two years,

with the status reports from the Commission to the European Parliament and the Council now covering all three preferential arrangements. The report is accompanied by country-specific analyses for the GSP+ beneficiaries. GSP+ monitoring implies regular dialogues and visits to the beneficiary countries. The external consultant also found that EU monitoring of GSP+ countries has positively contributed to social and human rights impact in the countries under that arrangement. In this respect, the present GSP should be considered more effective as compared with its predecessors.

One of the recommendations made by the external consultant is that the EU monitoring should be enhanced beyond the present GSP+ arrangement, in view of the positive impact of the EU monitoring could have on social and human rights in EBA and Standard GSP beneficiary countries. This would inevitably require considerably more human resources and have significant cost implications. With that in mind, the external consultant suggests that the feasibility of this recommendation needs to be reviewed with regards to benefits (in terms of effectiveness and impact) as well as its cost (in terms of efficiency and financial expenditure). The external consultant noted that the costs of such enhanced monitoring, undertaken by dedicated Commission staff in cooperation with the EEAS and EU Delegations, were not negligible and extending monitoring to EBA countries could even be considered as inefficient and unduly burdensome. Having said that the Commission is carrying out targeted enhanced monitoring in certain cases, e.g. Bangladesh and Cambodia. This is however under tight resource constraints.

The Commission considers that besides the vast human resource implications, in particular in a situation of budgetary cuts in EU institutions, such extended monitoring also raises questions related to international obligations (e.g. limitations under the WTO Enabling Clause) and consistency with the role of the multilateral supervisory system under the UN and ILO.

At the same time the external consultant noted that the two-year monitoring cycle (to the European Parliament and the Council) was often too short for beneficiary countries to implement meaningful changes and that it might be therefore more efficient to extend the monitoring cycle from two years to three or four years, in order to better reflect progress in beneficiary countries and also as a measure to reduce the administrative burden on the EU and beneficiary countries. This is a proposal that should be considered in view of simplifying the GSP Regulation.

Another pertinent indicator of the efficiency of the GSP is how decisions on changes in the implementation of the GSP Regulation are made. The GSP Regulation, similarly to its predecessor, relies very extensively on assessments carried out by relevant monitoring bodies, independent of the EU. For example, whether a particular convention on labour rights has been ratified and is effectively implemented will be assessed by the International Labour Organisation. Similarly, whether a country qualifies to graduate from the Least Developed Country category and loses its EBA eligibility is assessed by the UN Committee for Development Policy, an expert committee appointed by the Secretary-General of the UN. Whether a country is to be regarded as an upper middle income country, without GSP eligibility, is determined by data from the World Bank Group on an annual basis. As these GSP implementation modalities have not changed, the external consultant argues that the efficiency of the GSP has therefore also remained unchanged.

Certain stakeholders have noted that there is a lack of awareness of the GSP in the beneficiary countries. Even in cases where there is considerable knowledge, this tends to be concentrated to the main sector that utilise preferences to export to the EU market. This lack of awareness decreases the efficiency of the GSP, for example, GSP preferences may not be utilised or civil society organisation may be unable to cooperate to/contribute in the monitoring process. The Commission observes that there are already actions and programmes financed or undertaken by the EU that have the objective of raising awareness of the GSP (for example in the trade-related technical assistance programmes of the EU in Pakistan and in Sri Lanka, as well as support to local civil society organisations under a programme funded under the European Instrument for Democracy and Human Rights). However, there is scope for more action by the EU to raise awareness of GSP not just for businesses, but also for civil society organisations as they play an important role in the implementation of the international conventions. The EU cooperates closely with civil society organisations in the beneficiary countries to tackle shortcomings and to discuss achieved progress in the implementation of the conventions. The Commission does note, however, that the beneficiary countries have a primary role and responsibility in promoting awareness of GSP and that any actions undertaken by the EU require the engagement and cooperation from beneficiary countries in order to generate maximum impact.

While noting the desirability of further detailed cost-estimates, the preliminary conclusions that can be drawn from the above is that the efficiency of the scheme has improved, or at least remained stable during the period of application of the GSP Regulation.

5.5 To what extent is the current GSP coherent with the EU's relevant policies?

The external consultant finds the current GSP to be largely coherent with and complementary to the EU's trade, development and foreign policies. The Commission shares this assessment as the GSP scheme is precisely designed as a key tool to ensure that trade policy contributes to promoting the social and environmental pillars of sustainable development.

In the trade field first, as set out in EU's Trade for All Strategy²⁹, trade policy can be a powerful tool to further the advancement of human rights in third countries in conjunction with other EU policies, in particular foreign policy and development cooperation. The GSP plays a key role in this regard. Unilateral trade arrangements such as the GSP can assist countries most in need while the GSP+ scheme is an innovative tool that offers incentives and support for human rights, sustainable development and good governance in countries committed to implementing core international conventions in those areas. This is seen as essential to encourage fairness in global trade. On this, it is important to recall that one of the main objectives of the 2012 GSP reform was to focus on the countries most in need. The graduation of competitive beneficiary countries with effect of 2014 has led to an increased focus on the most vulnerable developing countries as well as the Least Developed Countries.

Human rights breaches that may be found in global supply chains such as the worst forms of child labour, forced prison labour, forced labour as a result of trafficking in human beings and land grabbing deserve particular attention. Human rights considerations have increasingly

²⁹ http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf

been incorporated into unilateral preferences (especially in the GSP+ scheme) there has been for example cases of serious and systematic violations of human rights, beneficiary countries have lost their preferences under the GSP scheme (e.g. Sri Lanka, Belarus, Myanmar/Burma) until the situation improved sufficiently. In addition, the Commission has also developed guidelines to help examine the impact of trade policy initiatives on human rights in both the EU and partner countries.

The Trade for All Strategy also highlights the needs of consumers, workers and SMEs as priorities in the formulation of trade policy in the EU. It recognises that trade openness can result in major economic benefits for them. However, according to the consultants, it has been noted that the GSP may not in all cases benefit consumers, workers or small companies. For instance, tariff reductions under the GSP may result in highly competitive imports that are sold on the EU market at very competitive prices. Whereas EU consumers may benefit from a wide range of products that are available at relatively more affordable prices, this intensification of competition may negatively impact some EU small businesses in the affected sectors. Over the course of consultations, stakeholders from the EU textile, rice and tyres industries have articulated such concerns. Here it should be noted that the graduation system of the GSP is aimed precisely at countering these potential negative effects.

Finally, with regards to the European Union's policy to move towards concluding an increasing number of free trade agreements, the external consultant noted that countries leaving the GSP arrangements to enter into reciprocal preferential trade arrangements did not necessarily experience an increased value of EU imports as they already enjoyed preferential access to the EU market.

With regard to the coherence of EU's policies in the area of development, the external consultant found that the EU actively incorporates development objectives in all of its policies, including GSP, that are likely to impact developing countries. This is done primarily through the Policy Coherence for Development Initiative, where the aim is to minimise contradictions and build synergies between different EU policies to benefit developing countries and increase the effectiveness of development cooperation.³⁰ The EU's GSP has been found to be coherent with the overall EU development policies in the following ways:

- It ensures alignment with poverty reduction initiatives through trade and sustainable development;
- It provides appropriate treatment for Least Developed Countries by responding to their specific development needs through the EBA arrangement; and
- It uses trade as an instrument to promote development, especially through the incentive-based GSP+ programme, which promotes compliance with core human rights and international labour and environmental conventions.

Furthermore, one of the main objectives of the 2012 GSP reform was to focus preferences on developing countries most in need, which in turn was expected to further boost exports from these developing countries and promote export diversification. This objective has been achieved to a great extent, especially for the EBA beneficiary countries.

³⁰European Commission. *Policy Coherence for Development*. Available at: https://ec.europa.eu/europeaid/sectors/economic-growth/trade/trade-policy-coherence-development_en

The 2012 GSP reform is also coherent with the EU's foreign and security policies, especially as it relates to respect for human rights and fundamental freedoms. The promotion and protection of human rights have been actively pursued under the GSP, especially under the GSP+ arrangement where beneficiary countries are obliged to ratify and effectively implement several human rights conventions. In the case of serious and systematic violations of human rights, beneficiary countries may also be withdrawn altogether from the GSP. In this sense, the GSP seeks to promote an important objective of the EU's Common Foreign and Security Policy (CFSP), placing emphasis on human rights and fundamental freedoms.

5.6 To what extent is the current GSP relevant to the development needs which it is intended to address?

The Commission agrees with the findings of the external consultant that the current GSP is highly relevant to the development needs of beneficiary countries and contributes to promoting sustainable development and poverty eradication objectives.

Indications and insights about the relevance of the GSP is gained from, inter alia, the stakeholder interviews conducted in the four case study countries in the midterm evaluation. The overwhelming majority of stakeholders agreed that the GSP is relevant to the development needs of their countries. In Bangladesh, stakeholders agreed that the EBA has been an enormous support for the growth of the economy. It has also been noted that the EBA has helped Bangladesh to solidify its export base, and has helped the country to prepare for graduation from the Least Developed Countries category.

Bolivian stakeholders also concur that the GSP+ is relevant to the development needs of their country, but more efforts need to be put in place to encourage exporters to utilize the scheme. They also propose that more strategic relationships be developed between local producers and EU producers to better understand and meet EU consumer demand. Closer integration of Bolivian producers within EU value chains would provide additional benefits to Bolivia, including its small-scale producers.

Ethiopian stakeholders also recognise that the GSP is relevant to their country's development needs. However, these gains may be hampered by poor governance structures in the country. Therefore, it is important that assessments are carried out at various intervals to ensure that the Scheme is meeting its specific objectives. Similarly, stakeholders in Pakistan have witnessed the impact of the GSP+ on the general development of the country. However, they recommended that the EU improve its support to the private sector through technical assistance and training.

The external consultant has found that the extent of the GSP's relevance to the developmental needs of the beneficiary countries depends on the extent of utilisation of preferences, as well as the national plans and priorities that have been formulated to take advantage of the opportunities of the scheme. For the GSP+ countries, it also depends on the measures put in place by the national authorities to effectively implement the conventions and to address pertinent social and environmental concerns.

6. Other aspects related to the application of GSP

6.1 Biofuels

The large majority of biofuels used in the EU is produced from EU feedstocks (for biodiesel more than 60% and more than 90% for bioethanol)³¹. Biodiesel, in particular, is mainly made from rapeseed, though the use of imported palm oil has increased since 2010. About 26% of biodiesel and 10% of bioethanol are imported, mainly from Malaysia (biodiesel) and Guatemala, Bolivia, Pakistan, Russia and Peru (bioethanol). The EU also imports feed stocks that can be used for producing biofuels. They mainly come from Indonesia and Malaysia (palm oil), Brazil and the US (soybeans), Ukraine (maize, wheat), Canada (wheat), Russia and Moldova (barley, ray), as well as Serbia (sugar beet).

With the 2012 GSP reform several of the main exporters to the EU of biofuels and feed stocks, were no longer eligible for GSP either due to their income status (e.g. Malaysia) or since they entered into Free Trade Agreements with the EU (e.g. Guatemala and Peru). Furthermore, Indonesia, who is a main source of palm oil imports, has been graduated from the product section that covers palm oil since 1 January 2014 when the GSP Regulation entered into force. Although the EU imports about EUR 4 billion a year of palm oil, a small and declining share of these imports have been under GSP: by 2016, this share had fallen to 1%. Moreover, cereal based feed stocks (maize, wheat etc.) are not covered by GSP.

The significant reduction in the number of GSP beneficiaries has led to a drastic decline in EU imports of biodiesel, from about EUR 2.6 billion in 2012 to just over EUR 450 million in 2016. Under the GSP Regulation, the main sources of EU imports of biofuels under GSP are Bolivia and Pakistan, who export ethanol duty free to the EU under the GSP+ arrangement. Imports of ethanol from these two countries have varied over the period 2011-2016. Over the period from 2014 to 2016, EU imports of ethanol under GSP fell by 60%, with imports from Bolivia falling by 73%. The share of GSP ethanol imports from Pakistan rose from 26% to 67% of the EU's total GSP ethanol imports over the period 2014 to 2016. In 2016 GSP imports of ethanol from Pakistan accounted for 17% of EU total imports from the world, while Bolivia accounted for 5%.

The sustainability aspects related to EU imports of ethanol were assessed by the external consultant in particular in terms of impacts in the exporting countries. Both in Bolivia and Pakistan ethanol is produced from sugarcane. The external consultant considered that the main impacts of sugarcane cultivation on the environment were related to deforestation, effluents and air emissions, soil quality and greenhouse gas emissions, which can be considerable (e.g. in Bolivia the sugarcane industry is one of the main water polluters and in Pakistan sugarcane has significantly contributed to water consumption and changing water flows).

As mentioned above, the reduction in the number of GSP beneficiaries has led to a considerable decline in EU imports of biodiesel under GSP, and was negligible in 2015 and

³¹ Final Report on the Mid-Term Evaluation of the EU's Generalised Scheme of Preferences (GSP) prepared by Development Solutions, Annex VII contains a more detailed description of EU imports of biofuels under GSP.

2016. Consequently the sustainability impacts associated with GSP imports will have fallen to low levels. Although the EU imports about EUR 4 billion a year of palm oil, a small and declining share of these imports have been under GSP: by 2016, this share had fallen to 1%. Consequently, sustainability impacts associated with palm oil imports under GSP have a small and declining share of impacts related to total EU imports. This is confirmed by the external consultant's assessment. Furthermore, impacts from GSP imports of biofuels and a key feedstock, palm oil, are generally difficult to isolate from impacts linked to domestic consumption and other trade (including to non-EU countries), or from other contributing factors such as national policies or conditions. Nevertheless, attention needs to be paid to the possible impact on the environment from sugarcane cultivation in Bolivia and Pakistan that could be associated to trade under GSP+.

6.2 Sanitary and phytosanitary measures

Sanitary and phytosanitary (SPS) measures have the aim of pursuing legitimate public policy objectives in protecting human, animal and plant life and health. EU SPS measures are subject to the disciplines (e.g. in terms of affecting trade) and transparency rules of the WTO Agreement on the Application of SPS Measures. EU SPS measures apply equally to goods produced in the EU and imported into the EU. In international trade SPS measures can have an adverse effect on trade and are examples of what is referred to as non-tariff barriers. As such they can affect the GSP's intended goal of facilitating trade for developing countries, in particular for agriculture products.

The external study found that, at the time of writing, the EU has 118 SPS measures in place, out of which 18 affect the case study countries Bangladesh, Bolivia, Ethiopia and Pakistan. A number of GSP beneficiaries have expressed concerns related to these measures highlighting the negative effects on international trade in agricultural products, leading to adverse socio-economic impacts on commodity producing countries. Indeed, the external consultant postulates that SPS measures have the most adverse effect on the countries for which agriculture products represent the highest share of exports. Additionally, the barriers to trade that can result from SPS measures can offer an explanation why certain GSP beneficiaries have lower preference utilisation rates. SPS measures can therefore negatively affect the GSP Regulation's stated goal of focusing tariff preferences on the countries most in need.

The Commission notes that complying with SPS measures can pose challenges for in particular developing countries that many times experience capacity and technical know-how constraints in dealing with such requirements. The EU's policy response has therefore been to assist, through development and technical assistance, developing countries in ensuring their goods can comply with EU SPS measures. Indeed, between 2015 and 2016 the EU (the Commission and EU Member States) carried out more than 400 technical assistance activities with developing countries in the SPS area³². It should also be kept in mind that non-EU countries must be authorised (on health and safety grounds) to export certain products to the EU (e.g. fishery products) Furthermore, it should be noted that on average agriculture products represented in 2016 11.6% of total imports under GSP (10% for EBA countries, 13% for GSP+ and 12.3% for Standard GSP). There are, however, countries, for example Ethiopia, where agriculture products represent the majority of imports under GSP (80.3% in the case of Ethiopia).

³² See the EU report to the WTO, G/SPS/GEN/1139/Add.4 from 10 July 2017.

6.3 Fight against terrorism and money laundering

Article 19 of the GSP Regulation refers to failure to comply with international conventions on anti-terrorism and money laundering as grounds for the possible temporary withdrawal of GSP. While such conventions are within the legal framework of the GSP Regulation, the pursuit of policy objectives related to anti-terrorism and money laundering, including related international cooperation, is primarily done within the specific EU policy and legal frameworks. The Commission ensures consistency and coherence in the application of the different policies.

The EU's Counter-Terrorism Strategy³³ recognises the important role of promoting international partnership by working with others beyond the EU, particularly the UN, other international organisations, and key third countries, to deepen the international consensus, build capacity and strengthen cooperation to counter terrorism. In this context, GSP and in particular GSP+ could be seen as contributing to the 'Prevent' key priority of promoting good governance, democracy, education and economic prosperity. It should be noted that there are no specific international conventions on anti-terrorism listed in the GSP Regulation.

The EU's legal framework on anti-money laundering and counter terrorist financing is the 4th Anti-Money Laundering Directive (AMLD), which was recently amended by the 5th AMLD, as well as EU Regulation 2015/847 on information on the payer accompanying transfer of funds. Both instruments take into account the 2012 Recommendations of the Financial Action Task Force (FATF). The 5th AMLD introduces substantial improvement to better equip the Union to prevent the financial system from being used for money laundering and for funding terrorist activities, including broadening the criteria for the assessment of high-risk third countries and improve the safeguards for financial transactions to and from such countries. Within the context of the AMLD the Commission identifies non-EU countries that present strategic deficiencies in their regime on anti-money laundering and countering terrorist financing. There are currently 16 countries considered as "high-risk countries". Of these, 9 are GSP beneficiaries (Afghanistan, Ethiopia, Laos, Pakistan, Sri Lanka, Syria, Uganda, Vanuatu, and Yemen), which have all provided a written high-level political commitment to address the identified deficiencies and have developed an action plan with the FATF. GSP and in particular GSP+ could be seen as contributing generally to anti-money laundering efforts, especially through the implementation of the UN Convention Against Corruption, which is among the GSP Conventions.

7. Conclusions

The three main long-term objectives of the 2012 GSP reform (as described in the intervention logic³⁴) are the following:

- i. To contribute to poverty eradication by expanding exports from countries most in need;
- ii. To promote sustainable development and good governance;
- iii. To ensure better safeguard for the EU's financial and economic interest.

³³ <http://www.consilium.europa.eu/en/policies/fight-against-terrorism/eu-strategy/>

³⁴ See Figure 1 on page 8

The external consultant used three complementary approaches to analyse the functioning and impact of the GSP in the beneficiary countries and the EU, namely: (i) quantitative and qualitative desk research and data analyses; (ii) an inclusive and extensive stakeholder consultation process; and (iii) country and sector case studies. The analysis related to mainly social, human rights and environmental impacts saw certain limitations due to lack of up-to-date data and indicators, as well as difficulties in establishing a causal link to GSP and isolating the effect of GSP from other important factors. The analysis was complemented by four country case studies, which while giving greater insights with regard to those countries, might not always lead to conclusions of general applicability.

The 2012 GSP reform introduced major changes in relation to the previous GSP Regulations:

- Tightening of the eligibility criteria resulting in a decrease in the number of beneficiary countries from 172 to 92.
- Revised product graduation criteria that resulted in relative terms more product sections being graduated.
- Relaxed GSP+ eligibility criteria and removing GSP+ countries from product graduation as an incentive to apply for GSP+ and thus contribute to improving sustainable development. This has resulted initially in 16 GSP+ beneficiaries, reduced to currently 9 since 7 of the GSP+ countries entered into FTAs with the EU.
- Improved GSP+ monitoring resulting in substantially upgraded and intensified monitoring in terms of frequency and scope.
- A more efficient and credible temporary withdrawal mechanism, which although has not been used to date, has increased the EU's leverage in pushing for respect of fundamental rights and which has seen concrete positive results.
- An improved safeguard mechanism, which has seen a first safeguard investigation being initiated.

This mid-term evaluation shows that the EU intervention in the form of the reformed GSP is largely delivering on its objectives, in particular:

Economic impact: the focus of preferences under GSP to the countries most in need has led to a substantial increase in imports from in particular EBA and GSP+ countries. The removal of more competitive suppliers from GSP has given more room and opportunity for the more vulnerable countries to export to the EU. The use of GSP preferences and export diversification have shown some improvements or remained unchanged. The share of GSP imports in total imports from beneficiary countries has also increased substantially showing the continued relevance of GSP. In this respect, GSP can contribute to poverty eradication, but depends to a large degree on the domestic policies and priorities in place in beneficiary countries. Normally the reduction in the number of GSP beneficiaries, including large and competitive suppliers, should lead to less import competition for EU industry. However, some EU industries (e.g. textiles, rice and tyres) continue to face competitive pressure from imports under GSP. The ongoing safeguard investigation related to rice from Cambodia and Myanmar will be important for assessing the functioning of the reformed safeguard mechanism.

Social and human rights impact: international trade and economic growth can contribute to social development if the beneficiary countries have policies in place to effectively direct their resources to support social development for all layers of society. GSP can be considered to have, overall, made a positive contribution to the furtherance of social and human rights in

beneficiary countries. This has in particular been the case for the GSP+ arrangement, which incentivises countries to ratify and implement international conventions related to the protection of human rights, labour rights, protection of the environment and good governance. The enhanced GSP+ monitoring mechanism, as well as enhanced engagement towards certain EBA countries, has also contributed by giving the EU leverage towards beneficiary countries in pushing for respect of fundamental rights.

Environmental impact: as with social development, international trade can also contribute to sustainable development if accompanied by appropriate policies and mitigating measures in beneficiary countries. There are indications that GSP has only had a limited impact (positive or negative) on the environment. This is something that needs to be examined further (e.g. how to better measure the possible impact of GSP), including through the implementation of the environment protection and climate change conventions under GSP+.

The improved **GSP+ monitoring process** can be considered to be more effective than under the previous GSP Regulation. Nevertheless, a lesson learned from this evaluation is that there is scope for simplification by extending the monitoring cycle from the current two years to a longer time period. The way the GSP+ monitoring process is implemented already ensures transparency and inclusiveness, including with civil society. Nevertheless, the Commission will consider what practical measures could be taken to further enhance transparency and inclusiveness in the monitoring process.

The **efficiency** of GSP has either improved, or at least remained stable during the period of application. Some barriers to the utilisation of GSP and as an instrument for export diversification were identified. Awareness among businesses in beneficiary countries of the trade opportunities offered by GSP is key. This is also the case for civil society in relation to the implementation of GSP Conventions. More can certainly be done by the EU to help raise awareness, but this must also be a responsibility for beneficiary countries. Dealing with other factors that can adversely affect the utilisation of GSP, such as supply side constraints, the enabling environment in beneficiary countries and other trade barriers (e.g. non-tariff measures and rules of origin) require response through other EU policies, as well as in the beneficiary countries themselves.

The GSP Regulation can also be considered to be **coherent with other relevant EU policies** in particular development and foreign and a security policy, especially as it relates to promote and protect fundamental rights and sustainable development.

Annex I – Procedural Information

In March 2016, the Directorate-General for Trade (DG TRADE) launched a midterm evaluation of Regulation 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 ('GSP Regulation'). Due to its large scope, it was decided that the evaluation would be supported by an external study. The contract for the study was awarded to Development Solutions, and the kick-off meeting with the external consultant was held in November 2016. The website (<http://www.gspevaluation.com/>) created by the external consultant to maintain stakeholders up-to-date and facilitate their participation in the process was launched in January 2017. The study was originally foreseen to last until November 2017. However, unexpected delays led the contract to be extended until May 2018.

An Inter-Service Steering Group was created at the start of the evaluation featuring the following services:

- The Directorate General for Trade (DG TRADE);
- The Directorate General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW);
- The Directorate General for International Cooperation and Development (DG DEVCO);
- The Directorate General for Agriculture and Rural Development (DG AGRI);
- The Directorate General for Maritime Affairs and Fisheries (DG MARE);
- The Directorate General for Environment (DG ENV);
- The Directorate General for Health and Food Safety (DG SANTE);
- The Directorate General for Energy (DG ENER);
- The Directorate General for Eurostat – European Statistics (DG ESTAT);
- The Directorate General for Taxation and Customs Union (DG TAXUD);
- The Directorate General for Legal Services (DG SJ);
- The European Commission Secretariat General;
- The European External Action Service (EEAS).

The group first convened on 17 November 2016. The meeting focused on the context and the scope of the midterm evaluation, as well as more specifically on the methodology and data to be employed. Among the points discussed were the purpose and objective of the midterm evaluation, the data and methodology to be considered in the study, the stakeholder consultation activities and the organisation of the local workshops in Bangladesh, Ethiopia, Bolivia and Pakistan.

A second meeting of the ISSG took place on 19 January 2017. During the meeting, the external consultant provided a detailed update on the GSP midterm evaluation progress to date. The ISSG and the external consultant furthermore discussed the Draft Inception Report and the necessary steps to be taken towards its finalisation. Additionally, the meeting served to discuss and work towards overcoming the challenges related to data quality and availability.

The third meeting of the group took place on 13 June 2017. At the time, the external consultant provided the preliminary findings of the Draft Interim Report and identified the steps to be taken towards its finalisation. An update was also provided on the consultation and research activities undertaken to date. The ISSG provided comments and suggestions on the

Draft Interim Report, which were incorporated in the Final Interim Report that was completed by the end of August 2017.

Annex II – Methods and analytical models used in preparing the evaluation

This section provides a brief overview of the methodology applied by the external consultant for the economic, social, human rights and environmental impact analyses. It also provides a synopsis of the approach taken to the four country case studies and the two sectoral case studies.

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. (i) To what extent are the objectives of the current GSP on track to be achieved? | Following the application of Regulation (EU) No 978/2012: <ol style="list-style-type: none"> i. Have preferences been better focused on countries most in need? ii. Have disincentives for diversification been removed for countries most in need? iii. Has there been enhanced consistency with overall trade objectives, whether bilateral or multilateral? iv. Has support been strengthened for sustainable development and good governance? | The Project Team will analyse: <ol style="list-style-type: none"> i. Revised eligibility criteria and ii. Reduced number of beneficiaries; iii. Reformed graduation and increased thresholds; iv. Simplified GSP+ entry mechanism; v. A more effective and transparent mechanism for monitoring and evaluating the GSP+ countries' commitment and progress in the implementation of GSP+ conventions; | <ol style="list-style-type: none"> i. Desk research ii. Online Public Consultation iii. Stakeholder interviews iv. Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia and Pakistan v. Case studies for selected countries and sectors vi. Analysis of tariff and trade data between the EU and GSP beneficiary countries (overall and by sector) | <ol style="list-style-type: none"> i. Chapter 2 – Economic Impact Analysis ii. Chapter 3 – Social Impact Analysis iii. Chapter 4 – Environmental Impact Analysis iv. Chapter 5 - Case Studies on Textiles and Machinery v. Chapter 6 – Case Studies on EBA countries vi. Chapter 7 – Case Studies on GSP+ countries vii. Chapter 8 – Conclusions and Recommendations |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <ul style="list-style-type: none"> v. Has the efficiency of safeguard mechanisms been improved to ensure that the EU's financial and economic interests are protected? vi. Has the legal certainty, stability and predictability of the scheme been enhanced? | <ul style="list-style-type: none"> vi. Clarified temporary withdrawal provisions and procedures; vii. Simplified and clarified safeguard mechanisms; and viii. Redefined product sections and increased product coverage. | <ul style="list-style-type: none"> vii. Econometric analyses using data from EUROSTAT as primary sources, and UNCOMTRADE and the World Bank Development Indicators. | |
| (ii) What has been the impact of the present scheme on developing countries and Least Developed Countries? | <p>Following the application of Regulation (EU) No 978/2012:</p> <ul style="list-style-type: none"> i. What has been the economic impact of the present scheme on developing countries and Least Developed Countries? | <p>In order to determine the economic impact, the Project Team will:</p> <ul style="list-style-type: none"> i. Analyse detailed trade in goods and tariff data between the EU and the GSP beneficiary countries over the period 2011-2016 (preparing indicators such as the utilisation rate, coverage rate and preference margins); ii. Analyse the | <ul style="list-style-type: none"> i. Desk research ii. Online Public Consultation iii. Stakeholder interviews iv. Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia and Pakistan v. Case studies for selected countries and sectors vi. Analysis of tariff and trade data | <ul style="list-style-type: none"> i. Chapter 2 – Economic Impact Analysis ii. Chapter 5 – Case Studies on Textiles and Machinery iii. Chapters 6.1.1 & 6.2.1 – Case Studies on EBA countries iv. Chapter 7.1.1 & 7.2.1 – Case Studies on GSP+ countries v. Chapter 8 – Conclusions and Recommendations |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|----------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| | | <p>importance of the EU market to GSP beneficiary countries;</p> <p>iii. Analyse, as precisely as possible, the role of the GSP scheme itself on economic growth and development in beneficiary countries;</p> <p>iv. Analyse the impact of the GSP on specific sectors in beneficiary countries (descriptive statistical analysis of sectoral trends and developments, including export diversification); and</p> <p>v. Conduct econometric analyses to determine the impact of GSP reform on trade flows and export diversification.</p> | <p>between the EU and GSP beneficiary countries (overall and by sector)</p> <p>vii. Econometric analyses using data from EUROSTAT as primary sources, and UNCOMTRADE and the World Bank Development Indicators.</p> | |
| | <p>ii. What has been the social and human rights impact of the present scheme on</p> | <p>In order to determine the social and human rights impact, the Project Team will</p> | <p>i. Desk research</p> <p>ii. Online Public Consultation</p> <p>iii. Stakeholder</p> | <p>i. Chapter 3– Social Impact Analysis</p> <p>ii. Chapter 5 – Case Studies on Textiles</p> |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|----------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | developing countries and Least Developed Countries? | analyse the impact of the current GSP scheme on the following: <ol style="list-style-type: none"> i. Employment rate; ii. Female employment rate; iii. Youth employment rate; iv. Wage rate; v. Social protection rate; vi. Social inclusion rate; vii. Poverty rate; viii. Civil liberties index; ix. Gender equality rate; x. Voice and accountability Index; xi. Political stability index; xii. Government effectiveness index; xiii. Regulatory quality index; xiv. Rule of law index; xv. Corruption perceptions index (CPI); and xvi. Control of corruption index. | <ol style="list-style-type: none"> iv. interviews Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia and Pakistan v. Case studies for selected countries and sectors vi. Analysis of social and human rights indicators using data from national statistical agencies, the International Labour Organization, World Bank, Freedom House, Transparency International, among others | <ol style="list-style-type: none"> iii. and Machinery Chapters 6.1.2 & 6.2.2 – Case Studies on EBA countries iv. Chapter 7.1.2 & 7.2.2 – Case Studies on GSP+ countries v. Chapter 8 – Conclusions and Recommendations |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | iii. What has been the environmental impact of the present scheme on developing countries and Least Developed Countries? | In order to determine the environmental impact, the Project Team will analyse the impact of the current GSP scheme on the following: <ol style="list-style-type: none"> i. Waste generation; ii. Environmental sustainability rate; iii. Forest area coverage; iv. Land use and competition; v. Land tenure and ownership rights; vi. Terrestrial and freshwater biodiversity; vii. Proportion of fish stocks; viii. Biodiversity; ix. Climate change; x. CO₂ emissions; xi. Biofuels; and xii. Renewable energy. | <ol style="list-style-type: none"> i. Desk research ii. Online Public Consultation iii. Stakeholder interviews iv. Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia and Pakistan v. Case studies for selected countries and sectors vi. Analysis of environmental indicators using data from the IEA, World Bank, FAO, Global Resources Assessment, UN agencies, CBD and AQUASTAT, among others | <ol style="list-style-type: none"> i. Chapter 4– Environmental Impact Analysis ii. Chapter 5 –Case Studies on Textiles and Machinery iii. Chapters 6.1.3 & 6.2.3 – Case Studies on EBA countries iv. Chapter 7.1.3 & 7.2.3 – Case Studies on GSP+ countries v. Chapter 8 – Conclusions and Recommendations |
| 2. What are the factors (positive and negative) | i. What positive factors have contributed to the economic, social, human rights and/or | i. Identification of the factors that have positively contributed to the impact deduced | <ol style="list-style-type: none"> i. Desk research ii. Online Public Consultation iii. Stakeholder | <ol style="list-style-type: none"> i. Chapter 2 – Economic Impact Analysis ii. Chapter 3 – Social Impact Analysis |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| influencing the achievements observed? | <p>environmental impact of the present scheme on developing countries on developing countries and Least Developed Countries?</p> <p>ii. What negative factors have contributed to the economic, social, human rights and/or environmental impact of the present scheme on developing countries on developing countries and Least Developed Countries?</p> | <p>from the economic, social, human rights and environmental analyses outlined above.</p> <p>ii. Identification of the factors that have negatively contributed to the impact deduced from the economic, social, human rights and environmental analyses outlined above.</p> | <p>iv. interviews Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia and Pakistan</p> <p>v. Case studies for selected countries and sectors</p> <p>vi. Economic, social, human rights and environmental analyses undertaken in fulfilment of evaluation Question (1) above</p> | <p>iii. Chapter 4 – Environmental Impact Analysis</p> <p>iv. Chapter 5 - Case Studies on Textiles and Machinery</p> <p>v. Chapter 6 – Case Studies on EBA countries</p> <p>vi. Chapter 7 – Case Studies on GSP+ countries</p> <p>vii. Chapter 8 – Conclusions and Recommendations</p> |
| 3. What unintended consequences, if any, can be linked to the design, implementation, or use of the current GSP? | <p>i. What economic, social, human rights and/or environmental impacts have resulted from the design of the current GSP?</p> <p>- Have there been any positive unintended</p> | <p>i. Identification of the effects of the GSP reform on environmental protection, labour rights and human rights;</p> <p>ii. Identification of stakeholder groups that have been</p> | <p>i. Desk research</p> <p>ii. Online Public Consultation</p> <p>iii. Stakeholder interviews</p> <p>iv. Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia</p> | <p>i. Chapter 2 – Economic Impact Analysis</p> <p>ii. Chapter 3 – Social Impact Analysis</p> <p>iii. Chapter 4 – Environmental Impact Analysis</p> <p>iv. Chapter 5 - Case Studies on Textiles and Machinery</p> |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>effects?</p> <ul style="list-style-type: none"> - Have there been any negative unintended effects? <p>ii. What economic, social, human rights and/or environmental impacts have resulted from the implementation of the current GSP?</p> <ul style="list-style-type: none"> - Have there been any positive unintended effects? - Have there been any negative unintended effects? <p>iii. What economic, social, human rights and/or environmental impacts have resulted from the use of the current GSP?</p> <ul style="list-style-type: none"> - Have there been any positive | <p>affected by the reform in an unintended manner; and</p> <p>iii. Identification of positive/negative side effects of the reform in the beneficiary countries and the EU.</p> | <p>and Pakistan</p> <p>v. Case studies for selected countries and sectors</p> <p>vi. Economic, social, human rights and environmental analyses undertaken in fulfilment of evaluation Question (1) above.</p> | <p>v. Chapter 6 – Case Studies on EBA countries</p> <p>vi. Chapter 7 – Case Studies on GSP+ countries</p> <p>vii. Chapter 8 – Conclusions and Recommendations</p> |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|-------------------------------------------------|---------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | unintended effects? - Have there been any negative unintended effects? | | | |
| 4. To what extent is the current GSP efficient? | i. How does the current GSP scheme compare with the previous GSP scheme? | ii. Identification of the ratio between the costs and benefits of the current scheme compared with the previous scheme (evidenced by the results of the midterm evaluation of the EU's GSP in 2010); and iii. Identification of the ratio between the inputs and outputs of the current GSP reform (evidenced by the results of the midterm evaluation of the EU's GSP in 2010) | i. Desk research ii. Online Public Consultation iii. Stakeholder interviews iv. Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia and Pakistan v. Case studies for selected countries and sectors vi. Economic, social, human rights and environmental analyses undertaken in fulfilment of evaluation Question (1) above. | i. Chapter 2 – Economic Impact Analysis ii. Chapter 3 – Social Impact Analysis iii. Chapter 4 – Environmental Impact Analysis iv. Chapter 5 - Case Studies on Textiles and Machinery v. Chapter 6 – Case Studies on EBA countries vi. Chapter 7 – Case Studies on GSP+ countries vii. Chapter 8 – Conclusions and Recommendations |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>5. To what extent is the current GSP coherent with the EU's relevant policies?</p> | <ul style="list-style-type: none"> i. What synergies or inconsistencies exist between the current GSP scheme and other EU trade policies? ii. What synergies or inconsistencies exist between the current GSP scheme and EU development policies? iii. What synergies or inconsistencies exist between the current GSP scheme and the EU foreign policy? iv. What synergies or inconsistencies exist between the current GSP scheme and other EU policies? | <p>The Project Team will analyse whether EU trade objectives have been enhanced or hindered as a result of reform of the GSP scheme.</p> | <ul style="list-style-type: none"> i. Desk review, consisting mainly of review of EU's trade and development policies ii. Online Public Consultation iii. Stakeholder interviews iv. Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia and Pakistan | <ul style="list-style-type: none"> i. Chapter 2 – Economic Impact Analysis ii. Chapter 3 – Social Impact Analysis iii. Chapter 4 – Environmental Impact Analysis iv. Chapter 5 - Case Studies on Textiles and Machinery v. Chapter 6 – Case Studies on EBA countries vi. Chapter 7 – Case Studies on GSP+ countries vii. Chapter 8 – Conclusions and Recommendations |
| <p>6. To what extent is the current GSP scheme relevant to the development needs which it is intended</p> | <ul style="list-style-type: none"> i. How does the current GSP scheme contribute to sustainable development and poverty eradication objectives? | <p>The Project Team will analyse whether specific reforms undertaken were the most appropriate to address the problems identified with the previous scheme.</p> | <ul style="list-style-type: none"> i. Desk review, consisting mainly of review of the old and new GSP Regulation ii. Online Public Consultation iii. Stakeholder interviews | <ul style="list-style-type: none"> i. Chapter 2 – Economic Impact Analysis ii. Chapter 3 – Social Impact Analysis iii. Chapter 4 – Environmental Impact Analysis iv. Chapter 5 - Case Studies on Textiles and |

| evaluation questions | Judgement criteria | Required evidence and analysis/ possible indicators | Sources of evidence/ methodological tools | Coverage in Final Report |
|----------------------|--------------------|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| to address? | | | iv. Stakeholder outreach workshops in Bangladesh, Ethiopia, Bolivia and Pakistan v. Economic, social, human rights and environmental analyses undertaken in fulfilment of evaluation Question (1) above. | Machinery v. Chapter 6 – Case Studies on EBA countries vi. Chapter 7 – Case Studies on GSP+ countries vii. Chapter 8 – Conclusions and Recommendations |

Economic impact analysis

The external consultant recognised that the extent to which the GSP could have positive economic impacts on developing countries depends on multiple factors, including the importance of the EU market in the country's overall exports and level of preferential market access utilization. Additionally, the GSP's effectiveness will also depend on other factors including the domestic institutional environment and appropriate domestic policies to stimulate exports. Taking these factors into account, the external consultant conducted an analysis of the economic impacts of the different GSP arrangements on beneficiary countries using the most up-to-date and detailed economic, trade and tariff data from the European Commission. This analysis is complemented by qualitative analyses in the form of case studies, where more in-depth quantitative work focuses on the determinants of preference non-utilisation as well as decomposing the economic and welfare effects of participation in the GSP scheme.

The empirical quantitative economic analysis consists of two main parts: (i) a diagnostic and descriptive analysis of data at the Combined Nomenclature 8-digit level from trade databases such as Eurostat, TARIC, UN ComTrade, and World Bank World Integrated Trade Solution (WITS); and an econometric analysis of trade data from 2011 to 2016, provided by the EC at a Combined Nomenclature 8-digit level disaggregation, using the gravity model in various specifications.

The methodology used for the quantitative data analysis is threefold:

- i. **Identification of policy changes:** For an effective quantitative analysis of the trade and economic impact of the GSP, it is essential to have a clear overview of the changes to the GSP over the period under examination. In this respect, the following activities have been undertaken:
 - a. Identification of the beneficiary countries under each of the three arrangements for each year.
 - b. Identification of all country-sector combinations that graduated from the scheme or where trade preferences were reinstated. The product sections on which graduation is calculated changed with the introduction of the reformed GSP in 2014.
 - c. Identification of the changes to GSP tariffs that were introduced with the reformed scheme.
 - d. Identification of changes in the Rules of Origin, as applicable during the period under review.
- ii. **Descriptive/diagnostic analysis:** Descriptive and diagnostic analyses have been conducted which examine the degree of coverage and preferential access under the three GSP arrangements (Standard GSP, GSP+, and EBA regimes), and further by sections. The extent to which the EU imports from GSP countries compared to its other trading partners has also been assessed, including the sectors that utilize preferences the most. Significant emphasis has been placed on the extent to which the preferences align with the structure of developing country exports. This involved looking at the share of each country's exports covered by the regimes and comparing this to the shares of Most Favoured Nation tariff-zero trade. Additionally, there have been detailed analyses of differences in tariffs across regime types and the preference

margins which exist across sectors. In this respect, the following have been extensively analysed:

- Share of trade by tariff category (Most Favoured Nation, GSP, Regional Trade Agreements (RTA))
- Utilisation rate: Preferential imports as a percentage of eligible imports
- Preference margins
- Export diversification:
 - Number of 8-digit product lines exported
 - Number of 8-digit product lines per sector (diversification can only have occurred within a specific sector)
 - Concentration indices by country and country-sector combinations.

Further analysis of the impact of the GSP on export diversification was undertaken, including calculations of the Herfindahl Index to determine the extent of such diversification in beneficiary countries at both the product and the sector levels.

Econometric modelling: Extensive regression analysis was used to measure the changes in exports to the EU and impact of the changes resulting from the 978/2012 Regulation, drawing on the so-called “gravity model”. Different specifications of the gravity model were used in the following ways: (i) to assess whether the removal of countries eligible for GSP and changes in the GSP regime itself have impacted EU imports from the GSP eligible countries; and (ii) to assess whether there have been associated impacts on the exports of those countries that are no longer eligible for the GSP. The consultant also used regression analysis in the following ways: (i) to establish whether utilisation rates are related to preference margins; and (ii) to investigate whether there is any evidence of any changes in utilisation rates in the period following the changes in the GSP Regulation.

For effective econometric modelling, the trade data were cleaned and matched with tariff data by country and by product class at the Combined Nomenclature-8 digit level in order to allow for the analysis of the impact of the GSP reform to be as precise as possible. Trade data from three years before to three years after the scheme’s reform was analysed to obtain a ‘before’ and ‘after’ comparison. Any analysis over a longer period of time would create significant data distortions as a result of influences from different factors and changes in policy over the years. The comparative approach adopted allows an accurate assessment of the impact of Regulation (EU) No. 978/2012. To ensure consistency of data, EU import data was used instead of export data from the different beneficiary countries as EU import data records are more reliable and accessible for all the beneficiary countries under investigation. This has enhanced the overall consistency and comparability of the findings.

The following primary sources of data have been utilised in the study:

| Institution | Database | Title | Year |
|---------------------|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| European Commission | Eurostat | Trade data at Harmonized System-6 level, including utilisation rate, for 2011-2016 (Data for 2016 will be made available from March 2017). | 2011-2016 |
| | TARIC | The integrated tariff of the European Communities is a database which integrates all measures relating to EU customs tariffs, commercial and agricultural legislation. | 2011-2016 (updated to December 2016) |
| United Nations | UN Comtrade | UN Comtrade (United Nations International Trade Statistics Database) is a repository of official international trade statistics and relevant analytical tables. | 2011-2015 |

Social and human rights impact assessment

The GSP is one of the main instruments that the EU uses to link social and human rights issues to trade. To carry out the social analysis section of the evaluation, the external consultant examined the impact of the GSP on the following elements pertaining to social and human rights impacts:

- Employment;
- Decent Work Agenda (job creation, labour standards, social protection and social dialogue);
- Working conditions;
- Wage levels and their changes over time
- Poverty reduction;
- Gender equality;
- Human rights; and
- Good governance.

| Indicator | Description | Source |
|--------------------|--------------------------------------------------------------------------------------------------------------------|---------------------------------|
| Unemployment | Employment-to-population ratio to measure the proportion of the country's working age population that is employed. | World Bank; National statistics |
| Female employment | Share of women in wage employment | World Bank; National statistics |
| Youth unemployment | The unemployment rate for the age group 15 to 24 years. | World Bank; National statistics |
| Wages | Average real wages; and average real wage growth. | National statistics |

| Indicator | Description | Source |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| Social Protection Rating | Assessment of government policies in social protection and labour market regulation that reduce the risk of becoming poor, assist those who are poor to better manage further risks and ensure a minimum level of welfare to all people | Country Policy and Institutional Assessment (CPIA) World Bank |
| Social Inclusion Rating | Assessment of policies for social inclusion and equity cluster, including gender equality, equity of public resource use, building human resources, social protection and labour and policies and institutions for environmental sustainability | CPIA World Bank |
| Poverty rate | Proportion of the population below the international poverty line of \$ 1.90 per day | World Bank |
| Civil Liberties Index | Assessment of civil liberties in a country covering indicators on freedom of expression and belief; associational and organisational rights; rule of law; and personal autonomy and individual rights | Freedom House |
| Political Rights Index | Assessment of political rights in a country covering indicators on electoral processes, political pluralism and participation and functioning of Government. | Freedom House |
| Gender Equality Rating | Assessment of the extent to which a country has installed institutions and programs to enforce laws and policies that promote equal access for men and women in education, health, the economy and protection under law | CPIA World Bank; available up until 2015 |
| Voice and Accountability Index | Assessment of citizens' ability to select their government, freedom of expression, freedom of association and a free media covering indicators on human rights, press freedom, electoral process, freedom of association and assembly etc. | World Bank |
| Political Stability Index | Assessment of the likelihood of political instability and politically motivated violence, including terrorism covering indicators on armed conflict, social unrest, violent demonstrations, government stability etc. | World Bank |
| Government Effectiveness Index | Assessment of the quality of public services, civil service, policy formulation and implementation, and the government's commitment to its policies covering indicators on bureaucracy, quality of education, citizen satisfaction etc. | World Bank; available up until 2015 |
| Regulatory Quality Index | Assessment of the government's ability to formulate and implement policy and regulations that permit and promote private sector development covering indicators on discriminatory tariffs and taxes, price controls, investment freedom, burden of government regulations etc. | World Bank |
| Rule of Law Index | Assessment of agents' confidence in and abide by the rules of society and likelihood of crime and | World Bank |

| Indicator | Description | Source |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| | violence covering indicators on crime, property rights, confidence in the police force and judicial system, the informal sector etc. | |
| Corruption Perceptions Index (CPI) | Assessment of the perceived level of public sector corruption in a country on a scale of 0 (highly corrupt) to 100 (very clean). | Transparency International; available up until 2015 |
| Control of Corruption Index | Assessment of the extent to which public power is exercised for private gain and involvement in the state by elites and private interests covering indicators on corruption, irregular payments, public trust etc. | World Bank; available up until 2015 |

The reformed GSP has only been in force for three years, and as a result external consultant found that the number of readily available and up-to-date social and human rights impact indicators is limited. Developing countries often lack the resources for comprehensive collection and analysis of data on social and human rights indicators. Furthermore, many of the indicators have not changed substantially over the course of three years. This can be explained by the fact that progress on social and human rights indicators is slow because it takes significant time to create awareness and realise societal change.

In order to offset these limitations and to reveal what is happening on the ground in the beneficiary countries, the case studies provide a more in-depth analysis of social impacts. The case studies rely heavily on literature review to account for the impact not covered by the abovementioned social and human rights indicators, national statistics and reports, and monitoring reports by international monitoring bodies, such as the International Labour Organization. Additionally, the analysis in the case studies is based on a wide array of stakeholder consultations and concrete developments, such as improved cooperation with international organisations and monitoring bodies, submission of missing reports and assessments, and the formulation of action plans.

Environmental impact assessment

One of the general objectives of the GSP is to promote sustainable development in beneficiary countries. To carry out the environmental analysis section of the evaluation, the external evaluation conducted extensive research on the pre-determined indicators and with substantial input from stakeholder engagement activities, identify the most significant environmental issues that emanate from participation in the GSP. Additionally, the country-specific case studies provide a more in-depth overview of the impact of the scheme on the environment. The external consultant examined a wide range of environmental impacts, which include:

- Air and water purity/pollution;
- Waste;
- Natural resources, including forests, wildlife and fisheries;
- Biodiversity;
- Climate change.

A range of environmental indicators were used in the evaluation, as set out in the table below.

| Indicator | Description | Source |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Waste generation | Municipal waste per capita, municipal waste recovery rates | IEA Country Profiles |
| Environmental Sustainability Rating | Assessment of the extent to which environmental policies foster the protection and sustainable use of natural resources and management of pollution | CPIA World Bank; available up until 2015 |
| Forest Area Coverage | Forest area as a percentage of land area, tree cover loss/gain, tree cover %, deforestation/reforestation rates, LULUCF-related CO2 emissions, carbon stocks | World Bank; available up until 2015; FAO Global Resources Assessment; Global Forest Watch |
| Land use and competition | Increased competition for land resources (and potential resource scarcity) between staple crops, commodity crops and livestock; leading to either intensification of crop/livestock production (where inputs are available) or agricultural expansion for increased cropland and grassland (leading to deforestation, soil erosion, loss of biodiversity and various others) | FAOSTAT; available up until 2014/2015; FAO Global Resources Assessment |
| Land tenure and ownership rights | Private ownership of land and further investments in land improvements (i.e. increased economic returns per unit of land) | FAOSTAT; available up until 2014/2015; FAO Global Resources Assessment |
| Terrestrial and freshwater biodiversity | UN SDG indicator on the proportion of important sites for terrestrial and freshwater biodiversity that are covered by protected areas | UN; FAOSTAT; available up until 2014/2015; AQUASTAT |
| Proportion of fish stocks | UN SDG indicator on the proportion of fish stocks within biologically sustainable levels | UN |
| Biodiversity | Proportion of terrestrial and marine areas protected, number of threatened species | CBD, GBIF and InforMEA Country Profiles |
| Climate change | Climatology indexes including precipitation, humidity, temperature, weather extremes, GHG emissions and concentrations, etc. | UNDP Climate Change country profiles; WHO Climate Change and |

| Indicator | Description | Source |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| | | Human Health Country Profiles |
| CO ₂ emissions | UN MDG indicator on total CO ₂ emissions and per capita emissions | UN; IEA Country Profiles |
| Biofuels | Use of biofuels | IEA Country Profiles |
| Renewable energy | UN SDG indicator on the renewable energy share in the total final energy consumption | UN; IEA Country Profiles |
| ND-GAIN index | Navigation tool that helps manage risks exacerbated by climate change such as over-crowding, food insecurity, inadequate infrastructure and civil conflicts, Notre Dame - Global Adaptation Index | WDI, FAOSTAT, WRI, AQUASTAT, WSDI, WHO, etc. |

The reformed GSP has only been in force for three years, and as a result the Project Team has found that the number of readily available and up-to-date environmental impact indicators is limited. It takes substantial time and resources for agencies to collect data on environmental indicators. Often these resources are lacking in developing countries, resulting in out-dated or incomplete data. Furthermore, many of the indicators have not changed substantially over the course of three years. This can be explained by the fact that progress on environmental indicators is slow because it takes significant time to create awareness and realise substantial change.

In order to account for these limitations and to reveal what is happening on the ground in the beneficiary countries, the case studies provide a more in-depth analysis of the environmental impact. The case studies rely heavily on literature review to account for the impact not covered by the abovementioned environmental indicators, national statistics and reports, and monitoring reports by international monitoring bodies, such as the UN. Additionally, the analysis in the case studies is based on a wide array of stakeholder consultations and concrete developments in the countries.

Case studies

The midterm evaluation includes six case studies to conduct a systematic analysis of the economic, social, environmental, and human rights impact of the GSP on key countries and sectors. The case studies can be divided into the following three categories:

- i. **Case studies on the textiles and machinery sectors** - The Project Team has conducted two case studies to analyse the impact of the GSP on producers and industries in the EU and in the beneficiary countries. The textile sector has been selected because the sector benefits the most under the scheme. The machinery sector has been selected due to concerns about intensifying competition for EU industry in this sector as a result of the trade preferences.

- ii. **Case studies on the GSP+ arrangement in Pakistan and Bolivia** - Two case studies were carried out to analyse the economic, social, environmental and human rights impact of the GSP+ arrangement. Pakistan has been selected because it is the biggest beneficiary under the GSP+. Bolivia has been selected for a case study to extend the focus of the study to South America.
- iii. **Case studies on the EBA arrangement in Ethiopia and Bangladesh** - Two case studies were carried out to analyse the economic, social, environmental and human rights impact of the EBA arrangement. Bangladesh has been selected for a case study because it is the biggest beneficiary under the EBA arrangement. Ethiopia has been selected because its economy is relatively diversified and to extend the focus of the study to Africa.

The case studies extensively draw on quantitative data analysis, complemented by qualitative literature review and in-depth stakeholder consultation. The quantitative analysis is based on local, regional and relevant international sources presenting the development of key indicators over the past years. Additionally, qualitative analysis and the Online Public Consultation, interviews and workshops are used to gather invaluable information and insights from stakeholders concerning the countries and sectors covered in the case studies.

The case studies incorporate analysis of locally produced data sources, comparing wherever possible with corresponding figures from the EU or international organisations. Transparency and reliability of domestic institutions are a consistent theme across case studies in this regard, as improvement of domestic institutional capacity is closely aligned with the primary objectives of the EU's external sustainable development platform.

The analytical approach to the case studies takes into account country and sector-specific conditions, and it addresses common research questions using state-of-the-art available indicators and methodologies. Consistency across the case studies allows for the constitution of a final qualitative dataset from which systemic conclusions can be drawn.

The case studies follow a similar outline to ensure comparability between the countries and sectors. The analysis focuses on the GSP's economic, social, environmental and human rights impacts. Each case study further contains sections detailing any unanticipated effects of the GSP encountered during the course of research, and also characterises and disaggregates the reference country's trade profile with the EU from the rest of the GSP cohort. Finally, the case studies will systematically include policy recommendations specific to bilateral trade between the reference country and the EU, as well as preliminary identification of thematic recommendations applicable to comparable GSP beneficiaries.

| Case study | Analytical questions |
|--------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Impact of the GSP on the textile sector and machinery | <ul style="list-style-type: none"> - What is the impact of the GSP arrangements on producers and industries in beneficiary countries? - What is the impact of the GSP arrangements on EU producers and industries using or competing with goods imported under GSP preferences? - What is the impact of the GSP preferences on the global competitiveness of beneficiary countries' industries and EU industry? - What is the impact of the GSP arrangements on the development of global value chains? - What is the impact of the reduction in the number of GSP beneficiary countries under Regulation (EU) 978/2012? <ul style="list-style-type: none"> o Have competitive pressures been reduced for EU producers and industries previously competing with producers and industries in excluded countries? o Have competitive pressures been reduced for producers and industries in beneficiary countries? - What is the impact on production costs and overall competitiveness for EU producers that rely on imports under GSP preferences? - What is the impact on costs for EU consumers? |
| Impact of the GSP+ in Pakistan and Bolivia | <ul style="list-style-type: none"> - What are the economic, social, environmental, human rights and good governance impacts of the GSP+? - What is the impact of the GSP+ on the implementation of GSP+ relevant international conventions since the country's adhesion to GSP+? <ul style="list-style-type: none"> o What is the level of political will in the country to implement and adhere to these international conventions? - What is the role of the GSP+ and its monitoring framework in the positive and/or negative changes that occurred? - What is the level of awareness among key stakeholders of GSP+ requirements? - Are there any unintended consequences of GSP+? |
| Impact of the EBA in Ethiopia and Bangladesh | <ul style="list-style-type: none"> - What are the economic, social, environmental and human rights impacts of EBA? - What is the impact of EBA on economic development? - What is the impact of EBA on poverty reduction? - What is the impact of EBA on the distribution of gains? - Are there any unintended consequences of EBA? |

Annex III – Synopsis report of stakeholder consultations

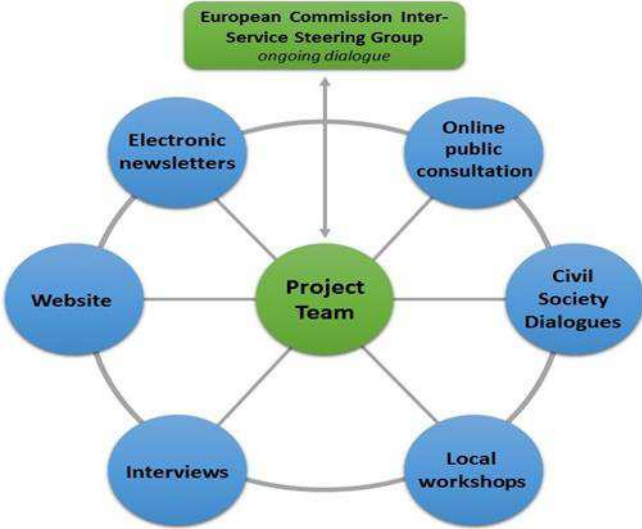
1. Stakeholder consultation strategy

The objective of the stakeholder consultation process was two-fold: (i) to collect information, ideas, opinions and insights from a wide range of stakeholders to complement the data analysis and literature review; and (ii) to raise awareness of the EU’s Generalised System of Preferences (GSP) among relevant stakeholders.

The focus of the stakeholder consultation process was to assess whether the objectives set by the GSP Regulation are on track to be achieved and to assess the scheme’s effectiveness, efficiency, coherence and relevance. A particular focus was placed on the countries and sectors covered in the case studies: Bangladesh, Ethiopia, Bolivia and Pakistan, as well as the textile and machinery sectors.

A range of consultation activities and tools was employed to ensure a comprehensive and well-balanced consultation process. The activities and tools included a dedicated project website and electronic outreach tools, a 12-week Online Public Consultation, interviews and meetings with relevant stakeholders, Civil Society Dialogues (CSDs) in Brussels, local workshops in Bangladesh, Ethiopia, Bolivia and Pakistan and an ongoing dialogue with the European Commission Inter-Service Steering Group (ISSG).

Figure 1: Overview of the stakeholder consultation activities and tools



2. Stakeholder outreach and engagement tools

Website: The dedicated GSP evaluation website www.GSPEvaluation.com served as the main platform for conducting online consultation as well as for regularly and pro-actively informing stakeholders on the midterm evaluation. The Website included the following features:

- **Publication** of all relevant information concerning the evaluation’s progress through uploading of reports (both draft and final versions), minutes of Civil Society

Dialogues and the local workshops, relevant background information, newsletters and stakeholder input (permission based);

- Information on the **Online Public Consultation** with a link to the EU Survey website;
- Detailed information on the **local workshops and Civil Society Dialogues**; and
- **Data collection tools** built on the website's back-end to easily collect and collate information on website usage ('hits').

Social media: The external consultant utilised Twitter and LinkedIn to raise awareness of the EU's GSP and to inform stakeholders on the progress undertaken in the evaluation process.

Twitter formed an integral part of the evaluation's visibility strategy. The consultant frequently posted updates on the evaluation process, upcoming workshops, links to the project outputs and other sections of the project website, as well as other sources of useful and relevant information. At the time of writing, 37 tweets were made, and the GSP evaluation account has 35 followers.

Additionally, LinkedIn was used by the consultant to maintain contact with the stakeholders and to promote relevant materials such as reports, meetings and information on the local workshops and links to relevant sections on the project website. Through LinkedIn, the consultant aimed to create an ongoing dialogue by encouraging stakeholders to ask and answer project related questions, as well as to participate in the Online Public Consultation.

Electronic newsletter: An electronic newsletter was designed to inform stakeholders about the project milestones. The newsletter included a summary of the ongoing evaluation process and the consultation activities. The newsletter was distributed both via email within the network and was also publicly available on the project website. The newsletter was further promoted via the social media channels.

Dedicated email address: Through the dedicated email address comments@GSPevaluation.com, the consultant received messages from numerous stakeholders seeking to provide their input in the evaluation process or to obtain information about the project and the stakeholder consultation activities.

3. Results of the Electronic Stakeholder Outreach and Engagement

The Public Consultation ran for 12 weeks from 17 March until 9 June 2017. It was featured on the project's website, the 'Have Your Say' platform and the DG Trade website and was shared via the project's social media channels.

The purpose of the Online Public Consultation was to assess the economic, social, human rights, and environmental impacts of the EU's GSP on its beneficiary countries. Some of the specific issues that were investigated were the effectiveness and efficiency of the GSP; the relevance of the scheme with respect to the needs of developing countries, in particular Least Developed Countries; and the coherence of the scheme in relation to other EU trade and development policies.

In total, there were 961 responses, with the vast majority of respondents emanating from Europe. There was a high sectoral and geographical concentration where the majority of respondents were business stakeholders (86 per cent) and came mainly from Italy (96 per cent). Furthermore, the majority of European respondents were Italian stakeholders associated

with the rice sector. There was a rather low response rate from the textile and clothing sector as well as the machinery sector.

Stakeholders from the Italian rice industry provided clear feedback on the functioning of the GSP safeguard mechanism. As the safeguard mechanism does not apply to EBA beneficiaries, imports from Cambodia and Myanmar/Burma are disrupting the European rice sector. The stakeholders requested improvement of the efficiency of the mechanism to ensure that the EU's financial and economic interests are protected. Stakeholders did not provide any feedback on the functioning of the GSP mechanism in any other aspects.

Amongst the other stakeholders the feedback was heterogeneous, depending on the type of stakeholder and their geographical location. Overall, the main findings indicate that the majority (41 per cent) feels that the GSP Regulation only partially achieves its general objectives, whereas the minority (20 per cent) considers it to not meet its objectives. Positive feedback was also received regarding the specific objectives, especially the focus on countries most in need: it allows beneficiaries to strengthen their competitiveness and economic growth and provides incentives through GSP+ to promote human rights, sustainable development and good governance. Concerns were expressed regarding the scheme's safeguard mechanism and the level of compliance of GSP+ beneficiaries with international conventions.

Respondents found it difficult to assess the impact of the scheme on the economic, human rights, social and environmental conditions in the beneficiary countries and provided limited explanations. While the majority of the feedback on the economic, human rights and social conditions was positive, the findings also highlighted shortcomings such as potential land grabbing. A stakeholder expressed its concern about the implementation of the UN and ILO conventions, as the focus seems to be on the ratification. For example in the case of Pakistan, shortcomings have been identified by both the UN and NGOs, yet it remains a GSP+ beneficiary.

Business stakeholders highlighted the importance of the GSP as it enhances competitiveness, creates opportunities for sourcing and production in beneficiary countries and generates more efficient global supply chains. However, due to strict Rules of Origin and sectorial graduation, not all companies can take advantage of the tariff reductions.

4 Interviews and meetings

The main objective of the interviews and meetings was to facilitate detailed discussions with stakeholders on the various impacts of the GSP. Over 450 key stakeholders were invited for interviews to share their views and opinions on the impact and application of the GSP Regulation. Overall, 26 interviews and 7 meetings were conducted with stakeholders in the EU as well as in the case study countries. Additionally, the consultant received stakeholder contributions which are available online.³⁵

The consultant conducted interviews with a range of different stakeholders, including business and sectoral associations, trade unions and non-governmental organisations working on labour rights, environmental protection and human rights issues.

³⁵ The stakeholder contributions are available here: www.gspevaluation.com/resources

The consultant has additionally conducted stakeholder meetings with key stakeholders in the EU, Bangladesh, Ethiopia, Bolivia and Pakistan ahead of the local workshops. These meetings were organised to ensure that stakeholders did not feel impeded by government presence at the workshops and to allow them to speak freely about the impact of the GSP in the country. In this context, the consultant met with trade unions and business organisations.

Stakeholder input obtained through the interviews and meetings varies depending on the type of stakeholder and geographical location. It is furthermore based on the interests represented by the stakeholder.

Stakeholders in the EU expressed different opinions on the impact of the GSP in the beneficiary countries. While some argued it has had a negative impact on human rights, labour standards and the environment, others argue that the impact has been limited but has encouraged discussion with and within the beneficiaries. Other stakeholders highlighted that no general statement can be made as the impact differs per beneficiary and depends on a number of factors including the awareness of the scheme and the economic relation with the EU.

Stakeholders also touched upon the coherence of the Regulation with broader EU trade objectives. While some argued that the Regulation is in line with this, others argued that it is not sufficiently supporting export diversification or responding to the commitment to promote human rights and environmental protection. The European rice industry emphasised that the safeguard mechanism does not protect the interest of EU producers.

Another argument made by stakeholders is the need for more robust monitoring of GSP+ beneficiaries. The monitoring process should be more transparent and effective, integrating social partners and civil society organisations in the process. Furthermore monitoring should occur on a more frequent basis.

Stakeholder contributions made by the Federation of European Rice Millers (FERM), Federation of the European Sporting Goods Industry (FESI), as well as, a joint contribution by FIDH, Cambodian Human rights and development association (ADHOC), LigueCambodgienne de défense des droits de l'homme (LICADHO), ODHIKAR, ALTSEAN-Burma, Philippine Alliance of Human Rights Advocates (PRAHA) and the Human Rights Commission of Pakistan (HRCP) can be found on the dedicated website. Interviews and meetings with stakeholders regarding the country-specific and sector-specific case studies provided further insight on the impact of the GSP Regulation.

Stakeholders in Bangladesh acknowledged the importance of the EU market for exports, especially in the textile industry. Without the EBA, Bangladesh would not have been as competitive due to their unstable labour relations and infrastructure. Some stakeholders argued that the EBA has led to increased income and poverty reduction. Furthermore, it pressures the government to improve human rights and labour rights, employment and women empowerment. Other stakeholders noted that the distribution of gains is unclear and then lack of negotiating power for employees due to the high offer of labour. They highlighted pollution caused by increased production and the environmental impact of the shrimp industry.

Stakeholders in Ethiopia considered the EU market as difficult to access due to high standards and Rules of Origin. However, producers are also encouraged to improve in order to meet these standards. While it was acknowledged that the scheme could benefit Ethiopia, it was

questioned whether it benefits everyone in society. The increase in floriculture exports creates employment and income, but employees are underpaid and cannot support their family. Furthermore, the floriculture and leather industries generate pollution.

Stakeholders in Pakistan considered the GSP+ beneficial for Pakistan's economy as it increases exports and economic growth. Furthermore, the scheme supports employment, including female employment, poverty alleviations and improvement of standards. However, the scheme is mainly relevant for the manufacturing sector and does not promote export diversification. Maximising production to boost exports has led to environmental degradation, and improvements have to be made on social and human rights. Lastly, there is a lack of understanding of the scheme and producers face technical barriers in exporting to the EU.

Stakeholders in Bolivia mainly commented on the limited awareness of the GSP+ and limited importance of the EU market. There are only a few medium-sized and large companies in Bolivia that could access the EU market. Smaller companies face restrictions due to the legal and SPS requirements. Due to the limited relevance of the scheme, stakeholders find it difficult to assess the impact of the scheme. They furthermore highlighted the importance of political will and national programmes aimed at sustainable development.

Stakeholders from the textile industry had differing standpoints on the impact of the GSP. One stakeholder acknowledged the crucial economic role of the scheme for businesses that import fabrics and finished products from the beneficiary countries. In this sense it contributes to the competitiveness of products and impacts economic development and employment. Another stakeholder faced competition from GSP beneficiaries and explained that the safeguard mechanism is too difficult to trigger. Another stakeholder noted that rather than the scheme, brands are the drivers when it comes to positively influencing labour rights and environmental protection.

5 Civil Society Dialogue (CSD)

The 1st CSD in Brussels was organised by DG Trade on 19 January 2017. The CSD involved participants from registered civil society organisations and representatives from the Commission and the external consultant. The external consultant presented its approach to the midterm evaluation and the stakeholder consultation activities. EU stakeholders were then given the opportunity to refer their questions regarding the midterm evaluation towards the Commission and the external consultant and to provide feedback on the Draft Inception Report.³⁶

³⁶ The minutes of the Civil Society Dialogue are available here: <http://www.gspevaluation.com/wp-content/uploads/2016/12/Minutes-Midterm-evaluation-GSP-Civil-Society-Dialogue-19-01-2017.pdf>

Figure 2: Twitter update from the first Civil Society Dialogue



The 2nd CSD in Brussels was organised on 25 September 2017. The external consultant presented its progress and preliminary findings from the Final Interim Report. EU stakeholders were then given the opportunity to refer their questions regarding the midterm evaluation towards the Commission and the consultant and to provide feedback on the Final Interim Report. The second CSD was the final contact between the external consultant and the stakeholders, thus providing them a last chance to participate in the stakeholder engagement and consultation.³⁷

During the CSDs, the stakeholders mainly commented on the approach to the midterm evaluation and sought to clarify findings of the study with the external consultant and the European Commission. Compared to the other consultation activities, the stakeholder input focused predominantly on the functioning of the GSP Regulation for European producers, importers, retailers and distributors rather than on the Regulation's impact on the beneficiary countries.

Whereas stakeholders were generally positive about the Regulation, they highlighted the administrative costs related to the application of trade preferences which may outweigh the benefits of obtaining them, especially for SMEs. Others addressed the Regulation's safeguard mechanism and emphasised the need to protect the European producers.

Stakeholder input was also provided regarding the textile and clothing sector, in particular regarding the Rules of Origin requirements. As textile production gets increasingly more

³⁷ The minutes of the Civil Society Dialogue are available here: http://trade.ec.europa.eu/doclib/docs/2017/october/tradoc_156185.pdf

technical, textile exporters from GSP countries are finding it difficult to comply with the double transformation requirement, compared to EBA countries that have to comply with single transformation requirement.

6 Local workshops in Bangladesh, Ethiopia, Bolivia and Pakistan

The consultant organised four local workshops in the case study countries between February and May 2017. The local workshops brought together key stakeholders from government administrations, businesses, social partners, international organisations, civil society organisations and research institutes. Local experts and government representatives were invited to comment specifically on the trade, economic, social, human rights, and environmental impacts of the GSP arrangement.

Input received during the local workshops was less heterogeneous and critical of the GSP than input received during interviews and meetings. This could be explained by the presence of the European Commission and the national Ministries.

Bangladesh

The local workshop on the EU's EBA in Bangladesh was held at the Le Meridien Hotel, Dhaka on 7 February 2017. The workshop brought together around 70 stakeholders from government, industry and civil society.

Speakers and participants pointed towards the overall positive impact of the EBA in Bangladesh, and the majority of the gains that have been made in the RMG industry. The EBA has allowed Bangladesh to be competitive in the textile industry, which has increased exports to the EU both in terms of value and in terms of export diversification.

There has been evidence of a declined poverty rate, increased infrastructure development and enhanced productivity in the industrial sector. Furthermore, the EBA has been a driver of employment generation and empowerment of women in the RMG sector. Furthermore, the reform of the Rules of Origin has greatly contributed to the increased utilisation of GSP preferences and an increase in exports, especially of woven products. Amongst stakeholders there is a clear understanding of the importance of EBA preferences, and the requirements and obligations to transition from EBA to GSP+.

On the other hand, stakeholders pointed out that there are several areas that require continuous improvement such as the number of union registrations, the minimum wage, supply side capacities and the balance between environmental mitigation and economic growth. Stakeholders furthermore highlighted the threat of preference erosion and supply side constraints such as increasing production costs due to increased labour costs, infrastructure and banking costs.

Ethiopia

The local workshop on the EU's EBA in Ethiopia was held at the Capital Hotel and Spa in Addis Ababa on 7 March 2017. The workshop gathered 65 stakeholders from the national

government, business organisations, academia, think tanks, international organisations and civil society organisations in Ethiopia.

The EBA has had a positive impact on exports, economic growth and employment. A particular example was provided for the horticulture sector, which saw a rapid development and an increase in employment especially for young people and women. Stakeholders argued that the EBA has supported Ethiopia's decreasing poverty rate in the past decade and the increasing life expectancy and years of schooling. Moreover, an increased awareness about the need for sustainable development was also found.

Certain segments of the population have yet to fully benefit from the rapid economic growth. Stakeholders furthermore highlighted the sustainable development challenges faced by Ethiopia. Additionally, there have been concerns regarding the application of labour rights, worker discrimination, land grabbing and the restrictions faced by civil society organisations.

The EBA has had limited success in increasing export diversification due to the Rules of Origin, technical trade barriers and supply-side constraints. Therefore, the potential of Ethiopia's exports to the EU has yet to be fully realised beyond agricultural products such as coffee and flowers. Furthermore, there are concerns over decreasing preference margins and increasing competition. The importance of the EU as a trade partner has also been declining in recent years as other markets are becoming increasingly more important for Ethiopia.

Bolivia

The local workshop on the EU's GSP+ in Bolivia was held at Hotel Camino Real in La Paz on 25 April 2017. The workshop gathered 52 participants from government, industry and civil society.

Stakeholders highlighted that the trade preferences offered by the GSP+ have been an incentive to commit to the implementation of UN and ILO conventions and to drive development. Qualitative improvements have also been made as a result of the increased monitoring under the GSP+. While issues regarding human rights, labour rights, good governance and environmental sustainability remain, the GSP+ has introduced debate on these topics in Bolivian society.

Other stakeholders emphasised that an increase in exports does not necessarily translates into development. There is a need for sound economic, social and environmental policies to ensure that the Bolivian population can fully benefit from increased exports. Whereas in the manufacturing sector there are more value-added products and greater employment opportunities, poverty has increased in areas where only natural resources are produced.

It was furthermore pointed out that Bolivian producers face non-tariff barriers to enter the European market, such as Certificates of Origin and SPS standards, which hinder the growth of Bolivian exports. There are additionally concerns about the erosion of preferences. Stakeholders lastly recommended measures for the Bolivian government to engage businesses in the GSP+, such as through training sessions.

Pakistan

The local workshop on the EU's GSP+ in Pakistan was held at the Marriott Islamabad Hotel on 16 May 2017. The workshop gathered 66 participants from government, industry and civil society.

Stakeholders noted the increased exports to the EU, but said that the positive impact of the GSP scheme can mainly be seen on the formal export sector, i.e. textile and apparel. There is a high utilisation of trade preferences under the GSP+ and without the scheme Pakistan's decline in global exports would have been steeper. Overall there is a high awareness of the GSP+ and its obligations amongst the stakeholders.

The scheme provides an incentive for Pakistan to implement its obligations regarding its Constitution and the UN and ILO Conventions. A Treaty Implementation Cell was set up to ensure that benefits from the GSP+ are shared across society without discrimination, focussing on inclusive growth across sectors.

Some stakeholders expressed their concerns about the GSP+ leading to a trade diversion rather than creation, especially in the years directly following its introduction. Furthermore, there has been slow progress in poverty reduction and implementation of labour standards. Several civil society organisations in Pakistan requested to be more involved in the GSP+ monitoring, while others noted that producers should be more involved in GSP+ compliance.

7. Main Challenges and mitigation strategies

Some of the main challenges with the stakeholder consultations were the low initial involvement of stakeholders in the local workshops. Hence, bilateral meetings with civil society and business associations have been initiated in workshop countries.

Another challenge was the inherent rigidity of the format and the low initial response rate to the Public Consultation. However, through active promotion through online outreach, workshops, emails and calls, the consultant managed to engage with important stakeholders and receive their inputs. Finally, as stakeholder contributions are such an important part of giving a nuanced picture of the impacts of the EU's GSP on its beneficiary countries, a large number of stakeholder activities have taken place. Over 450 invitations were sent to stakeholders from Europe, Bangladesh, Bolivia, Pakistan, Ethiopia, and other beneficiary countries to participate in meetings and interviews.

8. Feedback to stakeholders

The Commission will organise a Civil Society Dialogue meeting once the its official report to the European Parliament and the Council on the mid-term evaluation has been adopted. The external consultant will present the final study and the Commission present its views, considerations and conclusions regarding the findings in the external study, including input from stakeholders.