

INCEPTION IMPACT ASSESSMENT

Inception Impact Assessments aim to inform citizens and stakeholders about the Commission's plans in order to allow them to provide feedback on the intended initiative and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to share any relevant information that they may have, including on possible impacts of the different options.

TITLE OF THE INITIATIVE	Towards the future Generalised Scheme of Preferences Regulation granting trade advantages to developing countries
LEAD DG – RESPONSIBLE UNIT	DG Trade, Unit D1
LIKELY TYPE OF INITIATIVE	Regulation of the European Parliament and of the Council (OLP)
INDICATIVE PLANNING	Q2 2022
ADDITIONAL INFORMATION	http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/

The Inception Impact Assessment is provided for information purposes only. It does not prejudice the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described by the Inception Impact Assessment, including its timing, are subject to change.

A. Context, problem definition and subsidiarity check

Context

In 1968, the United Nations Conference on Trade and Development (UNCTAD) recommended the creation of a 'Generalised System of Tariff Preferences'. Under such schemes, developed countries would unilaterally grant reductions in the tariffs paid on imports from developing countries, in order to promote developing countries' export earnings, industrialisation and rates of economic growth.

In 1971, the members of the General Agreement on Trade and Tariffs (GATT), the predecessor to the World Trade Organisation (WTO), followed the lead of UNCTAD and enabled its members to grant differential and more favourable treatment to developing countries without according such treatment to other members through what is now known as the "Enabling Clause", which grants a permanent exemption from the most favoured nation principle (MFN).

In response to this, the EU has since 1971 maintained a Generalised System of Preferences (GSP) that provides developing country exporters with a vital access to EU markets and contributes to their economic growth. The EU GSP has through the decades changed form, in terms of the countries and products covered; but has always had the prime objective of fostering the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty.

The current EU regulation that governs GSP came into force on 1 January 2014 and will expire on 31 December 2023 ([Regulation \(EU\) No 978/2012 of the European Parliament and the Council of 25 October 2012 applying a scheme of generalised tariff preferences](#)). A [mid-term evaluation](#) of this regulation was finalised in October 2018. This evaluation assessed whether the existing GSP Regulation is meeting its objectives and gave ideas on what improvements could be made in view of putting into place a new EU GSP.

Problem the initiative aims to tackle

The current EU GSP regulation is the result of a major reform that entered into force in January 2014. This reform had three basic objectives:

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

The mid-term evaluation found that overall the current GSP Regulation is meeting these objectives. Exports from GSP countries, in particular the more vulnerable, expanded significantly. GSP also contributed positively to promoting and protecting human and labour rights. GSP's impact on the environment was, however, less clear. GSP also offered and operated mechanisms to protect the EU's financial and economic interests. The mid-term

evaluation also found that the GSP Regulation continued to have high relevance for the development needs of beneficiary countries.

The mid-term evaluation process also identified certain issue which – if addressed by appropriate policy options – could enhance the efficiency and effectiveness of the existing GSP scheme. These issues can be grouped into three problem areas this initiative would aim to address, namely:

- GSP provides insufficient support and incentives to have a significant impact on export diversification.
- GSP's contribution to sustainable development and good governance is weaker than intended.
- GSP' ability to safeguard for the EU's financial and economic interests is weaker than intended.

This initiative therefore aims to improve the efficiency and effectiveness of the existing GSP Regulation as a policy instrument that contributes, by promoting export trade, to poverty eradication and sustainable development in developing countries. GSP must therefore remain relevant to the trade and development needs of developing countries. GSP must also take into account the concerns of EU businesses that can face serious difficulties as a result of increased competition from GSP-covered imports. The Impact Assessment will thus support the decision what should happen to the GSP system after expiry of the current arrangement in 2023

Basis for EU intervention (legal basis and subsidiarity check)

The legal basis for the EU to put into place a new GSP regulation lies in Article 207 TFEU, which sets out the Common Commercial Policy. Additionally, Article 3 TFEU establishes the Common Commercial Policy as an area of exclusive EU competence.

B. Objectives and policy options

The basic objectives of this initiative are the same as those set out for the existing GSP Regulation (see above).

For each of the problem areas mentioned above policy options along the following lines will be explored where possible:

Baseline option: continuation of the current GSP scheme will constitute the baseline scenario as the mid-term evaluation concluded that the policy is effective. The baseline option should take into account that the EU has entered into Free Trade Agreements with different countries, which can affect the value of the trade preferences offered under GSP.

Option 1 discontinuation of current GSP: given that the College could decide not to propose a new regulation and let the current one expires at the end of 2023, discontinuation of GSP will be examined as a possible scenario (however, the Everything But Arms programme would continue since it is open ended).

Option 2 improving the current GSP: the mid-term evaluation, as well as inputs received from stakeholders seems to indicate that overall the policy is effective. The majority of the recommendations formulated would not require major modifications to the current scheme. Therefore one option to examine would be to fine-tune the policy approach through limited changes to the existing GSP scheme (for example, a limited expansion of product coverage, updating the list of international convention, the role of civil society in beneficiary countries in relation to implementation of the international conventions, a review of thresholds for product graduation, a review of the safeguard mechanisms, examining the relationship and coherence between GSP and EU Free Trade Agreements and Economic Partnership Agreements).

Option 3 expanded GSP scheme some of the suggestions made in the context of the mid-term evaluation would require more significant changes to the existing GSP scheme (for example, review the relevance of the different GSP programmes, more significant expansion of product coverage, introducing positive conditionality related to ratification of international conventions, expanding product graduation to other GSP programmes). The potential impact and the feasibility of these proposals needs to be carefully assessed as a separate option.

C. Preliminary assessment of expected impacts

Likely economic impacts

The mid-term evaluation found that GSP had considerably contributed to expanding exports to the EU from in particular the more vulnerable beneficiary countries.

The continuation of the current GSP scheme (baseline option) would provide continued support for exports from developing countries, but might not address the potential to enhance the contribution to EU development policy objectives, for example poverty eradication.

In the absence of an EU GSP (option 1), imports from developing countries under the scheme would pay higher

duties under the so-called Most-Favoured Nation (MFN) treatment, except for those from the least developed countries (LDCs) which would still be covered by the open-ended Everything But Arms (EBA) regime. Depending on how much a beneficiary country exports to the EU, this could negatively affect growth, employment and investment in those countries. The absence of EU GSP could incentivise some countries to pursue bilateral trade agreements with the EU or reconfigure trade flows towards other destinations.

With regard to policy options 2 and 3, depending on policy options pursued, more opportunities could be opened up for exports from developing countries, thus potentially making a greater contribution to their economic development and to poverty reduction. Depending on options chosen, there could be a risk of preference erosion for EBA beneficiaries.

Likely social impacts

The mid-term evaluation considered that GSP can contribute to social development in developing countries through the expansion of trade with the EU, for example by generating employment and pushing for the respect of fundamental labour rights. However, the impact on social development also depends on policies in place in beneficiary countries.

The contribution of GSP would continue if the current GSP is maintained (baseline option) but would be foregone if GSP is discontinued (option 1), which could entail a possible loss in employment in beneficiary countries and less attention being paid to the furtherance of social issues in the country through GSP and its empowering effect including on social partners and civil society. Under options 2 and 3 it is expected that GSP could more effectively contribute to social development provided it would be made more effective and targeted.

Likely environmental impacts

The mid-term evaluation was inconclusive on the impact of GSP on the environment. While the evaluation found possible negative scale effects related to expansion of economic activities due to increased trade, finding a causal link to GSP and isolating from other contributing factors was difficult. It is therefore difficult to assess the environmental impact of different policy options. This will be studied in more detail as part of the Impact Assessment, for example, in updating the list of international conventions and examining whether there are methodologies that could more precisely measure the impact of GSP on the environment.

Likely impacts on fundamental rights

The mid-term evaluation found that GSP, and in particular the special incentive arrangement for sustainable development and good governance (the so called GSP+), contributes to furthering fundamental human and labour rights, for example, through the ratification and implementation of relevant core international conventions. The contribution of GSP would continue if the current GSP is maintained (baseline option) but would be foregone if GSP is discontinued (option 1). Under options 2 and 3 it is expected that GSP could more effectively contribute to promoting and protecting fundamental rights.

Likely impacts on simplification and/or administrative burden

The baseline option of maintaining the current GSP Regulation would have no impact on simplification and administrative burden. Discontinuation of GSP (option 1) would decrease the administrative burden on the European Commission and on national customs authorities of EU Member States. Options 2 and especially option 3 could increase the administrative burden on the European Commission and to a certain extent on beneficiary countries depending on policy options pursued.

D. Evidence base, data collection and better regulation instruments

Impact assessment

An impact assessment will be carried out to support this initiative. It will look at the potential economic, social and environmental impacts of this initiative as well as of its potential impacts on fundamental rights.

Evidence base and data collection [max 10 lines]

A number data and information sources exist on the various aspects related to the impact of the current GSP regulation, including: a) the GSP Midterm Evaluation; b) the Commission's biennial reports to the European Parliament and Council on the implementation of GSP; c) an European Parliament Research Service assessment of the implementation of the current GSP Regulation; d) trade statistics from Eurostat; e) qualitative and quantitative development data on the beneficiary countries (WTO, World Bank, OECD); f) the Impact Assessment that fed into the current GSP Regulation. The Impact Assessment to support this initiative will use quantitative and qualitative methods to assess the impact of different policy options and will collect further information through stakeholder consultation and an external study that would feed into the impact assessment analysis. The terms of reference and the selection of the consultant should take place in Q2 2019. The study should begin in Q3 2019 and last approximately one year.

Consultation of citizens and stakeholders

Consultation activities will be carried out to gather views and input from stakeholders on the different policy

options under consideration. Main stakeholder groups identified that are likely to take an interest in the impact assessment are: a) business and industry groups, chambers of commerce in the EU and beneficiary countries, b) non-governmental organisations (NGOs) working on human rights, labour rights, sustainable development etc. in the EU and beneficiary countries, d) governments in beneficiary countries c) research institutes, think-tanks, academia, e) international organisations.

Consultation activities will include:

- An open public consultation carried out as part of the consultants' study. The consultation will be announced and carried out via the European Commission's [consultation website](#) and will be open for a minimum of twelve weeks. Submissions will be accepted in all 24 official EU languages.
- Dedicated civil society dialogues in Brussels and on a regional basis in beneficiary countries.

Consultation activities will be announced in the latest news webpage of DG TRADE (<http://ec.europa.eu/trade/trade-policy-and-you/publications/news-archive/>) and through the DG TRADE Twitter account. In addition to that, the launch of the open public consultation will be announced in the dedicated website of the contractor for the external supporting study and EU delegations in beneficiary countries will inform relevant stakeholders of civil society dialogues taking place in their region.

A synopsis report of the process will be published on the consultation website following the end of the activities.

Will an implementation plan be established?

No implementation plan is foreseen for this initiative, as Member States play no direct role in the implementation of GSP. With regard to the collection of trade data, Member States cooperate with Eurostat through existing channels. All other aspects in implementing GSP is the competence of the Commission, with oversight from the European Parliament and the Council. It should be noted that, whilst Member States are not directly involved in the implementation of GSP, they are extensively consulted through the Council's Working Party on the GSP and through the Commission's Expert Group on the GSP and the Generalised Preferences Committee.