

IEEP's response to the public consultation 'Towards the future Generalised Scheme of Preferences Regulation granting trade advantages to developing countries'

Context: The EU's Generalised Scheme of Preferences (GSP) grants unilateral tariff preferences to developing countries as a means of supporting their economic and social development, as well as promoting human rights, employment standards, sustainable development and good governance practices. The regulation governing the scheme expires on 31 December 2023. The European Commission launched a public consultation, open until 15 July 2020, launching the preparatory work needed to allow the next Commission to decide on the future of the scheme.

IEEP welcomes the proposition of renewing the GSP Regulation and supports the Commission's proposed third option listed in its [inception impact assessment](#) to [expand the GSP scheme](#). The EU GSP Regulation is in need of a significant update to reflect the recommendations of the [2018 mid-term evaluation](#), to fit the wider EU policy context under the Green Deal, and to secure global sustainable development within the context of the Sustainable Development Goals (SDGs). IEEP recommends the review of three essential areas pertaining to the GSP in order to secure these objectives;

1. Greater policy coherence between the renewed GSP and other EU policy areas;
2. Support and boost trade in sustainable/green goods; and
3. Expand and bolster social and environmental conditionalities.

Greater policy coherence

The first area, concerning greater policy coherence, should secure the effectiveness of the GSP Regulation in delivering sustainable development in GSP countries in the present-day wider EU policy context. Ambitious domestic policies adopted in the wake of the EU Green Deal could alter the flow of goods from GSP countries to the EU. One of the key policies in this regard is the EU's Circular Economy Action Plan (CEAP), that foresees the elevation of standards for a range of sectors and key value chains products (electronics & ICT,

batteries & vehicles, packaging, plastics, textiles, high impact intermediary products) (European Commission, 2020).

One critical export sector for GSP countries is textiles. The 2018 mid-term evaluation reveals that in 2016, textiles accounted for half of EU imports from GSP countries (European Commission, 2018). Since the implementation of the reformed GSP Regulation, dating back to 2014-16, the average share of textiles imported by the EU has grown by 24pp compared to 2011-13 (pre-reform period). Moreover, from 2014-16 the average share of footwear imports doubled compared to the pre-reform period, from about 4% to 8%.

A strong reliance on the EU as a market for textile exports could prove to be harmful to GSP countries without appropriate policy coherence with the foreseen provisions to be implemented under the CEAP. For instance, the CEAP plans to increase the sustainability standards for textiles, incentivise circular materials and processes for textile production, as well as boost “sorting, re-use and recycling of textiles” (European Commission, 2020). This can lead to a decline in the demand for textiles from the EU. First, rising EU standards for textiles will act as non-tariff barriers to textile imports, thus impeding GSP exports to the EU. Second, promoting sustainable initiatives and the use of durable materials in the sector – ensuring textiles will be ‘made to last’ – should lead to a decrease in EU consumer demand for new textile products in general.

One way to account for such possible negative impacts on GSP country exports is through increased policy coherence between the EU policies on trade and development cooperation. For example, through the Aid for Trade scheme, the EU could support the elevation of standards in GSP countries to match EU standards, thereby promoting the export of more sustainable goods under the future GSP scheme (Kettunen et al., 2019). Building on this example in more general, greening the Aid for Trade scheme could play a key role in addressing green capacity constraints linked to trade as well as the funding of a just transition in GSP countries. Aid for Trade investments make up approximately 30% of total official development assistance, highlighting the significant opportunity behind this scheme to promote climate resilience (UNEP, 2019).

Greater policy coherence is also necessary in the case of the EU's planned carbon border adjustment mechanism (CBAM), as foreseen under the EU Green Deal. The rationale behind implementing this policy measure is to compensate for a climate ambition gap between the EU and its trading partner if such a gap arises, resulting in a possible levy on imported products with higher carbon content than those produced under the EU policy and regulatory framework. The exact design of the EU's CBAM, which is currently undecided, would reveal to what extent GSP countries would be affected.

On one hand, if the CBAM is implemented to cover imports from GSP countries, this could significantly disadvantage these developing countries as EU trading partners and clash with the “common but differentiated responsibilities” approach (Davidson Ladly, 2012). In particular, if the CBAM is based on the average production method in a given country, it could result in disincentivising promising firms making headway on low-carbon production. On the other hand, if the CBAM would be limited to carbon intensive industries (e.g. aluminium, cement, chemicals, steel, ...) this would have a limited negative impact on GSP countries, as their exports do not make up a significant share of these industries

(European Commission, 2018). Given these possible impacts, it is imperative that the design of a CBAM is complementary to the sustainable development goals of the EU and GSP countries.

Supporting trade in sustainable goods

The second area of importance for the renewal of the GSP Regulation is supporting trade in sustainable goods. The renewal of the GSP Regulation should not only assist GSP countries in elevating their standards pertaining to sustainable goods, it should also effectively boost trade in sustainable goods by reviewing current trade rules that may hamper the development and export of these goods.

Two well-known barriers to trade in sustainable goods are the 'rules of origin' and the 'graduation of products'. Relaxing the conditions surrounding these rules for low carbon and sustainable (e.g. circular) goods, could stimulate the demand for climate-friendly products and encourage export diversification in sustainable goods for GSP countries.

'Rules of origin' are the criteria used to determine the country of origin of a product. The *nationality* of a product is the main criteria used when verifying which trade policy measures a product is subject to (WTO, n.d.). Under the GSP regime, a product must comply with specific 'rules of origin' defined by the EU to qualify for a preferential access to the European market.

However, the burden of proof (e.g. administrative burden) associated with complying with the 'rules of origin' can constitute a technical barrier to trade, which can disadvantage smaller companies in less developed countries (Zachmann & McWilliams, 2020). In order to encourage the development of sustainable export sectors and trade, the GSP renewal should consider relaxing the 'rules of origin' for low carbon and sustainable goods, or alternatively foreseeing targeted support to be provided to companies producing such goods the overcome such barriers (e.g. as part of Aid for Trade schemes).

The current GSP Regulation recognises export diversification as an important pillar in supporting economic resilience. Specifically, the 2018 mid-term evaluation reports that since the 2016 GSP reform, export diversification has improved for standard GSP and GSP+ beneficiaries. However, the improvement was limited for Everything But Arms (EBA) beneficiaries – a duty-free quota-free special arrangement for Least Developed Countries (LDCs) – due to resource constraints they encountered in building up their productive capacity as well as domestic policy (European Commission, 2018). The relaxation of 'rules of origin' for sustainable goods provides the opportunity for GSP countries to further improve their export diversification by tapping into a future-oriented market.

Next, the design of the 'graduation of products' under the GSP can potentially hinder sustainable exports. As the regulation currently stands, if the EU's import of a specific good exceeds a predetermined threshold for three consecutive years, the tariff preferences for that product will be suspended (European Union, 2015). The suspension reverts the tariff to Most Favoured Nation (MFN) level (i.e. the tariff level between WTO members who do not have preferential trade arrangements). In the case of the GSP, products that have 'graduated' revert to higher average tariff levels when entering the EU if preferential tariffs for those goods are suspended.

However, there are absolute differences between tariff levels for different products which reveals an environmentally perverse issue under the MFN regime. More precisely, 'dirty' carbon intensive goods tend to have on average lower tariffs than environmentally 'clean' goods (Shapiro, 2020). Consequently, dirty goods are met with lower tariffs once they exceed the threshold and graduate, compared to graduated clean goods.

The system of product graduation, based mostly on the considerations on product competitiveness and the threat of potential loss of access to the EU market, currently does not take into account the added value of encouraging trade in sustainable goods. In the light of the information on carbon intensive goods above, this leads to clean, sustainable goods being significantly disadvantaged compared to dirty, carbon-intense goods. This, arguably inadvertent, unfair treatment of sustainable goods compared to carbon-intense goods disincentivises the development of sustainable sectors.

EU Green Deal compatibility

The third update should seek to ensure the GSP Regulation is compatible with the wider policy ambitions under the EU Green Deal and the Paris Agreement, and the GSP renewal should include stronger social and environmental conditionalities. One avenue to ensure that the renewal of the GSP Regulation is compatible with both the EU Green Deal and the Paris Agreement is by incentivising production of and trade in sustainable goods by addressing the above-mentioned barriers to trade for sustainable goods.

Moreover, under the EU Green Deal, all future EU Free Trade Agreements (FTA) are foreseen to be Paris compatible by accounting for not only trade in more sustainable goods and services but also the minimisation of adverse environmental impacts resulting from trade liberalisation. This green, forward momentum should be carried through into the renewal of the GSP Regulation – as well as other unilateral and multilateral trade agreements – to secure global climate objectives.

EU Green Deal compatibility can be further secured by including stronger environmental conditionalities in the future GSP Regulation that are both enforceable and subject to monitoring, reporting and verification to ensure compliance.

The current GSP+ regime requires the ratification of international conventions and agreements on human rights, labour rights and environmental protection by beneficiary countries. In light of the sustainable trade agenda laid out in the EU Green Deal communication, the standard GSP approach, which does not require the ratification of international conventions, should be phased-out as impeding on the overall trade policy coherence of the EU. One way to increase the number of countries subject to international environmental conventions could be by merging/harmonising the standard GSP and the GSP+ schemes.

Furthermore, while the GSP+ does contain global environmental agreements, beneficiary countries are subject to limited monitoring only. According to the 2018 mid-term evaluation, it has not been confirmed that the current GSP+ has led to increased incentive to implement environmental conventions. What is even more problematic, from the environmental perspective, is that the current standard GSP and EBA do not contain

environmental conditionalities and are subject to even less monitoring than the GSP+ (European Commission, 2018).

Finally, while increasing the 'green' conditionalities in the GSP scheme is clearly aligned with the EU's ambition to improve the sustainability of its trade regime under the Green Deal, it is acknowledged that this can create a barrier for the GSP beneficiary countries to access the EU market. Therefore, as already highlighted above, the elevation of environmental and wider sustainability criteria and standards should be accompanied with a dedicated support to help the GSP trade partner countries to comply with the criteria and standards.

More info

IEEP's response to the European Commission's public consultation drew on a number of papers, including [Kettunen, Gionfra & Monteville \(2019\)](#), [Charveriat & Deere Birkbeck \(2020\)](#) and [Blot, Kettunen & Charveriat \(2020\)](#).

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