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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**Report on the status of ratification and recommendations by monitoring bodies
concerning conventions listed in Annex III to Council Regulation (EC) No 732/2008
applying a scheme of generalised tariff preferences pursuant to Article 8(3) of this
Regulation**

GSP+

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THE EU SCHEME OF GENERALISED TARIFF PREFERENCES

The European Union's scheme of generalised tariff preferences (hereinafter referred to as the 'GSP') is a generalised, non-reciprocal and non-discriminatory scheme of preferential trading arrangements through which the EU grants developing countries preferential access to its markets. In line with Article 208 of the Treaty on the Functioning of the European Union and with the EU's overarching long-term goal of sustainable development, the overall objectives of the GSP are to assist developing countries to reduce poverty by granting them preferential EU market access and to promote sustainable development.

The GSP aims to stimulate developing countries' exports to the EU by means of preferential tariffs, focusing on countries most in need, encouraging the growth of developing countries' exports of existing products, or their diversification into new products. The objective is to enable countries to develop their industries, leading to increases in productivity and competitiveness, and possibly to encourage diversification and investment. In line with the EU's policy for sustainable development, the GSP also aims to provide incentives for developing countries to make commitments to ratify and effectively implement core international conventions on human and labour rights, environmental protection and good governance.

The EU adopted the GSP following the United Nations Conference on Trade and Development (UNCTAD) 1968 recommendation to create a 'Generalized System of Tariff Preferences' under which developed countries would grant trade preferences to all developing countries. In the WTO/GATT system, the GSP is covered by the 'Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries' (the so-called 'Enabling clause').

The European Community was the first to implement the GSP scheme in 1971. Since then, the GSP has changed considerably. In order to adjust the scheme on a regular basis according to the changing environment of the multilateral trading system, it was decided that the GSP scheme should be implemented over 10-year cycles. The current cycle began in 2006 and will expire in 2015. The scheme is implemented through successive Regulations that apply for three years, to ensure that the GSP can be updated on a regular basis to take account of evolutions in relevant trade data. The current GSP scheme was established by Council Regulation (EC) No 732/2008¹ (the GSP Regulation) that entered into force on 1 January 2009, and expires on 31 December 2011. On 26 May 2010, the Commission adopted a proposal to extend the validity of this Regulation to 31 December 2013, to allow time to prepare the revision of the GSP. The proposal was sent to the Council and the European Parliament² on the same date.

The GSP has three types of arrangements for beneficiaries: the general arrangement, the special incentive arrangement for sustainable development and good governance (hereinafter referred to as the 'GSP+') and the 'Everything But Arms' (EBA) initiative.

¹ Council Regulation (EC) No 732/2008 of 22 July 2008 applying a scheme of generalised tariff preferences for the period from 1 January 2009 to 31 December 2011 (OJ L 211, 6.8.2008, p.1).

² Pursuant to Article 207 (2) of the Treaty on the Functioning of the European Union, the European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, shall adopt the measures defining the framework for implementing the common commercial policy. The previous GSP Regulations were adopted by the Council alone.

THE GSP+

The GSP+ arrangement offers additional tariff reductions, on top of those available under the general GSP, to a selected group of developing countries that are vulnerable due to a lack of diversification in traded goods and insufficient integration into the international trading system. To qualify for GSP+, they have to ratify and implement specified core international human, labour, environmental and good governance conventions. GSP+ is designed to promote further economic growth, and thereby to respond positively to the need for sustainable development.

In accordance with the eligibility criteria for GSP+, as set out in Article 8(1) of the GSP Regulation, preferences under the special incentive arrangement for sustainable development and good governance may be granted to a country which:

- has ratified and effectively implemented all the conventions listed in Annex III, and
- gives an undertaking to maintain the ratification of the conventions and their implementing legislation and measures, and accepts regular monitoring and review of its implementation record in accordance with the implementation provisions of the conventions it has ratified, and
- is considered to be a vulnerable country.

Vulnerability criteria are set out in the Article 8(2) of the GSP Regulation. A vulnerable country is one:

- which is not classified by the World Bank as a high-income country during three consecutive years, and of which the five largest sections of its GSP-covered imports into the EU represent more than 75% in value of its total GSP-covered imports; and
- of which the GSP-covered imports to the EU represent less than 1% in value of total GSP-covered imports into the EU.

The GSP+ arrangement was granted if a country or territory made a request for it either by 31 October 2008 or by 30 April 2010 and an examination of the request showed that the requesting country or territory fulfilled the conditions.

STATE OF PLAY

Under Article 8(3) of the GSP Regulation, before the end of the period of application of this Regulation and in time for the discussion on the next Regulation, the Commission has to present to the Council a report on the status of ratification of the conventions listed in Annex III and available recommendations by relevant monitoring bodies.

The present report describes the status of ratification and effective implementation of the Conventions listed in Annex III by 16 GSP+ beneficiary countries: Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Mongolia, Nicaragua, Panama, Peru, Paraguay and Sri Lanka.

On 9 December 2008, the Commission adopted a Decision³ establishing a list of GSP+ beneficiaries. The GSP+ arrangement was granted to those countries that fulfilled the requirements set out in the GSP Regulation. The list comprised the following 16 countries: Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Mongolia, Nicaragua, Peru, Paraguay, Sri Lanka and Venezuela.

In comparison with the previous GSP+ arrangement, for the years 2006-2008,⁴ there were three new countries covered by GSP+ preferences: Armenia, Azerbaijan and Paraguay. Moldova and Venezuela ceased to be beneficiaries. In March 2008, Moldova was removed from the list of beneficiary countries as it was granted autonomous preferences under a separate EU legal instrument. In August 2009, Venezuela was removed from the list of beneficiary countries⁵ as it did not ratify the United Nations (UN) Convention against Corruption.

Panama did not submit an application for the GSP+ by the 31 October 2008 deadline, so it did not benefit from the GSP+ arrangement from 1 January 2009 to 30 June 2010.⁶

As of 16 August 2010, the GSP+ arrangement was temporarily withdrawn from Sri Lanka (for details see the section on the Human Rights Convention).

A. State of play on ratification

All beneficiary countries have ratified all conventions listed in Annex III of the GSP Regulation.

B. State of play on effective implementation

According to Article 8(3) of the GSP Regulation, the Commission is required to keep under review the status of ratification and effective implementation of GSP+conventions by examining available information from relevant monitoring bodies. The Commission is expected to monitor the effective implementation of the international conventions in accordance with their respective implementing mechanisms. Accordingly, the review of compliance with the requirements of the scheme is based on reports and observations from the monitoring bodies of relevant international organisations.

³ Commission Decision 2008/938/EC of 9 December 2008 on the list of the beneficiary countries which qualify for the special incentive arrangement for sustainable development and good governance, provided for in Council Regulation (EC) No 732/2008 applying a scheme of generalised tariff preferences for the period from 1 January 2009 to 31 December 2011 (OJ L 334, 12.12.2008, p. 90).

⁴ Commission Decision 2005/924/EC of 21 December 2005 on the list of the beneficiary countries which qualify for the special incentive arrangement for sustainable development and good governance, provided for by Article 26(e) of Council Regulation (EC) No 980/2005 applying a scheme of generalised tariff preferences (OJ L 337, 22.12.2005, p. 50).

⁵ Commission Decision 2009/454/EC of 11 June 2009 amending Decision 2008/938/EC on the list of the beneficiary countries which qualify for the special incentive arrangement for sustainable development and good governance, provided for in Council Regulation (EC) No 732/2008 applying a scheme of generalised tariff preferences for the period from 1 January 2009 to 31 December 2011 (OJ L 149, 12.6.2009, p. 78).

⁶ Panama resumed benefiting from GSP+ arrangement as of 1 July 2010 according to the Commission Decision 2010/318/EU of 9 June 2010 on the beneficiary countries which qualify for the special incentive arrangement for sustainable development and good governance for the period from 1 July 2010 to 31 December 2011, as provided in Council Regulation (EC) No 732/2008 (OJ L 142, 10.6.2010, p.10).

This Report provides a general overview of the monitoring bodies' findings. The detailed recommendations of the UN and International Labour Organisation (ILO) monitoring bodies and other compliance/implementation committees are attached in Annex IV of the Accompanying document to the GSP+ Report. In particular, monitoring has focused on how the situation has changed since the previous report.

Human Rights Conventions

Beneficiary countries generally comply with requirements regarding the effective implementation of human rights conventions. However, there were delays on the part of most countries in reporting to UN monitoring bodies. Nevertheless, monitoring bodies noted a number of positive developments, including the adoption of legislative and policy measures taken with a view to implementing conventions. The monitoring bodies welcomed these positive developments and recommended strengthening efforts to bring domestic law into full compliance with the relevant conventions.

At the same time, the monitoring bodies drew attention to certain shortcomings concerning legislative alignment with the conventions, and their implementation in practice. In this light, monitoring bodies adopted recommendations for further action that beneficiary countries need to take. The Commission is using its bilateral dialogues (for details see the section on GSP+ dialogue) to closely monitor the progress made by beneficiary countries to comply with the requirements of the conventions and to catalyse further progress. Action will be taken if justified, as was done in the case of Sri Lanka.

In 2008, information received by the European Commission, including publicly available reports and statements from UN sources, as well as information from other relevant sources, including non-governmental organisations, indicated that the national legislation of Sri Lanka incorporating international human rights conventions, in particular the International Covenant on Civil and Political Rights, the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment and the Convention on the Rights of the Child, was not being effectively implemented. In October 2008, the Commission initiated an investigation⁷. The investigation drew on expert external advice and concluded that Sri Lanka was not effectively implementing these three conventions. On 15 February 2010, the Council of European Union decided to temporarily withdraw GSP+ preferential tariff benefits with respect to Sri Lanka⁸. The special incentive arrangement for products originating in Sri Lanka should be re-established if the reasons justifying the temporary withdrawal no longer prevail. The EU remains committed to using GSP+ as an incentive to underpin improvements in the human rights situation in Sri Lanka. The temporary withdrawal took effect on 16 August 2010.

Labour Rights Conventions

Beneficiary countries generally comply with the requirements regarding the effective implementation of core ILO labour standards, as set out in the fundamental ILO conventions.

⁷ Commission Decision 2008/803/EC of 14 October 2008 providing for the initiation of an investigation pursuant to Article 18(2) of Council Regulation (EC) No 980/2005 with respect to the effective implementation of certain human rights conventions in Sri Lanka (OJ L 277, 18.10.2008, p. 34).

⁸ Implementing Regulation (EU) No 143/2010 of the Council of 15 February 2010 temporarily withdrawing the special incentive arrangements for sustainable development and good governance provided for under Regulation (EC) No 732/2008 with respect to the Democratic Socialist Republic of Sri Lanka (OJ L 45, 20.2.2010, p.1).

However, shortcomings in the implementation of some conventions have been reported by ILO monitoring bodies, especially regarding the implementation of the Conventions No 87 and 98, but also Conventions No 100, 111, 138 and 182. Notwithstanding these issues, the monitoring bodies recognise the constructive engagement of beneficiary countries in the monitoring process, and the steps these countries are taking to address the situation. The Commission is using its bilateral dialogues (for details see the section on GSP+ dialogue) to closely monitor the progress beneficiary countries are making to comply with the requirements of the conventions, and the dialogues can catalyse further progress. Action will be taken if justified.

On 31 March 2008 the Commission initiated an investigation⁹ to establish whether the national legislation of El Salvador still incorporated the ILO Convention No 87; and whether that legislation was being effectively implemented. Pursuant to Article 19(2) of the GSP Regulation, the Commission decided, in accordance with the procedure referred to in Article 27(5) of the Regulation, that the findings of the investigation did not justify temporary withdrawal of the special incentive arrangement. The investigation was therefore terminated.

Environmental protection and Good Governance Conventions

According to reports issued by the monitoring bodies, the compliance with environmental and good governance conventions was generally satisfactory. The monitoring bodies have reported a number of positive developments over the reporting period, including progress in the enforcement of some conventions. However, there still are some shortcomings in terms of reporting obligations. Again, the Commission is using its bilateral dialogues (see the following section) to closely monitor the progress beneficiary countries have made in complying with the requirements of conventions, and to catalyse further progress. Action will be taken if justified.

GSP+ Dialogue

As the GSP+ scheme serves as an incentive for beneficiary countries to encourage effective implementation of relevant conventions, in 2009, the Commission established a set of bilateral dialogues with individual GSP+ beneficiary countries regarding this, particularly on areas where international monitoring processes identified issues of concern and where this dialogue could most usefully contribute to supporting improvements in effective implementation of GSP+ conventions. All governments of GSP+ beneficiary countries responded positively to this process, and particularly appreciated its informal, constructive, results-oriented nature.

The Commission intends to maintain, and, wherever necessary, to intensify its bilateral dialogue with individual GSP+ countries so as to encourage ongoing progressive improvement in the implementation of GSP+ conventions.

⁹ Commission Decision 2008/316/EC of 31 March 2008 providing for the initiation of an investigation pursuant to Article 18(2) of Council Regulation (EC) No 980/2005 with respect to the protection of the freedom of association and the right to organise in El Salvador (OJ L 108, 18.4.2008, p.29).