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## **GSP+**

**Report on the status of ratification and recommendations by monitoring bodies concerning conventions of annex III of the Council Regulation (EC) No 980/2005 of 27 June 2005 applying a scheme of generalised tariff preferences (the GSP regulation) in the countries that were granted the Special incentive arrangement for sustainable development and good governance (GSP+) by Commission Decision of 21 December 2005**

**{SEC(2008) 2647}**

(presented by the Commission)

## **GSP+**

**Report on the status of ratification and recommendations by monitoring bodies concerning conventions of annex III of the Council Regulation (EC) No 980/2005 of 27 June 2005 applying a scheme of generalised tariff preferences (the GSP regulation) in the countries that were granted the Special incentive arrangement for sustainable development and good governance (GSP+) by Commission Decision of 21 December 2005**

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## **THE EU GENERALISED SYSTEM OF PREFERENCES (GSP)**

The European Union's Generalised System of Tariff Preferences is a system of preferential trading arrangements through which the EU extends preferential access to its markets to developing countries. It is an important instrument of EU trade policy, which assists these countries in the reduction of poverty, by helping them to generate revenue through trade.

The EU has adopted GSP following on the recommendation of the United Nations Conference on Trade and Development (UNCTAD) of 1968 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" (so called "Enabling clause").

The EU's GSP is a generalized, non-reciprocal, non-discriminatory system of preferences in favour of the developing countries (DEV), whose objective is:

- To increase DEV export earnings
- To promote their industrialization
- To accelerate their rates of economic growth

The EU GSP is the most generous of all developed-country GSP systems. It grants either duty-free access or a tariff reduction to about 6.400 products imported from the 177 GSP beneficiary countries and territories.

The EU's new, revised GSP scheme came into force on 1 January 2006. It is simpler, more transparent and stable. The number of arrangements under the GSP has been reduced from five to three. The coverage of the general GSP scheme was extended to further products mostly in the agriculture and fishery sectors, of interest for developing countries. The period of application has been extended to provide greater predictability.

A new special incentive arrangement for sustainable development and good governance, the "GSP +", was created to benefit especially vulnerable countries that have ratified and effectively implemented key international conventions on human and labour rights, sustainable development and good governance. It covers 6400 products which enter the EU duty free. The GSP+ incentive scheme was fast-tracked to enter into force on a provisional basis on 1 July 2005. The list of GSP+ eligible countries was confirmed before the beginning of 2006, by an assessment of their effective implementation of core international conventions on human and labour rights, good governance and environment.

## **THE SPECIAL INCENTIVE FOR SUSTAINABLE DEVELOPMENT AND GOOD GOVERNANCE (GSP +)**

When setting up the new GSP+ incentive scheme, the objectives of the European Commission were:

- to use international trade as a means to foster economic growth and respond positively to the need for sustainable development;

- to make the "GSP+" simpler, easier to monitor and more open, than the previous GSP special incentives, while being also fully supportive of the EU objectives of sustainable development and good governance.

It is to this end that the new "GSP +" incentive scheme is designed to benefit vulnerable countries that have ratified and effectively implemented key international conventions on sustainable development, human and labour rights and good governance. The trade preferences envisaged in the GSP+ are granted to a developing country, which has ratified and effectively implemented the conventions listed in Part A of Annex III of Council Regulation (EC) No 980/2005 (GSP Regulation) (UN human rights conventions and ILO core labour standards), and at least seven of the 11 conventions listed in Part B of Annex III (sustainable development and good governance), and commits itself to ratify and effectively implement by 31 December 2008 those conventions listed in Part B of Annex III which it has not yet ratified and effectively implemented.

The simplification of GSP+ is assured by basing the eligibility criteria on the ratification and proper implementation of internationally agreed conventions. The GSP+ is easier to monitor because reliable evaluation/assessment mechanisms to monitor the implementation of these conventions exist. It is as well more open because the monitoring and evaluation of compliance with the requirements of the scheme are based on the public reports and observations of the relevant international organisations. It must be borne in mind however that the assessment is dependent on the availability of reports covering the period considered for the application of the Regulation.

As set out in the GSP Regulation, the special incentive arrangement for sustainable development and good governance is based on an integral concept of sustainable development as recognized by international conventions and instruments such as the UN Declaration on the Right to Development of 1986, the Rio Declaration on Environment and Development of 1992, the ILO Declaration on Fundamental Principles and Rights at Work of 1998, the UN Millennium Declaration of 2000 and the Johannesburg Declaration on Sustainable Development of 2002. Consequently, developing countries which due to a lack of diversification and insufficient integration into the international trading system are vulnerable –an aspect that is assessed on the basis of objective criteria, mentioned further below- while assuming obligations and responsibilities due to the ratification and effective implementation of key international conventions on human and labour rights, environmental protection and good governance should benefit from additional tariff preferences. These preferences are designed to promote further economic growth and thereby to respond positively to the need for sustainable development.

The GSP+ incentive scheme was fast-tracked to enter into force on a provisional basis on 1 July 2005. Thus, and as set out in the GSP Regulation, developing countries which already fulfilled the criteria under the special arrangement for sustainable development and good governance at the time of entry into force of the GSP Regulation began to benefit from this arrangement from July 2005. They were therefore provisionally listed as beneficiary countries. They continued to benefit from the preferences when upon their formal application the Commission confirmed their eligibility by 15 December 2005.

In accordance with the eligibility criteria for "GSP +", as set out in Article 9(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 the conventions listed in Part A of Annex III, and
- Has ratified and effectively implemented at least seven of the conventions listed in Part B of Annex III, and
- Commits itself to ratify and effectively implement by 31 December 2008 those conventions listed in Part B of Annex III which it has not yet ratified and effectively implemented, and
- Gives an undertaking to maintain the ratification of the conventions and their implementing legislation and measures and which accepts regular monitoring and review of its implementation record in accordance with the implementation provisions of the conventions it has ratified, and
- Is considered as a vulnerable country.

The vulnerability criteria are set out in the Article 9(3) of the GSP regulation and provide that a vulnerable country is one:

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

The data used to establish vulnerability were those available on 1 September 2004, as an average over three consecutive years.

### **STATE OF PLAY IN APRIL 2008**

Under Article 9(4) of the GSP Regulation, the Commission shall keep under review the status of ratification and effective implementation of the conventions listed in Annex III. Before the end of the period of application of this Regulation and in time for the discussion on the next Regulation, the Commission shall present to the Council a report concerning the status of ratification of such conventions, including recommendations by monitoring bodies.

Therefore, the present report envisages reflecting the actual status (April 2008) of ratification and effective implementation of the Conventions listed in Annex III of the GSP Regulation by the 15 beneficiary countries of the GSP+ arrangement.

The monitoring and evaluation of effective implementation of the GSP+ arrangement should be based on the findings of the monitoring mechanisms established under the auspices of the relevant international organisations such as the UN, ILO and other agencies as well as on the monitoring mechanisms envisaged in the conventions themselves and made publicly available by these agencies. This provides for an unambiguous and impartial review process. This review is based on reports issued by such bodies between December 2005 and April 2008.

The Commission issued on 21<sup>st</sup> December 2005 a decision establishing the list of the GSP+ beneficiaries<sup>1</sup>. The GSP+ incentive was granted, for the period from 2006 to 2008, to those countries that lodged the required formal application for GSP+ eligibility by the deadline of 31 October 2005 and fulfilled the requirements set out in the GSP Regulation.

The list included 15 countries from:

- Latin America: four Andean Community countries (**Bolivia, Colombia, Ecuador, Peru**); six Central American countries (**Costa Rica, El Salvador<sup>2</sup>, Guatemala, Honduras, Nicaragua, Panama**) and **Venezuela**;
- Eastern Europe (Republic of **Moldova<sup>3</sup>, Georgia**)
- Asia (**Sri Lanka, Mongolia**).

#### A. State of play on ratification

Almost three years after these countries began to benefit from the GSP+; the status of the ratification is the following:

- All the beneficiaries have now ratified all conventions listed in part A of Annex III.
- Some countries which had not ratified the conventions of part B of Annex III are doing so. In July 2005 none of the 15 GSP+ beneficiary countries had ratified all of the 11 part B conventions; by April 2008 ten countries (Bolivia, Costa Rica, Ecuador, Sri Lanka, Mongolia, Nicaragua, Panama, Peru, El Salvador and Moldova) have ratified all part B conventions; four countries (Colombia, Guatemala, Honduras, and Venezuela) have ratified all but one convention, while Georgia has yet to ratify two conventions.

#### B. State of play on effective implementation

As far as effective implementation is concerned the recommendations of the ILO and UN monitoring bodies, as presented in Annex IV of the Commission Staff Working Document accompanying this GSP+ Report reveal various shortcomings in the implementation process but in general demonstrate a satisfactory state of play.

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<sup>1</sup> Commission Decision 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.

<sup>2</sup> When submitting its request on 24 October 2005 to be included in the definitive list of countries benefiting from the GSP +, El Salvador was the only country to invoke - as set out in the GSP Regulation - incompatibility with its Constitution of provisions included in ILO conventions No 87 and 98. It has in September 2006 ratified the missing conventions.

<sup>3</sup> On 21 January 2008 the Council adopted Regulation (EC) No 55/2008 introducing autonomous trade preferences for the Republic of Moldova (henceforth referred to as Moldova) and replacing the GSP preferences to which Moldova was previously entitled. The obligations relating to the ratification and effective implementation of the covenants, conventions and protocols listed in Annex III to the GSP Regulation were overtaken by Regulation (EC) No 55/2008.