

# INFORMATION

EXTERNAL RELATIONS

THE EEC SYSTEM OF GENERALISED PREFERENCES

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Sir Christopher Soames has now informed the press of the Community scheme for generalised preferences in 1977. This appeared to us a suitable occasion for sending you an information note on this subject

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The European Community's scheme of generalised preferences has been in application since 1 July 1971. From year to year it has been progressively improved and its scope enlarged. It consists of customs franchise, which is total for all non-agricultural manufactured goods and partial for certain processed agricultural products without ceiling limitation.

The operation of this system of generalised preferences (SGT) by the European Community is one of the instruments of its attempt to secure a progressive improvement in economic relations between industrial countries and developing countries on lines which will be more equitable and better in conformity with the needs of the contemporary world. In other words generalised preferences are an instrument of development cooperation integrated into the other economic policies of the European Community.

The system marks a turning point in international trade relations between industrial and developing countries. A number of industrial countries, and especially those <sup>1</sup> of the European Community, undertook for the first time an action concerted with the less developed countries, which was reflected in definite measures of development aid. It is an important measure on the trade side, and a first move towards a new international economic order.

#### History

The system of generalised preferences, introduced by the European Community on 1 July 1971, is the culmination of a process which dates back to a meeting of GATT <sup>2</sup> in Geneva in May 1963. The representatives of the European Community proposed that the trade of developing countries should be encouraged, and their economic development furthered, by a system of preferential customs duties applied to their exports of industrial products (manufactured and semi-finished), including

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1 In 1971 the European Community (Federal Germany, Belgium, France, Italy, Luxembourg and the Netherlands) had a population of 193 million consumers. In 1973, the enlargement of the European Community to include Denmark, Ireland and the United Kingdom, raised its total population to 257 million.

2 GATT = General Agreement on Tariffs and Trade

certain textiles and processed agricultural products.

Excluded from the system were basic agricultural products and industrial raw materials.

In 1968, at the second meeting of UNCTAD in New Delhi, the idea put forward by the European Community made further progress, and an agreement of principle was reached for the creation of a system of generalised preferences. After this, it took UNCTAD two years to secure agreement on the constitutive elements of such a system (1970). There thus exists a single system of generalised preferences and a number of different schemes for its application by the countries which responded to the UNCTAD appeal.

The dates on which these schemes were brought into operation were as follows :

- European Community	: 1 July 1971	: population 1973	: 257,000,000
- Japan	: 1 August 1971		: 108,300,000
- Norway	: 1 October 1971		: 3,900,000
- Finland	: 1 January 1972		: 4,600,000
- Sweden	: 1 January 1972		: 8,100,000
- New Zealand	: 1 January 1972		: 2,800,000
- Switzerland	: 1 March 1972		: 6,300,000
- Austria	: 1 April 1972		: 7,500,000
- Canada	: 1 July 1974		: 22,100,000
- United States of America	: 1 January 1976		: 210,000,000

Individual mention must be made of Australia, which brought into operation a special preference system in July 1963, replacing it as of 1 January 1974 by a new and much wider scheme, more closely akin to the system of generalised preferences as adopted by the other countries by which preferences were granted

## 2. Foundations of the system

The customs preferences are :

- generalised : they are in principle granted by all industrial countries ;
- non-discriminatory : they are granted indiscriminately to all developing countries ;
- independent : they are not the outcome of any negotiation with the beneficiary countries.

Moreover, these preferences are not reciprocal. The beneficiary countries are not required to grant reverse preferences.

The operation of the preference mechanics can be illustrated by an example :

An importer in the European Community who imports electronic calculating machines (e.g. pocket electronic calculators from the United States or Japan) will have to pay the 14% import duty laid down in the common customs tariff of the European Community. If, however, he imports this same product from a developing country, he will not have to pay any customs duties for quantities imported within the limit set by the fixed ceiling. It is this customs franchise, by comparison with the duties payable on import from an industrial country, which constitutes the preference accorded to the exporter of electronic calculating machines from the developing country.

Under the arrangements for generalised preferences on goods imported into the European Community, the goods are imported duty-free within the limits of specific amounts (ceilings or quotas). Once these limits are reached the charging of duties as prescribed by the common customs tariff of the European Community may be resumed.

These ceilings or quotas were calculated from a fixed amount corresponding to the value of the imports from beneficiary countries in a specific reference year. They are raised each year by 5% of the value of imports into the industrial countries. This increase is the "additional amount".

The year 1971 was used as basis for calculating the tariff quotas and ceilings for 1974, 1975 and 1976. In 1977, the reference year will be 1974 for purposes of determining the basic amount and settling the additional amount in calculating the maxima.

A strict system of tariff quotas is applied to sensitive products -- i.e. products for which industry in the Community is unfavourably situated. In this case the volume of the preferential imports is divided between the EEC member States by quota.

Cut-off levels, or maximum amounts are fixed for each beneficiary country. The aim is to avoid the more advanced beneficiaries, or the more competitive developing countries, absorbing for their own individual benefit all the preferential potentialities offered by the Community SGP. The effect is to lay down a specific maximum percentage of the quotas or ceilings which each individual country may use.

The exporting countries, if they wish to secure the benefit of the SGP customs franchise, have to conform to various rules about the origin of the goods they sell, which have to be covered by a certificate of origin. These formalities are aimed to avoid any diversion of the trade. It might happen, for example, that outside countries which do not benefit from the Community preference scheme would attempt to escape the duties of the Community common customs tariff by exporting their goods through one of the developing countries which have the benefit of the scheme. The certificate of origin system, though it may appear somewhat cumbersome, is a safeguard for the interests of the countries which have the benefit of the Community SGP scheme.

### 3. Scope of the EEC system

The European Community is the biggest importer and exporter in the world. In 1974 its total imports of goods from outside countries were 125,000 million UA (= c. US \$ 155,000 million) of which, 106,000 million UA consisted of industrial goods and 19,000 million UA of agricultural products. The total exports from the nine Community countries were 109,000 million UA, of which, industrial goods accounted for 102,400 million UA and agricultural products for 6,500 million UA <sup>1</sup>.

The imports into the European Community from developing countries in 1974 amounted to about 25,000 million UA (c. \$US 30,000 million).

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<sup>1</sup> 1 UA (unit of account) = about \$US 1.25.

a. Industrial and semi-finished goods

Since 1971, and consistently up to the present time, there has been a considerable increase in the scale of the preferential offer on the industrial side. The amounts have been as follows :

- 500 million UA in 1971
- 1,100 million UA in 1972
- 1,250 million UA in 1973
- 3,250 million UA in 1974
- 3,680 million UA in 1975
- 4,600 million UA in 1976 (c. \$US 5,750 million)

Under the proposals which have now been put forward by the Commission to the Council, the offer in respect of 1977 will amount to 6,470 million UA, (equivalent to about \$US 8,087,500,000).

The table brings out the fact that the EEC has improved its offer each year, despite the bad economic conditions which prevailed. The Community takes the view, that the economic difficulties of developing countries are even more serious than those being experienced by its member countries through the higher prices for primary energy and the world economic recession. The Community proposes, therefore, to improve its offer in all possible ways.

In 1975, there was a considerable reduction in the number of sensitive products (other than textiles and ECSC goods) for which tariff quotas are provided under the Community generalised preferences scheme. The numbers have been as follows :

53 in 1971  
58 in 1972  
50 in 1973  
51 in 1974  
13 in 1975  
13 in 1976  
13 in 1977

b. Processed agricultural products

The number of items of processed agricultural products included in the European Community's generalised preference system was 147 from the period 1971 to 1973. The initial annual value of the preferences granted in respect of these products amounted to 45 million UA (c. \$US 56 million). In 1974 the number of items of processed agricultural products concerned in the SGP was raised to 187.

The principal products are, fish flour, certain varieties of shrimps, coconut oil for industrial use, dried coconut, cocoa butter, soluble coffee, certain categories of canned pineapple and, on a temporary basis, "Virginia flue-cured" tobacco. The impact on the trade of the products covered is put at 450 million UA (c. \$US 562 million).

In 1975, the Community SGP covered 220 processed agricultural products and an import value from countries entitled to the preferences of 600 million UA (c. \$US 750 million).

In 1976, the number of these products rose to 241, and the counter value of Community imports is estimated at 1,000 million UA (c. \$US 1,250 million).

The Community proposals for 1977 will bring 296 items of processed agricultural products into the SGP. The amount of the preferential imports is estimated at 1,235 million UA (c. \$US 1,543,750,000).

Most of the improvements represent special efforts in favour of goods exported by the poorer nations (e.g. Virginia tobacco, spices, vegetable oils and certain types of cut flowers).

c. Textiles

Tariff quotas and ceilings have been as follows :

- 19,429 tonnes in 1971 (July-December)
- 39,444 tonnes in 1972
- 42,631 tonnes in 1973
- 68,205 tonnes in 1974
- 75,323 tonnes in 1975
- 79,131 tonnes in 1976

For cotton and assimilated goods, the benefit of the preference was given to countries which had signed the LTA<sup>1</sup> and those who had made similar

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1 LTA = Long-term Agreement on cotton textiles

undertakings. This agreement dated from 1963, and after having been renewed, expired at the end of 1973, when it was replaced by the multifibres agreement (MFA) <sup>1</sup> which covered practically all textile goods and came into force on April 1 1974.

The bilateral negotiations opened in virtue of this agreement are not yet completed. For this reason a transitional solution was adopted for the application to textiles of the preferential system in 1975. The 1974 SGP provisions for all textiles were renewed in 1975 and again in 1976, subject to a uniform flat-rate annual increment of 5% in the ceilings and tariff quotas.

The new system proposed for the 1977 SGP

- sets up a link between the multifibres agreement and the SGP;
- maintains the present SGP volume with an annual increase of 5 % ;
- introduces a more limitative system for beneficiaries, who are over-competitive by treating them on an equal footing. The countries ranked as over-competitive, are those with a GNP per head of \$ 300 or more, which supply at least 6% of the per product imports into the Community from all SGP beneficiaries;
- the system is made more flexible for the other beneficiaries, among which are various particularly poor countries.

#### 4. Additional measures

In regard to the rules of origin, a special effort has been made for the benefit of countries which belong to regional economic groups. The extension of these rules is aimed to encourage regional integration; and the Community has adopted a cumulative system for exports towards the EEC coming from "common markets", such as that of Central America <sup>2</sup>, the Andean Group <sup>3</sup> or ASEAN<sup>4</sup>.

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- 1 MFA = International arrangement on the textile trade
  - 2 Honduras, Nicaragua, Guatemala, El Salvador, Costa Rica
  - 3 Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela
  - 4 Indonesia, Malaysia, Philippines, Thailand and Singapore



The Community intends to continue its programme of seminars in the beneficiary countries, carrying it further into the different sectors. This is part of the active information policy for officials, business men and traders in the beneficiary countries.

A "guide to the SGP" is being drawn up and a documentation and information centre on the Community SGP is to be set up.

## 5. Conclusions

The generalised preferences mark a turning point in international commercial relations which have been governed hitherto by "most-favoured-nation" treatment, and the rule of reciprocal concessions. They embody a new type of international relationship, based on concertation between developed and developing countries; and they are rightly considered an important contribution towards the prosperity of the least-favoured nations.

There are at present 111 countries on the list of beneficiaries of the Community SGP.

In 1974 10 countries accounted for 72% of the actual use made of the SGP, the total value of their trade being 1,500 million UA. They were :  
Yugoslavia (288 million UA), Hong Kong (219 m), Brazil (189 m), India (181 m), South Korea (154 m), Singapore (119 m), Pakistan (115 m), Mexico (98 m), Rumania (76 m) and Iran (61 m).

Up to 1975 the Community and Japan carried the main burden of helping developing countries through the system of generalised preferences. In 1976 the system has also been brought into operation by the United States.

The policy of generalised preferences is in line with one of the main targets of the European Economic Community -- its desire to promote a better balance in the distribution of the world's wealth.

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