

INFORMATION

EXTERNAL RELATIONS

THE EUROPEAN COMMUNITY'S SCHEME OF GENERALIZED TARIFF PREFERENCES

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Now that details of the Community's 1978 generalized preferences scheme have been released to the press, it seems a suitable occasion for sending you an information note on the subject.

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The EEC's generalized preferences scheme came into force on 1 July 1971. From year to year the scheme has been progressively improved and its scope widened. The scheme involves full exemption from customs duties for all non-agricultural manufactured goods and partial exemption for certain processed agricultural products, unrestricted by any ceiling.

The implementation of the generalized system of preferences (GSP) forms part of the Community's attempt to achieve a progressive reorganization of economic relations between industrialized and developing countries along lines at once more equitable and more in keeping with the needs of the modern world. In other words, generalized preferences are an instrument of development cooperation which forms an integral part of the European Community's other economic policies.

1. Background

It was in 1968, at the second UNCTAD session in New Delhi, that the idea put forward by the European Community in May 1963 at a GATT¹ meeting in Geneva gained ground, and led to an agreement in principle to set up a generalized preferences system. It took UNCTAD two more years to reach agreement on the main features of such a system (1970).

There thus exists a single generalized system of preferences with a number of different schemes for its implementation by the various countries which responded to the UNCTAD appeal.

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

- European Community:	1 July 1971:	population: 258 000 000 at 30.6.74
- Japan:	1 August 1971:	" 112 800 000 in 1976
- Norway:	1 October 1971:	" 4 000 000 in 1976
- Finland:	1 January 1972:	" 4 700 000 in 1976
- Sweden:	1 January 1972:	" 8 200 000 in 1976
- New Zealand:	1 January 1972:	" 3 100 000 in 1976
- Switzerland:	1 March 1972:	" 6 400 000 in 1975
- Austria:	1 April 1972:	" 7 500 000 in 1975
- Canada:	1 July 1974:	" 22 800 000 in 1975
- United States of America:	1 January 1976:	" 215 100 000 in 1976

Individual mention should be made of Australia, which brought a special system of preferences into operation as early as July 1963, replacing it on 1 January 1974 by a new and much wider scheme more closely akin to the generalized system adopted by the other donor countries. A number of East European State-trading countries also operate generalized preferences schemes.

¹GATT = General Agreement on Tariffs and Trade.

2. The main features of the system

The tariff preferences are:

- (i) generalized: they are normally granted by all industrialized countries;
- (ii) non-discriminatory: they are granted indiscriminately to all developing countries;
- (iii) independent: they are not the outcome of negotiations with the beneficiary countries.

These preferences are not reciprocal: the beneficiary countries are not required to grant corresponding duty-exemption in return.

Goods imported under the generalized preferences system enter the European Community duty-free, up to certain maximum amounts (ceilings or quotas). Once the limit is reached, the customs duties laid down in the Community's Common Customs Tariff may again be applied.

The ceilings or quotas are calculated on the basis of a set amount corresponding to the value of imports from beneficiary countries in a given reference year. They are raised each year by 5% of the value of imports from non-beneficiary i.e. industrialized countries. This 5% increase is known as the "additional amount".

The figures for 1971 were taken as a basis for calculating the tariff quotas and ceilings for 1974-75 and 1976. For 1977, the reference year used to establish both the basic and the additional amount used in calculating the ceilings was 1974, which also served as the reference year for 1978. For 1978, however, the ceiling level has been altered by taking 1975 as the reference year for fixing the additional amount.

A strict system of tariff quotas is applied to sensitive products, i.e. products in respect of which the Community industry concerned is in a weak position. In these cases the volume of preferential imports is allocated among the EEC Member States in the form of quotas.

To prevent the more advanced or more competitive of the GSP beneficiary (i.e. developing) countries using up the preferences offered by the Community to the exclusion of other beneficiaries, maximum country amounts ("butoirs") are fixed for each beneficiary which lay down a specific maximum percentage of the quotas or ceilings which may be used by any single beneficiary.

In order to qualify for duty-exemption under the GSP, exporting countries must comply with certain rules regarding the origin of the goods, in particular by providing certificates of origin. These formalities are intended to prevent any deflection of trade. For example, countries which are not covered by the Community preference scheme might attempt to avoid Community customs duties by routing their exports through beneficiary developing countries. The certificate of origin system, although it may appear somewhat complex, safeguards the interests of the countries covered by the Community's GSP.

3. Scope of the European Community's system

The European Community is the world's biggest importer and exporter. In 1974 its imports from non-member countries totalled Eur 125 000 million (approximately US \$156 000 million) of which Eur 106 000 million consisted of industrial goods and Eur 19 000 million of agricultural products. Exports from the nine Community countries totalled Eur 109 000 million, industrial goods accounting for Eur 101 200¹ million of this sum and agricultural products for Eur 7 800 million.

In 1975 imports from non-member countries amounted to Eur 117 000 million, including Eur 98 000 million of industrial products and Eur 19 000 million of agricultural products. The nine exported goods to the value of Eur 114 000 million, comprising Eur 106 500 million worth of industrial and Eur 7 500 million of agricultural products. The total import and export figures for 1976 are Eur 140 000 million and Eur 124 000 million respectively.

In 1974 the Community's imports from developing countries came to approximately Eur 59 000 million i.e. approximately US \$74 000 million.

The corresponding totals for 1975 and 1976 were Eur 51 000 million and Eur 62 000 million respectively.

(a) Manufactures and semi-manufactures

It is essentially this category of goods which the Community's generalized system of preferences tries to encourage by allowing duty exemption on imports.

Since 1971 the volume of the offer on duty-free imports in the industrial sector - including textile products - has been considerably increased:

Community of Six:	478 million u.a. ² (first half of 1971)
	1 055 million u.a. in 1972
	1 185 million u.a. in 1973
Community of Nine:	2 800 million u.a. in 1974
	3 080 million u.a. in 1975
	3 589 million u.a. in 1976
	4 992 million u.a. in 1977
	5 100 million u.a. in 1978

¹ 1 Eur = \$1.25 in 1974, \$1.32 in 1975 and \$1.27 in 1976.

² 1971 u.a. = US \$1.

These figures show that despite the recession the Community has improved its offer each year, taking the view that some valid response must be made to the economic problems which have faced developing countries over the past few years. The developing countries have suffered even more than the Nine from rising energy costs and the world recession, and the Community intends to go on improving its offer as much as possible. Nevertheless, the 1978 offers for a number of products (iron and steel products, petroleum products, footwear and plywood) will be unchanged from 1977 levels, owing to the precarious position of the industries concerned. For products showing too high a growth rate, the rise in the ceilings will be limited to 50%.

The Commission is also proposing:

extension of the limited reserve share¹ to all GSP industrial sector tariff quotas, expressed in terms of value;

more flexible administration of the special maximum country amounts;

for the least developed countries, exemption from the reintroduction of customs duties provided for in the ceiling system. In 1977 these countries already enjoy the same kind of exemption in connection with the maximum country amounts.

The Commission also proposes to offer Romania preferences on a number of additional products, as an indication of the Community's desire to take account of the difficult period that Romania is going through.

Since 1975 there has been a considerable reduction in the number of sensitive products, other than textiles and ECSC products, for which tariff quotas are provided under the GSP.

53 in 1971
58 in 1972
50 in 1973
51 in 1974
13 in 1975
13 in 1976
13 in 1977
13 in 1978

(b) Processed agricultural products

From 1971 to 1973 there were 147 processed agricultural products which came under the European Community's generalized preferences system. The initial annual value of the preferences granted in respect of these products was 45 million u.a. In 1974 the number of processed agricultural products covered by the GSP was raised to 187.

¹Tariff quotas are allocated among Member States in the form of national shares. Occasionally it is not possible to make full use of a quota. So that the beneficiary supplier who normally exports to one particular Member State does not have to switch exports to another Member State when the national share is used up, a reserve share of about 20% is established, which can be used by the Member State whose national share has "run out".

The main products concerned are fish meal, certain varieties of shrimps and prawns, coconut oil for industrial use, desiccated coconut, cocoa butter, soluble coffee, certain categories of preserved pineapple and, on a temporary basis, Virginia flue-cured tobacco. The impact of the products covered on trade was put at 450 million u.a.

In 1975 the Community's GSP covered 220 processed agricultural products which accounted for imports estimated at 600 million u.a. from the beneficiary countries.

In 1976 the number of products was increased to 241, representing imports into the Community worth 1 000 million u.a.

The 1977 GSP covers 296 products, for which the value of preferential imports may be estimated at 1 235 million u.a.

Most of the improvements represent a special effort in favour of products exported by the least developed countries (e.g. Virginia tobacco, spices, vegetable oils and certain types of cut flowers).

The considerable improvements in the agricultural sector contained in the 1977 scheme are due largely to implementation of the offer on tropical products made in the GATT multilateral trade negotiations. Given the present economic climate, it is difficult for the Community to go any further.

The Commission is proposing that a number of new products be added to the list for 1978: horses, including horses for slaughter, certain kinds of crustaceans and molluscs, dried garlic, limes, walnuts, and tropical fruit salads.

This brings the number of processed agricultural products in the 1978 GSP to 305, with an import value of 1 300 million u.a.

A limited reserve share is to be introduced for all GSP tariff quotas for agricultural products.

(c) Textiles

The tariff quotas and ceilings have been as follows:

19 429 t	in 1971	(July-December)
39 444 t	in 1972	
42 631 t	in 1973	
68 205 t	in 1974	
75 323 t	in 1975	
79 131 t	in 1976	
85 725 t	in 1977	
85 725 t	in 1978	

For cotton and similar products tariff preferences were granted to countries which had signed the LTA¹ or accepted similar undertakings. This Agreement ran

¹ LTA = Long Term Agreement regarding International Trade in Cotton Textiles

from 1963, expiring, after an extension, on 31 December 1973, when it was replaced by the Multifibre Arrangement (MFA)¹, which covered practically all textile products and came into force on 1 January 1974.

The bilateral negotiations conducted pursuant to the MFA are not yet completed, which is why a provisional formula was adopted for the 1975 preferential scheme as applied to textiles. The 1974 GSP provisions for all textiles were renewed in 1975, and again in 1976, subject to a fixed uniform annual increase of 5% in the tariff quota ceilings.

The 1977 scheme

establishes a link between the MFA and the GSP;

introduces more restrictive arrangements for over-competitive beneficiary countries by placing them on an equal footing.

"Over-competitive" countries are those with a per capita GNP of \$300 or more, which account for at least 6% by product of Community imports from GSP beneficiaries;

is more flexible towards the other beneficiaries, which include particularly poor countries.

The 1977 scheme will be maintained for 1978; the critical state of the textile industry in a number of regions of the Community has meant that the Commission is not proposing to raise the ceilings, except for carpets.

As regards coir and jute products the tariff suspension granted by the Community as a quid pro quo for the voluntary restraint agreements negotiated with India (jute and coir) and Bangladesh (jute) will continue to be applied.

For coir products the suspension will be raised on 1 January 1978 to 100%. The Commission is proposing to bring forward the 100% suspension for jute products to the same date, in response to requests from India and Bangladesh and in recognition of the importance of exports of jute products for these two countries. Under the existing agreements this suspension was not due to enter into force until 1 July 1978.

4. Supplementary measures

Particular care has been taken with the rules of origin to accommodate the member countries of regional economic groups. The extension of the rules of origin is aimed at encouraging regional integration, and the Community has adopted a cumulative system for exports entering the EEC from "common markets" such as the Central American Common Market², the Andean Group³ and ASEAN⁴.

¹ MFA = Arrangement regarding International Trade in Textiles

² Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua

³ Bolivia, Colombia, Ecuador, Peru and Venezuela

⁴ Singapore and Thailand, Indonesia, Malaysia, Philippines

The Community intends to continue its programme of seminars in the beneficiary countries, extending it at the sectoral level. This programme is an integral part of the active information policy directed at the official authorities and business and trade circles in the beneficiary countries.

A practical guide to facilitate use of the GSP has been compiled and is now available to users of the system.

The Commission is planning to intensify publicity on the GSP in order to encourage the fullest possible utilization of the advantages granted.

5. Conclusion

Generalized preferences mark a turning point in international trade relations, which have hitherto been governed by the most-favoured-nation principle and the rule of reciprocal concessions. They represent a new departure in international relations, based on collaboration between developed and developing countries; and they may rightly be considered as a major contribution towards the prosperity of the poorest countries. Generalized preferences constitute a significant first step in the trade context towards a new world economic order.

One hundred and eleven countries are currently beneficiaries of the Community's GSP.

The generalized preferences policy falls in with one of the major objectives of the European Economic Community: the desire to achieve a more balanced distribution of the world's wealth.

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The Commission's proposals for the 1978 scheme of generalized preferences reflect both a concern for fair treatment and a sense of responsibility.

A sense of responsibility - towards our partners and other countries in the developing world whose interests are bound up with ours; and fair treatment of the Community's own economic interests.

In the present economic climate, with the prospects of a sustained recovery still uncertain, the Community has attempted to hold on to past achievements and make provision for the future. The 1978 generalized preferences scheme is one of measured and tangible improvements.