

# Europe information

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## DEVELOPMENT OF THE COMMUNITY'S GENERALIZED PREFERENCES

### CONTENTS

I.	Development of the Community's generalized system of preferences . . . . .	3
A.	Background . . . . .	3
B.	Characteristics of the Community's GSP . . . . .	3
II.	Generalized tariff preferences schema 1979 . . . . .	4

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## **I. DEVELOPMENT OF THE COMMUNITY'S GENERALIZED SYSTEM OF PREFERENCES**

### **A – Background**

At a meeting of GATT in May 1963 the Community proposed that the industrialized countries should grant preferential tariff treatment to imports of manufactures from the developing countries in order to promote their industrial development. An agreement in principle on the introduction of such a system was reached at the second session of Unctad in New Dehli in 1968. As a rule, tariff preferences are granted autonomously by all industrialized countries on a non-discriminatory and non-reciprocal basis to all member countries of the Group of 77 developing countries.

The Community was also the first to implement a generalized system of preferences on 1 July 1971. It was followed the same year by Japan and Norway, in 1972 by Finland, Sweden, New Zealand, Switzerland and Austria, in 1974 by Australia and Canada, and finally on 1 January 1976 by the United States.

### **B – Characteristics of the Community's generalized system of preferences**

For processed agricultural products falling within Chapters 1 to 24 of the CCT,<sup>1</sup> the GSP takes the form of partial reductions in the customs duties on specific products. The list increased from 147 products involving imports worth 45 million u.a. (for the Community of Six) in 1977 to 307 products involving imports worth around 1 300 million u.a. in 1978. The tariff reduction is granted without quantitative restrictions, except in the case of six sensitive products for which there are separate regulations (soluble coffee, cocoa butter, pineapple slices and other, Virginia type tobacco).

The main purpose of the successive improvements introduced since 1974, the first year when the GSP was applied by the enlarged Community, has been to implement the Declaration of Intent in which the Nine undertook to seek solutions to the trade problems resulting from enlargement for the developing Commonwealth countries in Asia. On the other hand, the concessions regarding soluble coffee and cocoa butter are a result of the 1973 Trade Agreement with Brazil, and the improvements introduced in 1977 stem from the advance implementation of the Community offers on tropical products in the MTN.

For the industrial manufactures and semi-manufactures falling within Chapters 25 to 99, imports are duty-free within certain quantitative limits (quotas or ceilings). The volume of the quotas and ceilings is calculated on the basis of a fixed amount corresponding to the value of imports from the beneficiary countries during a given reference year, at present 1974. They are raised each year by an additional amount corresponding to 5% of the value of imports from the industrialized countries, at present calculated on the basis of 1975. For the 1979 GSP it is proposed that 1974 should be kept as the reference year for calculating the fixed amount and that 1976 should be used for the calculation of the additional amount.

The Community scheme contains three types of quantitative restrictions:

- (1) Quotas, applied to particularly sensitive products, with the automatic introduction of customs duties once the limits are reached. The volume of preferential imports is allocated among the Member States in the form of individual quotas.
- (2) Ceilings, applied to semi-sensitive and non-sensitive products; the reintroduction of customs duties is a discretionary matter and there is no allocation of the ceilings among the Member States.
- (3) Maximum country amounts, namely the maximum share (of the ceilings and quotas) (normally 50%, sometime only 20% or 30% which any beneficiary country is entitled to use; this is to prevent the more competitive countries using up the preferences to the exclusion of other countries. The maximum country amounts are only in fact applied to sensitive products covered by quotas or to semi-sensitive products with ceilings subject to surveillance. For a certain number of products specific maximum country amounts are laid down for individual countries.

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<sup>1</sup> GSP is not applicable to agricultural commodities, with the exception of tobacco.

In addition to the regular increase in the volume of possible preferential imports, which rose from 2 800 million u.a. in 1974 to 5 500 million u.a. in 1978 as a result of changes in the ceilings and quotas, a number of improvements have been made to the functioning of the industrial GSP:

- (a) The number of sensitive products (other than ECSC and textile products) subject to the relatively restrictive system of quotas has been reduced to 13 since 1975, after numbering over 50 up until 1974. For all products except plywood, a Community reserve share has been incorporated in the quota in order to make its administration more flexible.
- (b) The least-developed countries have been exempted from the rules governing the reintroduction of duties in the context of the ceiling system (for 1978) and the application of maximum country amounts (for 1977). Moreover, 70% of the ceilings for several textile products have been earmarked for those countries.

The GSP for textile products was initially reserved for the signatory countries of the LTA and is now restricted to the signatories of the MFA. The volume of possible preferential imports rose from 68 000 tonnes in 1974 to 84 000 tonnes in 1977/1978 pending the renewal of the MFA.

To benefit under the GSP, the beneficiary countries must respect the rules of origin, this is to avoid deflections of trade which could harm the interest of the beneficiary countries themselves. In order to qualify for preferences, a given product must have undergone the processing operation indicated in the Community regulations in the country of origin.

## II. GENERALIZED TARIFF PREFERENCES SCHEME 1979<sup>1</sup>

The Commission has recently submitted to the Council its proposals for the granting of generalized tariff preferences for 1979 to developing countries, in line with the recommendation from Unctad.

In preparing its proposals, the Commission took into account the need to improve further the developing countries' access to the industrialized countries' markets, a need recognized by the European Council in Bremen (6 and 7 July) and the Western Economic Summit in Bonn (16 and 17 July). At its meeting on 27 June the Council had already declared its intention to press ahead in 1979 with the improvement of the GSP, which will represent an important contribution to the results of the GATT multilateral trade negotiations. The economic situation in several major industries demands a careful approach, however, and the Commission's proposals represent a balance between the two obligations.

The total value of the tariff preferences as presented in the Commission proposals is about 6 600 million EUA for industrial products and 1 300 million EUA for agricultural products, the total of 7 900 million EUA representing an increase of about 15% over the 1978 GSP.

In the improvements proposed for 1979 the Commission has given priority to the inclusion of a set of special measures for the least-developed countries. The other major change proposed by the Commission for 1979 is the recasting of the GSP for textiles; this follows the conclusion of bilateral agreements under the MFA between the Community and most of the supplier countries and its effect will be to double the volume of preferential textile imports from these countries.

The main features of the 1979 scheme are as follows:

### *Processed agricultural products*

(Chapters 1 to 24 of the CCT)

The proposed improvements represent an unmistakable effort, in view of the fact that in 1977 the Community had already implemented its offer of tariff concessions for tropical products made under the MTN and given the absence of a comparable effort in this sphere by the other donor countries:

- (i) inclusion of 13 new tariff headings (fresh and preserved Morello cherries, concentrated grapefruit juice, preserved hilsa in brine), bringing the list of products covered by the GSP to 320;

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<sup>1</sup> COM (78) 470.

- (ii) reduction of the level of the preferential duty for 14 products (several types of shellfish, squid, octopus, soluble coffee, cocoa butter, honey, cigars), involving a volume of trade amounting to about 155 million EUA;
- (iii) in order to ensure fuller use of the quotas, increase in the shares reserved for pineapple pieces.

*Manufactures and semi-manufactures other than textiles*

(Chapters 25 to 49 and 64 to 99 of the CCT)

The Commission proposes that the 1978 structure of the GSP should be left practically unchanged, except as regards the least-developed countries (see below). As is normally the case, in accordance with the undertaking entered into under Unctad, all the ceilings have been calculated by taking a more recent reference year for calculating the additional amount (1976 instead of 1975). Unfortunately, given the precarious economic situation in several industries, notably steel and footwear, no increase could be proposed in 1979 for these products, while in the case of a number of other products it was impossible to give full effect to the normal calculation. For non-sensitive products, however, it is planned to raise the ceilings by a minimum of 15%.

*Special measures for the least-developed countries*

The administration of the GSP as applied to the 28 least-developed countries<sup>1</sup> will be liberalized in several respects:

- (i) exemption from any customs duty on agricultural products covered by the GSP,<sup>2</sup> with the exception of six products subject to quantitative restrictions;
- (ii) for industrial products, suspension of the reintroduction of the duty in the context of maximum country amounts, both for sensitive products and for products with special maximum country amounts;
- (iii) for textile products, non-application of individual limits or maximum country amounts in the context of ceilings not allocated among Member States (see below).

*Textile products*

(Chapters 50 to 63 of the CCT)<sup>3</sup>

The Commission proposes the introduction of a new scheme of preferences for textiles in order to bring it into line with the system for the quantitative control of imports set up at the beginning of 1978 when the Multifibre Arrangement (MFA) was renewed and in order to honour the undertakings given when the bilateral agreements with the supplier countries were negotiated. Since the machinery for controlling the quantity of imports is now sufficiently well established to prevent market disruption, the Community can and should be more generous with its tariff concessions.

The objective of the new scheme is to ensure not only a greater volume of duty-free imports from the developing countries, but also to guarantee each beneficiary country — and particularly the least-competitive countries — a fair share of preferential imports, so that they may obtain a real increase in export earnings through the reduction of customs duties.

The volume of preferential imports of textile products (other than jute and coir products) under the GSP would rise from 84 000 tonnes in 1978 to 162 000 tonnes in 1979, including 140 000 tonnes for the products covered by the MFA.

*For the MFA products,*<sup>4</sup> eligibility under the GSP will be confined to the member countries of the Group of 77 and dependent territories which have concluded bilateral agreements or arrangements with the Community or which would undertake commitments similar to those existing under the MFA in its renewed form.

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<sup>1</sup> As defined in United Nations Resolution 3487 (XXX) of 12 December 1975.

<sup>2</sup> Unlike the arrangements for industrial products, the GSP for agricultural products generally contains partial reductions, but without quantitative restrictions.

<sup>3</sup> Not including jute and coir products, which are covered by a separate regulation in accordance with the agreements concluded with India, Bangladesh and Thailand.

<sup>4</sup> See above.

Each beneficiary is given, for each category of product and in complete security, an individual quota-share corresponding either to a percentage of imports into the Community from the beneficiary country concerned in 1977 or to a percentage of the threshold beyond which the Community is entitled to request voluntary restraint of quantities in accordance with the bilateral agreements. For a limited number of beneficiary countries occupying a dominant position on the Community market, the quota-shares would be relatively lower. On the other hand, there will be no restriction on the individual shares of the least-developed countries so far as the less sensitive products are concerned.

The quantities are subject to Community tariff ceilings, some of which are allocated among the Member States. In the case of the allocated ceilings, the Member States nevertheless have the option of exceeding their individual share provided that the Community ceiling has not been reached.

The volume of preferential imports covered by the new GSP will be equivalent to 27% of MFA imports from the beneficiary countries in 1977 (24% for the eight categories covering the most sensitive products in Group I).

For the products *not covered by the MFA*, the present arrangements will be maintained with a few technical changes and will remain open to the countries and territories normally eligible under the GSP for industrial products. The volume of preferential imports corresponds to 22 000 tonnes, i.e. 55% of preferential imports in 1977.

#### **Other measures**

The application of the European unit of account to the GSP will have to be implemented in conjunction with the 1979 scheme. The Commission considers that the Member States' concern about the repercussions of this change on the quotas for sensitive industrial products can be alleviated by adjusting the reserve shares.

The Commission reiterates its conviction, based on wide experience in the administration of the GSP, that the use of the GSP can be further improved, particularly as regards non-sensitive products, on which the developing countries could well concentrate their efforts. The Commission will continue to organize a programme of seminars on this theme in the beneficiary countries. It also considers that a greater effort must be made in order to meet the requests for information from importers and exporters alike. Lastly, it again stresses the need to make the administration of the GSP simpler and more flexible.

The table below indicates the progressive increase since 1974 — the first year in which the GSP was applied by the enlarged Community — in the value of the preferential opportunities offered by the Community, and the use made of these opportunities.

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	Value of offer	Rate of use
1974	3 250 million u.a.	65 %
1975	3 680 million u.a.	50 %
1976	5 600 million u.a.	67 %
1977	6 720 million u.a. <sup>1</sup>	63.1%
1978	6 800 million u.a. <sup>1</sup>	
1979	7 900 million EUA	

<sup>1</sup> Revised figure.

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