

Generalized preferences for the Third World

European File

For ten years now, developing countries have been able to export the vast majority of their manufactured and semi-manufactured goods to numerous industrialized countries, including those in the European Community, with the aid of tariff preferences, that is a partial or total reduction in customs duties. These are known as 'generalized preferences'. 'Preferences' because these products enjoy an advantage over those exported by other industrialized countries. 'Generalized' because they are granted to developing countries by most industrialized countries and because they involve all industrial products, manufactured or semi-manufactured, as well as numerous processed agricultural goods.

Reasons for the policy

Generalized preferences have a threefold objective: to increase the export income of poor countries, to help their industries and to speed up their rate of economic growth.

- Development of the Third World requires significant financial resources – currently reduced by the increase in oil prices and of other imported products – combined with simultaneous progress on two fronts: agriculture, so as to wipe out malnutrition, and industry. Without this effort, the gap between the north and south of the planet will only widen at the risk of multiplying tension and even conflict.
- But industrialization of Third World countries is often tricky. Their limited domestic market often prevents these countries from creating and intensifying industrial production on the kind of scale required nowadays.

- Industrialists in developing countries must be given opportunities to penetrate markets in richer countries and benefit from their size, organization and capacity for absorption, which remains considerable despite the economic crisis. This can be done by granting Third World products preference, a customs advantage which puts them on an equal footing with national industries and gives them a start on products from other industrialized countries.

Since the economic crisis hit industrialized countries there has been an increased reluctance to encourage imports from the Third World. Many Europeans think that industrialization of developing countries means chiefly building more factories in the south of the planet and an invasion of developed countries' markets with low cost goods that compete unfairly with their own products. Statistics show however that this picture is false. Certainly in isolated cases competition from developing countries does pose difficult problems. But for the most part, the industrialization of the Third World helps contribute to a better balance in international trade, which is in the interests of all partners. In particular, the industrialized countries can find in it one of the most effective means of overcoming their present economic difficulties and a solution to the unemployment problem. If the developing countries attain the objective that they set themselves in the Lima action plan, they should account for a quarter of world industrial production by the year 2000. At the same time trade between north and south will increase and the volume of exports from the rich nations to the Third World will be ten times greater than it was in 1972. The developing countries' market could offer industrialized countries annual sales worth some 117 000 million dollars in machinery and 59 000 million dollars in chemical products by the year 2000.

The origin of the generalized scheme of preferences goes back to 1963. That year within the framework of GATT, the General Agreement on Tariffs and Trade, European Community governments proposed preferential treatment for industrial and semi-industrial products from Third World countries. It was not until 1968 and the second session of the United Nations Conference on Trade and Development in New Delhi that an agreement setting up the generalized scheme of preferences was signed. A further two years passed before the main elements of the system were worked out. From 1970 on, the industrialized countries gradually implemented the scheme. The European Community was the first to put the scheme into practice on 1 July 1971. Japan followed a month later, then Norway and several other Western countries. The United States brought its scheme into operation in January 1976.

The European Community has played a leading role in the generalized scheme of preferences for a number of reasons.

- Historically, Europe has traditionally had privileged links with developing countries. After decolonization that cooperation had to be at once strengthened and founded on new bases.
- Politically, one of the aims of the Community is to promote peace in the world. A more harmonious share-out of prosperity is needed to secure this. The Community

has therefore progressively undertaken a development cooperation policy open to all Third World countries, whether or not they have had special relations with any European country in the past.

- Economically, the Third World is Europe's biggest trading partner. In 1979, 36% of Community exports went to developing countries, which in turn supplied 40% of the Community's imports.

The Community generalized scheme of preferences lies at the crossroads between its foreign trade and development aid policies.¹

- On the one hand, in signing the Treaty of Rome, the Community Member States decided to abolish the customs barriers that divided them and apply uniform protection *vis-à-vis* the outside world by means of the Common Customs Tariff.
- On the other hand, generalized preferences are part of the very wide range of Community development aid measures. Given to all Third World countries, they run parallel to the tariff advantages which the Community has granted to Mediterranean countries and the African, Caribbean and Pacific nations which signed the Lomé Convention. Preferential agreements negotiated with these countries often go further than generalized preferences, since they permit these countries to export free of customs duties and volume limits practically all their industrial products and a good proportion of their agricultural produce.

Community generalized preferences between 1971 and 1980

The European Community offered generalized preferences to all member countries of the 'Group of 77', that is all those countries designated developing countries by the United Nations, as well as certain dependent territories, such as Hong Kong, Macao and French Polynesia. On a case-by-case basis, the European Community has offered the benefit of the system to other countries when asked, such as Romania in 1974 and China in 1980. In all, the Community scheme applies to more than 120 independent countries and around 20 dependent territories.

These preferences are non-discriminatory and unilateral. Non-discriminatory because they are granted to all developing countries. Unilateral because they are not the result of negotiation with the beneficiary country. Nor are they reciprocal since beneficiary countries are not obliged to offer corresponding exemptions to the Community in return.

The Community GSP is governed by rules which vary according to the category of product concerned.

¹ See *European File* No 7/80: 'The European Community and the World' and No 6/81: 'The European Community helping the Third World: the Lomé Convention'.

- Industrial products : generalized preferences apply to all finished and semi-finished industrial products. The preference consists of a total suspension of customs duties, but for a limited quota or ceiling which is reviewed each year taking into account the development of international trade. The worsening economic situation has, however, forced the Community to limit, and sometimes even to freeze, the rate of increase in quota or ceilings. Nevertheless since 1978 the poorest countries on the UN list have all been exempted from customs duties regardless of whether they have surpassed their established quotas.

Up to 1980, the system had four categories of industrial product governed by regimes of varying strictness :

- 15 'sensitive' products, for which the Community industry concerned was experiencing particular difficulties, were governed by a system of Community quotas shared out in specific maximum limits for each member country. Once the limit was reached the Member State concerned reintroduced normal customs on all beneficiary countries.
- 28 semi-sensitive products, known as 'hybrids' because the management of preferences was shared between the European Commission and the Member States, were governed by a system under which the Commission reintroduced customs duties at Community level for all beneficiary countries once the Community ceiling was reached. In addition, under certain conditions each Member State could reapply customs duties at its own borders for countries considered to be particularly competitive.
- 81 other semi-sensitive products were governed by a single system of Community ceilings with the re-establishment of customs duties taking place at Community level only and applying to all beneficiary countries.
- Finally, non-sensitive products were also governed by ceilings but the reintroduction of customs duties when those ceilings were reached was a theoretical possibility only.

In addition, no beneficiary country was in principle permitted to exceed a certain percentage of the ceiling or quota for a given product in the Community as a whole. Once this maximum amount (or *butoir*) was reached, duties were reintroduced for the country concerned.

- Textiles : in 1980, with crisis affecting the European textile industry, a new system was introduced for products covered by the Multifibre Arrangement (MFA). Preferential advantages were reserved for two categories of Third World country : firstly, countries which had agreed voluntary restriction agreements on exports to the Community within the framework of the MFA; secondly, the least developed countries. The volume of exports enjoying duty-free entry was fixed individually for each country on the basis of the quantities they exported to the Community in 1977.

For products not covered by the MFA, preferences were granted within global ceilings. In addition, there were no customs duties on coir products from India and Sri Lanka, or on jute products from India, Bangladesh and Thailand which agreed special arrangements with the Community.

- Agricultural products : the Community system applies to over 300 processed agricultural products. The regime governing them is very varied : abolition of customs duties in an increasing number of cases over the years, significant reductions in duties in other cases. Since 1979 no customs duties have been applied to preferential agricultural products from the least developed countries. These benefit exclusively from an exemption for raisins, clover seeds, non-decaffeinated coffee. (In 1981 there was a cut in duty for fish meal also.)

Only for certain processed agricultural products are limits put on the volume of preferential imports : soluble coffee and cocoa butter (except from least developed countries), canned pineapples and tobacco.

A brief evaluation

Since it was first introduced in 1971, the Community generalized scheme of preferences has improved considerably. Firstly, its impact has broadened with the enlargement of the Community : Denmark, Ireland and the United Kingdom applied the system from 1974, Greece from 1 January 1981. Secondly, over a period of time, the volume of trade enjoying preferential treatment has increased for most products. In textiles, the Community quota offered rose from 68 200 tonnes in 1974 to some 115 000 tonnes in 1980. For other products, the Community quota has increased some 150% over the same period, growing in value from 3 250 to 8 100 million ECU. ¹

- The greatest improvements have been for agricultural products. The number of processed products benefiting under the system has doubled from 147 in 1971 to 312 in 1980 (317 in 1981). The value of the Community market tripled between 1974 and 1980, growing from 450 to 1 300 million ECU.
- The improvement for industrial products has been less spectacular but remains significant since the value of the Community market grew from 2 800 to 6 800 million ECU between 1974 and 1980, an increase of 142%.

If the use of preferential advantages remains confined to a relatively limited number of products and is concentrated above all on sectors where the competitive position of beneficiary countries compared with Community industry is comparatively favourable, that should not be taken to mean that there is a real danger for the European economy. For sensitive products, preferential imports have only represented between 3 and 4% of total Community imports. With a few rare exceptions, preferential imports are not by themselves in a position to put European industry at risk.

¹ 1 ECU (European currency unit) = about £0.54 or Ir.£0.69 (at exchange rates current on 14 April 1981).

Two basic criticisms can, however, be levelled at the Community system as it worked up to 1980. In spite of the efforts of the Community to improve the balance of its quota offer and develop information (organizing seminars for interested countries and publishing a practical guide for use of the scheme, etc.):

- the rate of use of the generalized preferences has remained fairly average. The products that enter the Community duty-free represent only between 55 and 60% of those which could be admitted under the scheme;
- only a relatively limited number of beneficiary countries make use of the scheme, since 13 countries sent in 70% of all preferential imports. Some of these countries are already well developed : Yugoslavia, South Korea, Brazil and Romania for example. This fact is not altogether surprising since it is mirrored in schemes run by other industrialized countries. As they involve mainly industrial manufactured or semi-manufactured products, generalized preferences have tended to benefit most those countries which have already reached a certain level of industrialization. This poses problems for the least developed countries : the rapid exhaustion of the available quota or ceiling by several large exporting countries, despite the existence of maximum amounts per country, has sometimes deprived them of any chance of benefiting from the Community preferences. Nevertheless some poorer countries have still achieved good results. India, Pakistan, Peru, Indonesia, the Philippines and Malaysia have profited from traditional trade relations and their sometimes very heavy specialization on particular products.

A new step

The Community countries recently decided to maintain the generalized scheme of preferences at least until 1980. By modifying certain parts of the scheme applicable in 1981, they have tried to draw on the lessons learned during ten years of operation.

The scheme has not undergone significant change as far as agricultural products are concerned. Pending the outcome of the negotiations on the renewal of the MFA and voluntary restriction agreements, the same applies to textiles. But two general measures now apply to industrial products :

- quotas and ceilings now take account of Greek entry, with the basis for calculations increased by 2%;
- all quantitative limits have been abolished for 36 least developed countries, whether it be for processed agricultural goods (except tobacco and pineapples), textiles (including jute and coir) or industrial products.

The regime applicable to industrial products has been substantially altered with the aim of simplifying the scheme, whose very complicated nature to date has often put potential Third World traders off, and better differentiating the advantages granted according to

the degree of development or competitiveness of the countries concerned. All developing countries have certain characteristics in common, but the level of economic development often differs widely, and the Community scheme takes this fact into account.

The four categories of more or less sensitive products have been slimmed down to two : those that are strictly controlled, and the remainder. Global ceilings and quotas have been replaced by individual preferential amounts for each product and for each beneficiary country. Thus, the most competitive or best developed Third World countries are prevented from monopolizing too substantial a share of preferential imports. Now that global ceilings are done away with, each beneficiary country can see in advance what advantages it is guaranteed and make the fullest use of them. The situation for industrial products, excluding those from least developed countries which are exempted from all quantitative limits, is as follows :

- sensitive products : 128 products (6 of them steel products) are strictly controlled because of difficulties in Community industries :
 - preferential imports from the most competitive beneficiary countries are governed by Community quotas, one for each beneficiary country and divided into maximum amounts for each Community Member State. Once this maximum amount has been reached, the Member State concerned can reintroduce customs duties on the exporting country;
 - for exports from other countries, national maximum amounts for each Community Member State are not fixed. It is the Commission's job to reintroduce customs duties throughout the Community when the individual ceiling is reached.
- other products : non-sensitive products are only subject to statistical surveillance. However, customs duties can be reintroduced if the increase in imports exceeds a reference rate corresponding to maximum limits fixed in 1980 for each beneficiary country but raised by 2% to take account of the entry into the Community of Greece.

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These, then, are the main features of the Community's generalized scheme of preferences. Even with the difficulties faced by certain sectors of Community industry, these preferences will multiply further over the years, thus helping industrial growth and, in a more general manner, the development of the Third World, which is one of the major aims of the European Community ■



The contents of this publication do not necessarily reflect the official views of the Institutions of the Community.

Commission of the European Communities

Information offices (countries fully or partially English speaking*)

- Ireland** 39 Molesworth Street, Dublin 2 – Tel. 71 22 44
- United Kingdom** 20 Kensington Palace Gardens, London W8 4QQ – Tel. 727 80 90
– 4 Cathedral Road, Cardiff CF1 9SG – Tel. 37 16 31
– 7 Alva Street, Edinburgh EH2 4PH – Tel. 225 20 58
– Windsor House, 9/15 Bedford Street,
Belfast BT2 7 EG – Tel. 40 708
- Australia** Capitol Centre, Franklin Street, P.O. Box 609,
Manuka 2603, Canberra A.C.T. - Tel. 95-50 00
- Canada** Association House (suite 1110), 350 Sparks Street,
Ottawa Ont. K1R 7S8 – Tel. 238 64 64
- USA** 2100 M. Street, N.W. Suite 707,
Washington D.C 20037-USA – Tel. 202-862-9500
– 245 East 47th Street, 1 Dag Hammarskjold Plaza,
New York, N.Y. 10017 - U.S.A. – Tel. 212-371-3804

* Offices also exist in other countries including all Member States.