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THE FUTURE DEVELOPMENT OF THE EUROPEAN COMMUNITY'S GENERALIZED TARIFF PREFERENCES

(Communication by the Commission to the Council)

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The European Community has now applied its generalised preferences for nearly four years and year by year has progressively improved them and widened their scope. There is thus a sufficient degree of experience of the operation of the system and of the effects it has had to make worth while some general reflection on its future and on the way in which its future development should be directed. Such reflection is all the more opportune in the light of the very radical changes which have taken place on the international economic scene during the last two years.

The Commission herewith submits to the Council its own reflections on this subject which have taken into account the opinions expressed by the European Parliament and the Economic and Social Committee. The Commission considers that this document could usefully be debated in the Council at an early date.

1. Generalised preferences : an instrument for development cooperation fully integrated in other common policies.

The establishment of generalised tariff preferences is to be seen as one part of the effort being deployed to adapt the economic relations between the industrialised countries and the developing countries progressively in such a way as to provide a more equitable balance in them and to bring about a situation more in conformity with contemporary needs. The European Community has played a leading role in this field. And whereas some countries, both developed and developing, have considered the generalised preferences as no more than limited measures of trade policy, the Community has always taken the view that they are an instrument for development cooperation.

Is the instrument an effective one in the longer term ?

There are, on the external side, two broad constraints on the generalised preferences achieving full effectiveness. In the first place the generalised preferences will not really achieve their objectives unless an intensified emphasis is given to efforts in the other and complementary fields of cooperation.

Thus there need to be measures to assist trade promotion, to encourage the diversification of developing economies, to assist regional economic integration and to stimulate investment in the developing countries, particularly in the poorest among them.

In the second place it will need to be appreciated on both sides that a policy of cooperation which provides advantages to the beneficiary countries implies as well both rights and obligations. Juridically the preferences remain autonomous and they bear no requirement for reciprocity. But they must be fitted into an international framework which permits the beneficiary countries to use the preferences to the full while respecting a certain number of economic and trading disciplines. For it is very clear that the benefits of these tariff preferences to the developing countries depends to a great extent on the continuing expansion and prosperity of the economies of the industrialised countries and that prosperity like the prosperity of the developing countries themselves, can only be assured within a world economic and trading pattern governed by international disciplines and obligations. The generalised preference scheme will need therefore to be developed on a basis of increasing economic interdependence.

Moreover within the Community itself the long term effectiveness of the generalised preferences requires a better integration of common policies. If the system is to become fully effective, operational links must be developed with industrial, social and regional policies, in order to offset the possible negative impact of preferences on the level of economic activity and employment in certain vulnerable sectors and regions.

2. The long term prospects

When the scheme was originally conceived it had three objectives: to increase the export earnings of the developing countries, to promote their industrialisation and to accelerate their rates of economic growth.

By 1980, which marks the end of the initial ten year period for which the generalised preferences were envisaged, it is evident that the system will not have fully achieved these objectives. A further period of operation beyond 1980 will therefore be necessary.

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During this second phase, after 1980, the donor countries will need to achieve the most important of the adaptations required, viz: the harmonisation of the different schemes applied by individual donor countries. Clearly, it is now that we must begin to think about such harmonisation and then lose no time in pursuing it. At present, while there is a degree of concerted approach among the donors, there are considerable divergences between the measures applied. This greatly reduces the use of the system to the beneficiaries apart from a small minority who are economically and administratively better organised and who thus benefit disproportionately. Only an adequately harmonised system will permit a genuine sharing of the burdens which is important if the system of generalised preferences is to continue and develop.

Perhaps the most important aspect on which harmonisation will be required is the list of beneficiary countries. This is an extremely sensitive political issue. But, as individual countries now considered to be developing gain economic strength and competitiveness, it will also acquire increasing economic significance. This implies working with the other donor countries to establish certain objective economic criteria as a basis for the evolution of the list of beneficiary countries.

Then there is also a need to harmonise between the donors the margins of preference granted, the product coverage, safeguard mechanisms and origin rules.

Up till now the development of the different schemes operated by the donors has on the whole been convergent and if this process can be continued during the next few years the prospects for a large degree of harmonisation during the second phase after 1980 will be greatly improved. In this respect the scheme to be introduced by the United States for the first time during 1975 will be an important element. In addition, if a significant further liberalisation of world trade is achieved in the Multilateral Trade Negotiations, this will also facilitate this process in the 1980's.

3. The prospects up to 1980

Before examining the various possible ways of developing the Community's generalised preferences in the period 1975-1980 and the specific problems which need to be dealt with, it is important to recall the scale of the Community's scheme as it stands today. In 1975 the preferences in the agricultural field will cover about 600 m.u.a. of imports. In the industrial sector the possibilities will cover about 2,850 m.u.a. of imports, that is to say a little more than 10 % of the Community's imports from all third countries on which duty is paid. Up till now actual utilisation of the various ceilings and quotas in the various sectors of industry has been about 50%. Naturally these global figures vary widely from sector to sector. But they do present a picture of a scheme which is still relatively limited in its application.

On the basis of these observations the evolution of the Community scheme should be directed along three main lines: increased utilisation, better administration and appropriate improvements:

(a) It must be clear from the figures given above that if the present Community scheme were to be fully used this would in itself represent a marked improvement. There should therefore be increased efforts undertaken in the fields of information and trade promotion: the publication of information on the development in the use of preferences, the editing of a handbook which would need to be regularly brought up to date, the organisation of seminars for the benefit of private sector users of the preferences both within the Community and in the beneficiary countries, the establishing of an agency to provide documentation, information and advice, certain trade promotion activities which would need to be agreed with the beneficiary countries. Moreover supplementary measures should be taken to simplify the scheme and to streamline those procedures whose complexity in themselves limit its full use.

(b) If the scheme is to be effectively administered, a complete and precise knowledge of preferential imports is required. This in its turn necessitates active and continuing cooperation between the national administrations of the member states and Commission officials, particularly where statistics are concerned.

Moreover, one should go into the possibilities for improving the decision-making procedures on the working of the Community scheme. Within the framework of the political orientation laid down by the Council, the Commission might be asked to consider the possibility of adjusting the technical aspects of the scheme, in accordance with a procedure reminiscent of that of existing committees (e.g. in the field of customs regulations). This would be consistent with the guidelines recently agreed in Paris by the Heads of Government. Ways and means of implementing this idea by stages could be worked out over the next few years, in particular once the scheme of the United States comes into application and when the system as a whole, for all donor countries, has got properly under way.

c) The continuing improvement of the Community scheme should, in the Commission's view, be possible so long as such improvements are carefully adapted to the Community's real economic possibilities and to the diversity of different sectors of the economy. As in the past these improvements will have to be pragmatic and progressive and this pre-supposes a spreading of the preferential imports throughout the Community following normal ^{trading} patterns and also an effective solidarity of the member states when they came to judge different economic situations.

The beneficiary countries are asking for the inclusion of primary products, particularly agricultural ones, in the scheme, although it is now widely recognized that the problem of primary products arises more and more in terms of stabilisation of markets and supplies. The imminence of the Multilateral Trade Negotiations and the actions of work being undertaken in various international forums makes it inopportune for the Community to abandon its earlier general principle of excluding primary products. Nevertheless it would be advisable to avoid an excessively dogmatic attitude on this point and not to refuse minor and prudent changes to the list of products excluded. Naturally if the Community's hope that the Multilateral Trade Negotiations will provide the occasion for achieving a better organisation of the world markets for primary products were again to be disappointed, it would be inevitably necessary to reconsider the whole question of primary products in terms of trading conditions or of financing or even both.

Essentially therefore the improvements in the Community scheme will have to be made on those categories of products which the Community's original offer to Unctad should be included.

The Commission therefore considers that the following are the main

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areas for the improvement and adaptation of the scheme in the period 1975-80.

(i) There must be increased efforts to help the poorest beneficiaries, by enlarging the coverage of processed agricultural products, by increasing the preferential margins on these processed agricultural products already included and by relaxation of the cut-off for industrial products subject to ceilings.

(ii) Particular attention could be paid to assisting the industrialisation programmes of regional economic groupings.

(iii) In view of the fact that generalised preferences in many cases provide the market element on which projects for cooperation with developing countries are based, appropriate adaptations to the scheme may need to be introduced. Any such adaptations should take account of the Community's supply requirements.

(iv) Improvements in the industrial sector - which must preserve the unity of the tariff and the free circulation of goods within the Community - will have to take account of the desirability of sharing the benefits equitably among the beneficiaries. With regard to this last point, experience will demonstrate the strengths and weaknesses of the innovations made in 1975 and any necessary adaptations to them will then have to be introduced.

(v) Experience shows that a number of improvements could be made to simplify the systems applied to the various categories of products in the industrial sector: (1)

(1) The question of textiles requires separate mention because of the special sensitivity of this industrial sector. The policy in this field remains broadly conditional upon the results of the bilateral negotiations currently taking place under the Arrangement regarding the international trade in textiles. It will therefore only be possible to decide on a new arrangement for generalised preferences for textiles, when in particular the outcome of these negotiations are known. But it seems probable that any new arrangements for textiles will be based on the general characteristics of the present scheme.

(a) There is no need to maintain for non-sensitive products a system of ceilings which is purely theoretical since ceilings are not in fact calculated or observed. Formal equality of treatment for semi-sensitive and non-sensitive products makes no sense. The non-sensitive sector could be entirely exempt from ceilings, subject only to some appropriate machinery to deal with unforeseen situations.

(b) The system of tariff quotas is no longer necessary. All sensitive and semi-sensitive products could be subjected to ceilings with the differing degree of sensitivity being reflected in different measures for surveillance and administration.

(c) The present, highly complicated system for calculating ceilings could be modified. Experience has shown that global methods of calculation give similar results. It would be better to have a more flexible, general system of calculation, with perhaps certain exceptions where these are justified by the existence of real problems.

22 January 1975.