

European Communities

EUROPEAN PARLIAMENT

Working Documents

1979 - 1980

12 November 1979

DOCUMENT 1-469/79

Report

drawn up on behalf of the Committee on Development and Cooperation

on the proposals from the Commission of the European Communities to the Council (Doc. 1-264/79) for regulations concerning the application of the generalized tariff preferences of the European Community for 1980

Rapporteur: Mr A. PEARCE

By letter of 2 August 1979 the President of the Council of the European Communities requested the European Parliament, pursuant to Articles 43 and 113 of the EEC Treaty, to deliver an opinion on the proposals from the Commission of the European Communities to the Council for regulations concerning the application of the generalized tariff preferences for 1980.

On 4 September 1979 the President of the European Parliament referred these proposals to the Committee on Development and Cooperation as the committee responsible and to the Committee on External Economic Relations, the Committee on Agriculture and the Committee on Economic and Monetary Affairs for their opinions.

On 25 September 1979 the Committee on Development and Cooperation appointed Mr Pearce rapporteur.

The committee considered the draft report at its meeting of 31 October 1979 and adopted the motion for a resolution unanimously.

Present: Mr Poniatowski, chairman; Mr Pearce, rapporteur; Mrs Cassanmagnago Cerretti (deputizing for Mr Bersani), Mr Cohen, Mr Enright, Mr Flanagan (deputizing for Mr Messmer), Mrs Focke, Mr Geurtsen (deputizing for Mr Sablé), Mr Glinne, Mr Narducci, Mrs Rabbethge, Mr Sherlock (deputizing for Mr Marshall), Mr Simmonds, Mr Wawrzik, Mr Woltjer (deputizing for Mr Kühn).

The opinions of the Committee on Economic and Monetary Affairs, the Committee on Agriculture and the Committee on External Economic Relations are attached.

CONTENTS

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	
A. INTRODUCTION	8
B. SUMMARY OF THE COMMISSION'S 1980 GSP PROPOSALS	9
C. ECONOMIC BACKGROUND TO THE OFFER	9
D. AGRICULTURAL PRODUCTS	11
E. MANUFACTURED GOODS OTHER THAN TEXTILES	13
F. TEXTILES	14
G. LIST OF BENEFICIARY COUNTRIES	16
H. HUMAN RIGHTS AND EMPLOYEE PROTECTION	19
J. APPLICATION OF THE SYSTEM	19
K. CONCLUSIONS	22
 Opinion of the Committee on Economic and Monetary Affairs	 25
Opinion of the Committee on Agriculture	29
Opinion of the Committee on External Economic Relations	35
 Annex I	 41

The Committee on Development and Cooperation hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council for regulations concerning the application of the generalized tariff preferences of the European Community for 1980.

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council regarding regulations concerning the application of the generalized tariff preferences of the European Community for 1980¹,
- having been consulted by the Council pursuant to Articles 43 and 113 of the EEC Treaty (Doc.1-264/79),
- having regard to its resolutions of 6 October 1970², 9 June 1971³, 13 December 1973⁴, 12 July 1974⁵, 17 October 1974⁶, 16 October 1975⁷, 14 October 1976⁸, 11 October 1977⁹, and 15 December 1978¹⁰,
- having regard to the report of the Committee on Development and Cooperation and the opinions of the Committee on Economic and Monetary Affairs, the Committee on Agriculture and the Committee on External Economic Relations (Doc. 1-469/79),

1. Welcomes the fact that the Commission has submitted the preference proposals for 1980 so that there should in principle be no delays in the application of the system for 1980;
2. Notes with some regret the circumstances which have made it possible for the Community to make only a modest increase in its preference offer, which applies chiefly to industrial products, primarily in the form of improvements and adjustments of a technical nature; points out, however, that as from 1 January 1977 the Community had already incorporated in the scheme of preferences its offer regarding tariff concessions for tropical products that was submitted within the framework of the multilateral trade negotiations;

¹ OJ No. C 234, 17.9.1979

² OJ No.C 129, 26.10.1970, p.13

³ OJ No.C 66, 1. 7.1971, p.15

⁴ OJ No.C 2, 9. 1.1974, p.55

⁵ OJ No.C 93, 7. 8.1974, p.91

⁶ OJ No.C 140, 13.11.1974, p.42

⁷ OJ No.C 257, 10.11.1975, p.30

⁸ OJ No.C 259, 4.11.1976, p.27

⁹ OJ No.C 266, 7.11.1977, p.16

¹⁰ OJ No.C 6, 8. 1.1979, p.88

3. Recognizes that the continuing difficult economic situation dictates restraint in a number of areas particularly as the preference offers of the other industrialized countries are of a much more limited nature;
4. Considers the proposed technical improvements in respect of a number of processed agricultural products important, as they are of major significance for the economies of a number of developing countries;
5. Welcomes the procedure - so far systematically applied only in the textile sector - for varying preferences according to the level of development and competitiveness of the recipient countries; points out, however that this positive feature has been obtained only at the expense of making the system much more complex and therefore asks the Commission whether the same effect could not be achieved with a simpler system;
6. Notes with satisfaction that the additional preferences have only been maintained and increased for the poorest developing countries;
7. Considers the admission of China to the Community system of preferences to be important in political terms, but points out that the poorest countries must not be penalized in consequence;
8. Is concerned at the low level of use of the system of preferences and therefore calls for appropriate action, in particular simplification of the existing scheme and its presentation;
9. Notes that some countries that have already attained a certain level of development are profiting greatly from the generalized preference system and therefore calls for further action to enable other countries to derive more benefit from this system than they have in the past;
10. Requests the Commission, using all means at its disposal, including a request for information from the International Labour Organization, to produce a survey of those countries benefiting from preferences in order to ascertain that the principal ILO standards are being complied with;
11. Urges the Commission to take all further measures needed to improve the application of rules of origin and, if possible, to make them more easily comprehensible;

12. Recommends that the basic features of the various systems of preferences in operation throughout the world should be harmonized so as to present a clearer picture to the developing countries and requests the Commission to take the initiative in this regard;
13. Is aware of the differences of interests that may arise between the granting of generalized preferences by the Community, and the Convention of Lomé and consequently urges the Commission, when drawing up the system from 1981 onwards, to ensure that the ACP countries are fully consulted;
14. Requests the Council and Commission to work closely with the European Parliament's rapporteur from the outset;
15. Requests the Commission to submit to it as soon as possible a comprehensive report setting out:
 - all the experience gained since application of the GSP in 1971, and
 - general guidelines (international division of labour, specific proposals for the restructuring of certain industries in the EEC which might become necessary, list of beneficiary countries, measures to improve the rate of utilization) for the next period of application of the preference system.

B
EXPLANATORY STATEMENT

A. INTRODUCTION

1. The proposals from the Commission of the European Communities contain the legislation necessary for application of the generalized system of preferences for 1980 in respect of processed agricultural products and industrial semi-manufactures and finished products from the developing countries. The present draft regulations come within the scope of the offer made by the Community in 1969 at the world trade conference for generalized preferences.

These regulations contain detailed rules for the application of the generalized preferences for a series of processed agricultural products listed in Chapters 1 to 24 of the Common Customs Tariff (CCT) and for all industrial semi-manufactures and finished products listed in Chapters 25 to 99 of the CCT. For the iron and steel products falling within the scope of the ECSC Treaty, separate draft decisions opening generalized preferences are proposed - without any encroachment on the special administrative features peculiar to ECSC products - that correspond to the detailed rules laid down for other industrial products.

2. It is gratifying that the Commission has presented the proposals for 1980 as early as July 1979 so that the coming year should be free of the difficulties that arose with the system for 1979. It will be recalled that last year's Commission proposals were not published until 20 September 1978 and it was only with difficulty that the Council was able to adopt the Community generalized scheme of preferences on time. It is true that it was published in the Official Journal dated 30 December 1978 (OJ No. L 375) but this was not distributed until the second week of February 1979, giving rise to a number of difficulties. The Member States sought, in the light of the known negotiating results, to ensure a smooth transition to the 1979 system of preferences, if only on a provisional basis, although this was possible only because the basic features of the system had scarcely changed since 1971. On legal grounds, however, the Commission was not prepared to apply the cut-off rules when maximum quotas were reached for individual countries. This gave rise not only to distortions of trade for importers and exporters but, above all, had the serious consequence that, during its first weeks of application, the 1979 system of preferences favoured the most competitive countries at the expense of those in greatest need.

3. The fact that, as from 1 January 1979, the European unit of account (EUA), created from a weighted basket of the currencies of the Member States, had to be used for the calculation and fixing of maximum quotas also had, if not a harmful, then at least an impeding or delaying effect. This entailed particular problems for sensitive products. These arose from the fact that the changes that had taken place in recent years in the relation between the currencies of the Member States were at a stroke implemented for the unit of account applicable in the tariff sector. As the preferential import quotas for sensitive products are apportioned between the Member States in terms of units of account (in the case of non-sensitive products where the preference ceiling is not divided between the Member States, the conversion from u.a. to EUA is less noticeable) the simple substitution of EUA for u.a. in the countries with weak currencies could have given rise to major difficulties for the industries concerned. In the end, a compromise was found whereby the division of burdens between the countries with strong and weak currencies was to be evened out at an annual rate of 5%.

B. SUMMARY OF THE COMMISSION'S 1980 GSP PROPOSALS

1. The Generalized System of Preferences proposed by the Commission to the Council for 1980 broadly speaking resembles that for 1979. It takes account of the experience of recent years and accordingly contains a number of improvements and adjustments, although no radical changes. This is not particularly surprising as the 1980 proposals mark the end of the first period of application, which was fixed at ten years (the Community GSP entered into force on 1 July 1971). Fundamental changes will not be made until 1981 when the basic principles and guidelines for the second period of application will need to be defined.

2. For 1980, the last year of the first ten-year cycle, the total value of the tariff preferences set out in the Commission proposals is 9,500 million EUA, of which approx. 1,350 million EUA relate to agricultural products and 8,150 million EUA to industrial products.

C. ECONOMIC BACKGROUND TO THE OFFER

1. As in previous years, the GSP offer for 1980 takes account of the economic situation. The employment situation in the Community continues to give cause for concern and a number of critical industries are more seriously threatened than before by the continuing rise in oil prices.

In its communication on the GSP for 1980 the Commission rightly lays stress on the economic difficulties faced by the Community at present, which have not lessened in the past year. We have all to face the fact that the world is faced with a new constellation of economic factors that may have far-reaching political implications. In these circumstances,

the Community may feel some satisfaction that its offer compares very favourably with those of Japan and the United States, particularly as regards sensitive items.

2. After the conclusion of the multilateral trade negotiations in May 1979 the Commission proposals took account of the changes that had been made, in particular the granting of new tariff concessions which would benefit the developing countries. In this connection it should be remembered that the Community had already on 1 January 1977 translated into practice its offer concerning tariff concessions for tropical products made within the framework of the multilateral trade negotiations by incorporating it in the scheme of preferences; with a further extension of its offer in 1979 the Community has anticipated the conclusion of the negotiations. It should be emphasized that comparable initiatives in this field by the other donor countries have not so far materialized.

3. There is no question but that the developing countries' access to the markets of the industrialized countries must be steadily improved and made easier. The Community is fully aware of this and has referred to this need in several declarations. For example, the conference of heads of state and governments of the Member States and of the acceding states, which was held in Paris on 19 - 21 October 1972, called on the Community institutions and the Member States to implement progressively a world-wide policy on development aid, aimed in particular at improving generalized preferences with the objective of bringing about a steady increase in imports of processed products from the developing countries. Also, at the meeting of the European Council in Bremen (6-7 July 1978) and the western economic summit in Bonn (16-17 July 1978) it was decided to increase the market opportunities of the developing countries. Finally, on 27 June 1978 the Council of the European Communities decided to make a significant improvement in the Community's preference offer to the developing countries.

4. These positive statements should be seen against the not inconsiderable economic difficulties being experienced by some industries in the Community. It is therefore essential to find a modus vivendi that takes account both of the legitimate interests of the developing countries and of those of crisis-stricken industries. Despite the difficult economic situation the Community has since 1974 - the first year in which the GSP was applied by the enlarged Community - steadily increased, if sometimes only modestly, the value of its preference offer, as is clear from the following figures.

Value of offer (in millions of units of account)

1974	3,250	millions UA
1975	3,680	"
1976	5,600	"
1977	6,720	"
1978	6,800	"
1979	7,500	"

D. AGRICULTURAL PRODUCTS

1. The Community has already in 1977 granted a significant increase in respect of processed agricultural products (Chapters 1 - 24 of the CCT) in connection with the concessions for tropical products at the GATT negotiations. The offer was extended for 1979 and in 1980 various adjustments are due to be made in order to improve utilization of the system. These proposed changes and adjustments generally speaking reflect special wishes expressed by the recipient countries. The adjustments relate to the following products:

- with an unchanged quota volume of 60,000 tonnes, a technical modification is proposed to the tariff arrangements for Virginia type tobacco in order to offset at least in part the reduction in the extent of the preferential treatment on some Community markets applicable to beneficiary countries from the Indian subcontinent (India and Pakistan) that has arisen as a result of the introduction of the new European unit of account (EUA).

To facilitate better utilization of the offer, the Commission has proposed that the reserve share be increased to 5% of the quota and that the date from which the Member States pay back into the reserve a given unused fraction of their initial quota share be brought forward to 1 October;

- as a large part of the quota for pineapples was not used in 1978 provision is to be made for increasing the Community reserve for pineapples although without any change in the quota volume of 45,000 tonnes fixed in 1977;
- a reduction in the rate of duty from 10% to 6% is proposed for dried bananas falling within sub-heading 08.01 ex B. This offer

takes account of a wish expressed by Mexico and is of considerable economic interest as it concerns an important product of the South American developing countries;

- finally, the GSP offer for palm oil is to be adapted in order to take into account the new tariff classification for fractionated palm oil proposed by the Commission to the Council on 26 September 1978. This measure would be of particular benefit for the ASEAN countries.

E. MANUFACTURED GOODS OTHER THAN TEXTILES

1. As regards industrial products with the exception of textiles the Commission has proposed increases in the import volume of the quotas. However, in view of the economic situation in the Community lower rates of increase or maintenance of the 1979 ceiling have been recommended in a number of sectors. It is worth mentioning that, so as not to jeopardize the legitimate interests of the ACP countries, the increase in the ceiling for plywood has been limited to 5% (instead of 13.5% in full implementation of the calculation formula).

For industrial products 1980 is taken as the reference year for the basic amount and 1977 for the additional amount. For semi-sensitive products the increase in the ceiling amounts to approx. 25% with one exception: for refined petroleum products the import volume is frozen at the 1979 level. The import ceilings for industrial products have on average been increased by 16%, for sensitive products by 5% and for intermediate products by 11%. For sensitive industrial products and ECSC products a second alignment will be made to the European unit of account on the basis of its value on 1 October 1979 in accordance with the Council decision of 29 December 1978.

It should in this context be remembered that the Community applies tariff quota arrangements to 16 sensitive products, 3 of which are sensitive ECSC products. The number of intermediate products subject to a quota ceiling is 25. The figure for semi-sensitive products is 83.

2. For jute and coir products the Commission will not be submitting new proposals until 1980 when the agreements with the main suppliers India and Bangladesh, come up for renewal. Within the framework of the GSP scheme for 1979 the tariff duties are suspended in respect of the main supplier countries that have concluded voluntary restraint agreements with the Community regarding the export of certain jute products or have indicated their willingness to conclude agreements of this nature. As the agreements with India and Bangladesh expire on 31 December 1979 they will need to be re-negotiated by then. After the successful conclusion of these new negotiations it is proposed to maintain for 1980 the duty-free arrangements for the beneficiary countries concerned.

F. TEXTILES

1. For the textile sector the Commission says that it is re-submitting for 1980 the proposal which it presented in 1978 for 1979 and which is still under discussion in the Council. No new arguments regarding textile policy are put forward in the Commission document. The following comments are therefore based upon Doc. COM(78) 470 and certain subsequent Press comments. The fact that this report has to be based on incomplete information is considered to be most regrettable and the Council is urged in future to fulfill its legal and political obligations to consult the Parliament to the full.

As will be recalled, the Commission proposed in its 1979 general proposal for the textile sector a completely new system. This has the following main features :

- product re-classification according to the categories contained in the agreements negotiated under the renewed Multifibre Arrangement,
- the granting of preferences for a fixed percentage of the textile exports of each developing country to the Community.

The introduction of a new scheme of preferences for textile products has become necessary in order to bring the GSP into line with the volume of monitoring arrangements introduced at the beginning of 1978 when, under the renewed multifibre arrangement bilateral agreements were negotiated with supplier countries to meet the undertakings entered into by the Community. The revision of the GSP for textile products represents a doubling of preferential textiles imports from the beneficiary countries. As the fixing of import quotas affords adequate protection against market distortions the Community has now been able to offer greater generosity in the matter of tariff concessions.

2. With the aid of the new revised scheme of preferences the intention is not only to increase duty-free imports from the developing countries but also to ensure all beneficiary countries - in particular the least competitive - a fair share of preferential imports so that they can achieve a real increase in export proceeds equivalent to the reduction in tariff rates.

The idea of granting each developing country what is tantamount to a guaranteed preference has the advantage that the volume can be adjusted according to the individual country's level of development and one-sided exploitation by competitive countries capable of supplying the goods required can be prevented. The principle of differentiating the benefits according to the level of development and competitiveness of the recipient countries has so far been systematically applied only in the textile sector. For example, countries such as Hong Kong and Rumania are granted preferences for

only 2% of their sales to the Community; by the same token the percentage rate increases progressively for the other suppliers, for example, reaching 100% for Haiti and Bangladesh. However, it should not be overlooked that this advantage has been gained at the expense of introducing a great deal of complexity into the system, as an amount has to be fixed for each beneficiary country in respect of each preferential position. This is equivalent to approx. 1,500 quota ceilings, which must then in turn be apportioned between the Member States.

3. In this regard one or two remarks should be made about the new ACP - EEC Convention. Many of the ACP States are also able to produce textiles very cheaply. Moreover, as is well known, various companies in the European textile industry are investing heavily in the textile sector in ACP countries on account of their low wage levels.

The section on trade in the draft new ACP - EEC Convention makes provision for a system of consultation which is designed to enable the contracting parties to negotiate sectoral agreements. Under this clause talks may thus be held with the aim of applying quantitative limitations on the imports of textiles from the ACP to the EEC. However understandable and justified the concern expressed by both sides of the Community's textile industry may be, it must also be clearly recognized that it is totally illogical to encourage expansion of textile production in the ACP countries and then to impose quota restrictions on imports into the Community. Moreover a measure of this sort would be in breach of the Community's liberalist declarations concerning trade between the Community and the ACP¹. It would therefore be advisable for the Commission to use every endeavour within the framework of the proposed consultative machinery to ensure that the investment so urgently needed is channelled into production sectors in the ACP countries where export prospects are favourable.

¹ Cf in this connection Written Question No. 58/79 by Mr COT to the Commission of the European Communities, OJ No. C 185, 23.7.1979, p. 9 et seq.

4. When the bilateral agreements were signed with the developing countries benefitting from preferences under the Multi-Fibre Arrangement the Community promised to improve the generalized preferences not only in quantitative but also in qualitative terms. It is essential that the Community should keep this promise, since the restriction of textile exports to a specific quota constitutes a sacrifice for many countries which can only be compensated by improvements in the preference system.

The textile industry is of great importance not only to the economy of the Community and many developing countries but also for the development and stability of international trade relations. Since millions of jobs depend on its functioning smoothly, thought should be given as soon as possible to the question of how a new and effective world textile system can be established in which all concerned, both the industrialized and the developing countries, can find and maintain a place.

G. LIST OF BENEFICIARY COUNTRIES

1. Parliament has for years been calling for the list of recipient countries to be reviewed, largely to ensure that the poorest developing countries benefit from the generalized preferences. Now that the Community has begun to grant additional preferential advantages to the poorest developing countries (in 1977, 1978 and 1979), Parliament welcomes the plan contained in the Commission proposals not just to maintain these advantages but to extend them further in 1980. The countries concerned will thus obtain duty-free access for all processed agricultural goods subject to a preference and are exempted from quantitative restrictions (e.g. tariff quotas and ceilings) in the case of industrial goods.

2. There were initially wide differences of opinion within the Community on the preferential treatment of the poorest countries as identified by the United Nations. It was only at the insistence of some Member States and after repeated demands by the European Parliament that it was eventually possible to concede substantial advantages to this group of countries. From the development policy standpoint, the preferential treatment of 'least developed countries'¹ can only be regarded as a consistent extension of the Community's preference policy, since improvement of the system should primarily benefit the poorest countries, and not those countries which have already attained a certain stage of development.

¹ The list of the least-developed developing countries may be found in the Communication from the Commission to the Council on the system of generalized preferences for 1980, Doc. COM (79) 348 final, p.14.

Indeed, with the aid of these special advantages the poorest countries should be able to make greater use of the available trading advantages than in the past. Past experience with preferential imports shows that new ideas must be developed on a fairer method of distributing preferential advantages, although only three or four countries, i.e. no more than at the outset are actually exploiting the preference system.

3. The main innovation in the chapter on the recipient countries is the proposal to include China in the system of generalized preferences. China is not a member of the "Group of 77" to which the GSP has been granted within the framework of UNCTAD. Therefore, whether to accord preferences to China must depend upon careful analysis of such economic data as is available. A number of exceptions are proposed, however; in the event of the inclusion of China in the GSP: first, sensitive goods are to remain excluded, and second, after conclusion of the EEC-China textile agreement the same rules on textile products as for Rumania and Hong Kong are to apply.

From the political point of view the granting of preferences to China would certainly be a shrewd tactical move, particularly in view of China's role in the world constellation of powers. Since the Community has conceded all the preferential advantages to India without any major difficulties arising, this should not create insuperable problems in the case of China. Nevertheless, it is most important that consideration should be given to the question of whether by granting preferences to China the Community would not be restricting its room for manoeuvre for providing additional preferences for the poorest developing countries, particularly as preferences are intended to be concentrated on such countries. After all, China's economic development prospects should be considered much more favourable than those of many other countries.

4. On the other hand the Commission is not proposing to include Bulgaria as a beneficiary country although it applied for inclusion in 1977. The Commission's decision is correct, since Bulgaria, like Rumania which comes within the GSP, is not a developing country in the true sense of the word.

5. The Community's negotiations for a special preferential agreement with Yugoslavia, modelled on the agreements with the Mediterranean countries, have not yet been completed. Until the agreement comes into force Yugoslavia remains a recipient country under the Generalized preference system. When it does, the preferential offer for 1980 will have to be adjusted; this applies in particular to sensitive products. Bilateral measures would have to be taken to prevent accumulative effect of advantages granted to Yugoslavia benefiting the other developing countries.

6. In the past, Parliament has frequently criticized the list of countries benefitting from preferences, calling for this list to be amended. The list has now come to include even those countries which have already attained a relatively high level of industrialization and whose products ought to be fully competitive on the world market¹. The result is that the generalized system of preferences is distorted, because the most developed countries take a disproportionately large share of preference trade in relation to the poorest developing countries. The main recipient countries in 1977, for instance, were²: Yugoslavia, Malaysia, Hong Kong, India, South Korea, Brazil, Rumania, the Philippines, Venezuela, Singapore, Indonesia, Thailand, Argentina, Pakistan, Mexico, Colombia and Peru. These 17 countries used about 85% of the generalized preferences for imports to the EEC. The Commission is therefore urged to make further efforts to reserve certain advantages primarily for the poorest countries. In this connection the fact that the cut-off levels (butoirs) have a more important function, insofar as they improve the distribution of preferences to the developing countries, should not pass without comment. This is also necessary in view of the fact that new, strong exporting countries have entered the world market in certain product sectors. If the 'cut-off' arrangement did not exist, the use of preferences by certain countries at the expense of less competitive countries would be even greater than it is today.

From this point of view the United States preference system appears more consistent, excluding as it does the rich OPEC countries for instance from preferential treatment. Bearing in mind that the GSP was established within the framework of UNCTAD to increase the volume of trade of the developing countries, it is surprising to find Bahrein, Iran, Qatar, Kuwait, Libya, Oman, Saudi-Arabia, South Korea, and Venezuela - to name only a few - listed among the countries benefitting from preferences. Any correction of the list of recipient countries is undoubtedly a politically difficult undertaking, but it should be tackled on the basis of objective economic criteria. It would be best for the Community to settle this problem in close cooperation with the UNCTAD Secretariat.

¹ See Annex C, List of developing countries and territories enjoying generalized tariff preferences, Doc. COM(79) 348 fin, p.12

² cf. Table in Annex I.

H. HUMAN RIGHTS AND EMPLOYEE PROTECTION

1. The Community should continue to lay stress publicly on its demand that fundamental human rights should be respected in all countries and should report to Parliament if in its view such is clearly not the case in any particular country benefitting from preferences.

2. The Commission should deal in depth with the problem of how far the standards of the International Labour Office (ILO) on employee protection are being observed in the developing countries. After all, it is no secret that many employees' earnings do not even reach subsistence levels, and in many places children are involved in the production process. This not only creates social problems but also leads to dumping practices which are harmful to the honest endeavours of the other developing countries. It would therefore be desirable for the Commission to provide Parliament with a list of those countries benefitting from preferences which do not observe the minimum standards relating to employee protection. The problem is somewhat explosive politically as the developing countries might, albeit wrongly, take this as a non-tariff barrier to trade. Serious consideration should nevertheless be given to the question whether these countries ought to be included in the new list of recipient states. If the development policy is to be pursued at all seriously, this problem cannot be allowed to pass without criticism.

J. APPLICATION OF THE SYSTEM

1. Industries which foster genuine development in the national market of a developing country, or the regional market of a group of developing countries, ought to be promoted to a greater extent than in the past. On the other hand, enterprises which only invest in developing countries to take advantage of favourable local conditions, such as cheap labour, so as to export cheap goods to the industrialized countries, should receive relatively less support. Undertakings of this kind are no more than import and export agencies, and have virtually no impact on local economic development. Their goods are only included in a production process until the processed products qualify for the relevant generalized preference system. It would be logical and economically fair if these products were not imported into the Community at preference tariffs but were subject to the Community's normal external tariff.

2. In past years the extent to which the generalized preferences have been used has been rather unsatisfactory, as Parliament has repeatedly pointed out¹. From 1974 to 1977, for instance, the developing countries only used 65, 50, 67, and 63.1 per cent of the system's facilities. The figures for 1978 are not yet available. Hence it is important that ways should be sought of improving use of the GSP, particularly in the case of non-sensitive products.

To achieve a higher degree of use of the generalized preferences, the Commission has stepped up its information activities, holding seminars to improve understanding of the generalized preference system and, since 1970, publishing a practical guide to its use. These measures are undoubtedly helpful; they will not, however, be enough on their own substantially to increase the use of the GSP. It seems to Parliament much more important to use every endeavour to make the administration and implementation of the preference system simpler and easier to follow. For the basic principles of the preference system have been complicated so much over the years by the continual addition of new mechanisms that the system in force today can only be deciphered and comprehended by experts.

3. If the GSP system is to function to best advantage, the features and presentation of the various regulations should be standardized. The existence of the different regulations not only make their application more difficult but a cause of the under-use.

4. To maximise the benefits of GSP scheme on the world scale, greater standardization of the preference systems of the various donor countries is desirable if the individual exporter in developing countries is to cope at all with the mass of complicated bureaucratic rules he has to observe. In any case the GSP can only attain full efficiency when properly linked with other spheres of economic and social policy. This applies both to the Community and the world at large.

5. The continually recurrent conflict of interests between the generalized preferences granted to the "Group of 77" and the special rights accorded to the ACP countries trading with the Community needs to be resolved; this problem is regularly raised by representatives of the ACP countries.

6. The problem is that the ACP countries maintain that their 'special preferences' under the Lomé Convention have been 'eroded' by the granting of generalized preferences to the other developing countries. Here it must be said that the granting of generalized preferences in no way implies the equal treatment of the other developing countries, but simply the elimination of differentials in respect of certain products. The ACP

¹ cf. in this connection Written Question No. 151/79 by Mr Noé to the Commission of the European Communities, OJ No. C 185, 23.7.79, p. 21 et seq.

countries' advantage lies in the fact that they obtain free access to the Community market for up to 99.5% of their products. In addition the text of the ACP-EEC Convention must be taken as a whole, as it contains virtually every kind of development policy instrument; in other words, if there really has been 'erosion' to the detriment of the ACP countries in one sphere, compensatory benefits have arisen in other areas.

Furthermore, the ACP countries have found new markets in other industrialized countries also using preference systems. A special UNCTAD report has reached the conclusion that the use of the Community's GSP has not been to the detriment of the ACP countries, since the advantages and disadvantages have roughly balanced out¹. How far this report is based on objective criteria must, it is true, remain a matter of doubt.

Parliament has already requested the Commission, in the report drafted by Miss Flesch² in 1977, to give details on whether, and if so to what extent, the generalized preferences have had a negative effect on the ACP countries. The relevant parliamentary committee has so far received no specific information on this point and therefore requests the Commission to respond forthwith.

7. There is no question that the Community must fulfil the obligations it has assumed in the ACP-EEC Convention and respect the legitimate rights of the ACP countries. On the other hand the Community also has a moral responsibility not to deny its support to the other developing countries in the world where there is also great poverty, such as in Asia or South America. Development aid to the ACP and the other developing countries is important and complementary, particularly as the Community is constantly being urged by UNCTAD to provide more development aid.

8. The main issue at stake is the consultative machinery. It is not enough for the Commission, having drawn up its preference proposals, simply to forward them to the ACP countries for their information; instead, serious consultations should be held with those countries. This does not mean that the Commission should decide jointly with the ACP countries on the annual fixing of the GSP, but merely that there should be consultation in the real sense of the word. In these consultations there could be discussion of, for example, how far special difficulties might arise for certain products or countries as a result of further extension of the preference system.

¹UNCTAD report to the Special Committee for the Review of Generalized Preferences, meeting in Geneva from 27 June to 1 July 1977

²Report on the proposals from the Commission to the Council concerning regulations relating to the application for the year 1978 of generalized tariff preferences of the European Community (Doc. 302/77).

9. The Commission proposals aim largely to maintain the rules of origin applying in 1979. Some adjustments to take account of a few changes are however desirable, as the rules of origin are extremely important if the Generalized system of preferences is to work properly. Compared with the Japanese preference system, the Community system of rules of origin also has the advantage of incorporating cumulative origin. The beneficial effect of this provision is to promote regional integration between recipient countries, because the rules of cumulative origin allow all countries benefitting from the GSP to form a single zone, i.e. a product with preferential tariffs consisting of cumulative components may originate in various countries in 'common markets'. Given the importance of the rules of origin for the optimum application of generalized preferences, the Commission should use every possible means to improve and simplify the system, because over-complicated technical rules of origin do not promote trade but impede it.

K. CONCLUSIONS

1. The Community may take some satisfaction from a comparison of its preference system with those used in other countries. Neither the United States nor Japan grant preference advantages for all industrial semi-finished and finished products; sensitive products such as textiles or footwear are not included in their systems. Although economic development in the Community in recent years, as in the rest of the world, has been far from satisfactory, the Community has nonetheless endeavoured from year to year to improve its preference system in terms of both quality and quantity. The annual review of the system also provides a great degree of flexibility, enabling the Community to react to changes in economic conditions. The measures in favour of the poorest countries are substantial, contain genuine market opportunities and reflect the demands of the developing countries.

2. The Community's preference policy is of great importance in that it effectively complements the Lomé policy. As a flexible instrument of trade policy it fits smoothly into the overall framework of the Community's development policy and can thus be constantly adjusted to the changing requirements of the developing countries. The generalized system of preferences can help to facilitate trade but is not in a position to solve all the problems in this sector. At all events it is one of the few achievements obtained under the North-South dialogue. A particular advantage of the system is that it includes the developing countries in Asia and Latin America, thus making a substantial contribution to the balance between North and South.

3. The preference scheme now being drawn up is for 1980, the last year of application of the first ten-year cycle. Guidelines for the next decade should therefore be laid down as soon as possible to improve the efficiency of the GSP in important respects. Since the framing of the preference system of the eighties is of great importance, Parliament requests the Commission to submit to it at the earliest possible date a full report on general experience with the system since 1971. This study should show to what extent the aims of the GSP, namely those to increase export earnings, promote industrialization and stimulate economic growth in the developing countries, have so far been realized.

4. The Commission's report should also set out the basic principles on which the preference system for the next decade is proposed to be based and should consult the European Parliament at an early stage in drawing up its proposals. This will involve not only technical improvements, but in particular definition of the position of European industry in the world market. Every aspect of external economic relations with all continents must be subjected to careful analysis. This study must not only consider the international division of labour for the coming decade, but must also contain specific proposals for restructuring certain branches of the Community's industry, so that the right measures are taken at the right time to prevent social hardship. In relation to this, the Commission should seek to open up a dialogue between trade unionists and businessmen both from the Community and from the beneficiary countries on the interlinked problems of investment and employment that arise from the movement of productive capacity from developed to developing countries. Regrettably there has been no sign of any overall policy so far, illuminating political and social problems in their entirety. Hence Parliament's demand that the Commission plot the course for the future as soon as possible.

5. It is still to be hoped that on this occasion it will at last be possible fundamentally to amend the list of beneficiary countries. The "threshold countries" which have attained a certain degree of industrialization and have become competitive on the world market should be deleted from the preference list or least phased out on a product basis, i.e. they should be subject to normal conditions of competition within the framework of most-favoured-nation treatment in the case of specific products. These considerations should be at the heart of the Commission's analysis.

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman: Mr S. MOREAU

At its meeting of 12 October 1979, the Committee on Economic and Monetary Affairs appointed Mr Moreau draftsman.

At its meeting of 31 October 1979, the committee considered the draft opinion and adopted it unanimously.

Present: Mr Delors, chairman; Mr de Ferranti, Mr Macario and Mr Deleau, vice-chairmen; Mr Moreau, draftsman, Mr Balfour, Mr Beumer, Mr von Bismarck, Mr Bonaccini, Mr Caborn, Mr De Clercq (deputizing for Mr Visentini), Miss Forster, Mr I. Friedrich, Mr Giavazzi, Mr De Goede, Mr Herman (deputizing for Mr Tindemans), Mr Hopper, Mr Leonardi, Sir David Nicolson, Mr Piquet, Sir Brandon Rhys Williams, Prinz Casimir zu Sayn-Wittgenstein-Berleburg, Mr Schinzel, Mr Schwarzenberg, Mr Vondeling and Mr von Wogan.

1. It has not been possible to consider these proposals in detail in the limited time available to the Committee on Economic and Monetary Affairs for delivering its opinion.
2. The generalized tariff preferences scheme entered into force on 1 July 1971 for an initial period of ten years. A second ten-year period of application is due to open in 1981. The Committee on Economic and Monetary Affairs stresses that the proposals concerning this new period of application must be presented in time for it to be able to consider them in depth. In view of the expected industrial growth in the countries benefiting from the scheme in the next decade, the concessions sought by these countries will be more concerned with industrial goods. Hence a detailed examination of these proposals by the Committee on Economic and Monetary Affairs will be necessary.
3. The proposal for the 1980 scheme of generalized preferences is the last concerning the first ten-year period of application, and contains no substantial changes in relation to the previous years.

In its explanatory memorandum, the Commission even states that the present structure of the GSP scheme should be maintained and that any changes in the 1980 scheme should be confined to a few technical adjustments. The economic situation is characterized by the critical or precarious position of a large number of major industrial sectors, which are virtually identical with the sectors in which the developing countries are particularly interested in exporting their products to the common market. These sectors include not only the textile, clothing and footwear industries but also shipbuilding and steel production.

4. This being so, the Community's offer to the developing countries should be examined thoroughly in the light of the economic situation. Without disputing the value or necessity of the scheme of generalized preferences, it is essential that the difficulties in certain industrial sectors should be prevented from considerable further deterioration. If, however, the GSP offer is limited as a result of the difficulties in certain sectors, a Community policy restricting imports from the developing countries in this way can only be accepted if it is accompanied by the restructuring measures that are urgently needed in the sectors concerned, as in Community industry in general.

5. The Commission proposes an increase of about 15% over 1979 in the GSP offer for 1980 for industrial manufactures other than textiles. This increase is, according to the Commission, lower than that resulting from the theoretical calculation and takes into account adjustment of the European unit of account. Apart from these very general statements on

industrial manufactures other than textiles, the Commission gives no further details. Last year the offer was more restrictive in several sectors, in view of the crisis conditions affecting them, particularly in the steel and footwear industries. This year there is no specific mention of these sectors. Again the information provided by the Commission on the textile sector is practically non-existent, being confined to the comment that the Commission is re-presenting for 1980 the proposal already presented for 1979.

6. The Commission is so vague in its description of the offer that the Committee on Economic and Monetary Affairs cannot possibly express a well-founded opinion on the matter, especially as the time-limit it has received for doing so is extremely short. In the circumstances the committee prefers not to express a view on these specific proposals. But it does hope that every precaution will be taken to ensure that the right balance is reached between the desire to assist the process of industrialization in the Third World and the need for the successful readaption, in the social as well as the economic sphere, of industrial structures in the Community countries. It hopes that, for sensitive sectors the Commission will be able to forecast production in the Community countries and in the beneficiary countries.

7. The Commission proposes to add China to the list of beneficiary countries. In this regard the comment made in opinions in previous years should be repeated, to the effect that the list of countries should be revised in particular to include the poorer countries. It may be wondered whether the addition of China to the list is a revision in the desired direction. Here it must once again be stressed that greater efforts should be made to achieve a more balanced share of advantages between the present beneficiary countries, so as to benefit the poorer countries to a greater extent.

8. With the prospect of a review of the scheme next year, some general comments made in past years are worth repeating. First, there should be every possible endeavour to ensure that the generalized system of preferences is used to a greater extent; in 1980, the rate of take-up will remain limited to about 60%. To improve this rate, administrative procedures must be simplified as much as possible. To this end, the practical guide on the use of the GSP should be published as a matter of great urgency. Next, a better assessment of the economic, social and financial impact of the measures taken is needed. A document giving an overall view of the economic impact on the beneficiary countries and the Community countries would be a step in the right direction. Without better information on

this subject the proposals cannot be judged properly and the future development of the system is likely to be poorly planned. The true aim of the generalized system of preferences must be to enable developing countries to achieve more controlled economic development. Finally, the beneficiary countries should be encouraged to diversify their production, as this would be to their advantage as well as to that of the European Community.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mrs CRESSON

At its meeting of 26 and 27 September 1979 the Committee on Agriculture appointed Mrs CRESSON draftsman.

At its meeting of 29 and 30 October 1979 the committee considered the draft opinion and adopted it unanimously.

Present: Sir Henry Plumb, chairman; Mrs Cresson, draftsman; Mr Arfé (deputizing for Mr Hauenschild), Miss Barbarella, Mr Battersby, Mr Bocklet, Mr Delatte, Mr Davern, Mr Diana, Mr Früh, Mr Gatto, Mr Helms, Mr Jürgens, Mr Kirk, Mr Lynge, Mr Maher, Mr Newton Dunn (deputizing for Mr Provan), Mr Brøndlund Nielsen, Mr Papapietro, Mr Pranchère, Mr Skovmand, Mr Sutra, Mr Tolman, Mr Vernimmen and Mr Woltjer.

1. The Community's generalized tariff preferences scheme (GSP) was set up on 1 July 1971 for a period of 10 years. 1980 will therefore mark the end of a period in which the Community has enjoyed derogations from the GATT rules.
2. The present proposed regulations submitted by the Commission to the Council concern the detailed rules governing application, for 1980, of the generalized tariff preferences to processed agricultural products and industrial/semi-manufactures and manufactures originating in developing countries.
3. In the field of agriculture, they concern a number of processed agricultural products which come under Chapters 1 to 24 of the Common Customs Tariff and also certain types of tobacco, cocoa-butter, soluble coffee and canned pineapple.
4. Briefly, in the agricultural sector the scheme of generalized preferences provides for the granting of tariff concessions for some 300 agricultural products. Generally speaking, this involves either a partial reduction of duties or total exemption. The products of developing countries enter the Community without being subject to quotas, with the exception of tobacco, cocoa-butter, soluble coffee and canned pineapple. A safeguard clause may be invoked if certain products are imported in quantities or at prices such that they constitute a potential threat to similar or competing Community products. The number of states benefiting from the GSP would be 118. The Commission proposed to include China in that list.
5. The Commission's proposals add little to the SPG arrangements for 1979 apart from the following two changes:
 - In the case of dried bananas the GSP duty is reduced from 10% to 6% in order to take account of the particular importance of this product to certain developing countries in Latin America.
 - As regards products subject to a quota, the Commission has proposed a technical amendment to the tariff system for Virginia tobacco in order to mitigate in part the cut-back in the preferential treatment accorded to beneficiary countries in the Indian subcontinent on certain Community markets following the modification of the monetary basis used to calculate the specific minimum duty. In order to ensure better utilization of the offer, it is also proposed to increase the reserve proportion by raising it to 5% of the volume of the quota (3,000 tonnes as against 1,200 tonnes) and to bring forward to 1 October the date from which Member States will retransfer to the reserve a certain unused fraction of their initial quota. Previously, this date was 25 October.

6. As this generalized tariff preference scheme should come into force on 1 January 1980, the Commission wishes to stress that it should be adopted at the latest by mid-November 1979 in order to comply with the time scales envisaged by the Council's resolution of 27 June 1974 concerning measures to be taken with a view to simplifying the task of the customs administrations¹.

7. In 1977 the Community imported \$9.8 thousand million worth of products originating in developing countries. Of this total, \$3.7 thousand million represented imports of tropical products for which the Community had granted concessions to all countries under the GATT agreement. The GSP represented \$1.3 thousand million: this is what the Community had offered in the way of preferential concessions to the developing countries.

8. In 1978 the Community's offer rose to 1,230 million EUA and the beneficiary countries utilized 966 million EUA², i.e. 78%, despite the Community's efforts to improve the utilization of the GSP. The Commission has stated that the beneficiary countries are still sharing very unequally in the concessions offered and that they do not always take advantage of the possibilities open to them in the non-sensitive product sector which accounts for only 53% of the global community offer.

9. This is why the Commission is proposing to continue its programme of seminars on how to utilize the GSP and to increase its efficiency by direct contact with the economic operators in the export trade. The Commission also proposes to make available to these operators a practical guide on the utilization of the GSP by the beginning of 1980.

¹ OJ No. C 79, 8.7.1974, p. 1

² 654 million EUA for non-sensitive products; 312 million EUA for products subject to a tariff quota.

10. The modest character of the Commission's new proposals raises a number of important political issues, particularly since next year marks the end of the ten-year period of the GSP's operation.

11. The European Parliament has repeatedly called for a revision of the list of beneficiary countries to ensure that the system does not benefit the relatively rich countries at the expense of the poorer. The report and opinion drawn up in 1978 by Lord Reay on behalf of the Committee on Development and Cooperation and Mr Cifarelli on behalf of the Committee on Agriculture stressed this point. The only major proposal for 1979 concerned total exemption for the 28 least developed countries¹ from customs duties on processed agricultural products not subject to quantitative limitation. However, since 1971 the relative rate of development of the beneficiary countries has been such that there are now enormous differences between these countries in regard to development, average income and requirements. It would seem to us essential to review the operation and effects of the GSP during 1980 and before decisions are taken on a new GSP which, as Parliament and its Committee on Agriculture have constantly stressed, must benefit first and foremost the most impoverished of these countries. Such a review should focus, for each beneficiary country, on the quantitative aspect (nature and quantities of exports, rate of utilization of quotas) as well as others : the effects of exports on local production, agricultural development, structure, the nature of the undertakings benefiting from the exports. Such an enquiry would, in our view, be in line with Parliament's wish² to see certain basic social norms, concerning, for example, conditions of work, integrated into the economic development policy. It would mean analysing the real needs of the developing countries and of the poorest of them, for which the scale and nature of agricultural development are crucial factors. The assessment of the results of the GSP over the last 10 years, in particular in the field of agricultural and processed agricultural products should be submitted to Parliament before any reorganization of the GSP.

12. Improvements should also be sought in regard to the following :

- better administrative coordination between the Nine, so that the least developed countries which are getting little from the GSP at present may derive maximum benefit from it. The Committee on Agriculture notes with satisfaction that measures have been taken to enable the beneficiary countries to make fuller use of the possibilities open to them;
- coordination of the policies of the donor countries within the OECD;

¹ Afghanistan, Bangladesh, Benin, Bhutan, Botswana, Burundi, Central African Empire, Chad, Ethiopia, Gambia, Guinea, Haiti, Upper Volta, Laos, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Uganda, Rwanda, Western Samoa, Somalia, Sudan, Tanzania, Arab Republic of Yemen, People's Democratic Republic of Yemen

² See report by Lord Reay referred to above (Doc. 474/78)

- coordination of the GSP with the various existing trade agreements relating to agricultural and processed agricultural products and in particular with the ACP agreements and the agreements with the Mediterranean countries, including those which have applied for membership of the Community.

13. The Committee on Agriculture wonders about the reasons behind China's inclusion in the list of GSP beneficiary countries. It shares the reservations of the Economic and Social Committee on this point. It would like to receive from the Commission a detailed account of the criteria for including China among GSP beneficiaries for the sum of 50m EUA.

The Committee hopes that any proposals made in future regarding the inclusion of new countries in the list of beneficiaries can be considered beforehand by the responsible committees and by Parliament.

CONCLUSIONS

14. The Committee on Agriculture :

- (a) Welcomes the measures taken to give the GSP beneficiary countries easier access to information and to enable them to make fuller use of the facilities offered;
- (b) Has no reservations or special comment to make on the other proposals submitted by the Commission;
- (c) Asks the Commission on what criteria it bases its decision to include China in the GSP list, and insists that Parliament be consulted on decisions of this kind;
- (d) Asks for a report on the operation and results of the GSP to be drawn up and for the list of beneficiary countries to be revised to take account of the development of the present beneficiaries over the last 10 years. This report and the consultation of the responsible committees and of Parliament must be completed in time to allow the new GSP to be implemented from 1 January 1981.

ANNEX

List of improvements for agricultural products to be included in the Commission's proposals for the 1980 GSP

		<u>Present GSP rate</u>	<u>Proposed GSP rate</u>
08.01 ex B	Dried bananas	10%	6%
24.01 A ex I	Virginia	7% with minimum duty	6% with a minimum
A ex II	tobacco	of 15 EUA/100 kg	duty of 11 EUA/100 kg
ex B		and maximum duty	and a maximum duty
		of 45 EUA/100 kg	of 45 EUA/100 kg

Community tariff quotas

	<u>Quantity</u>	<u>GSP duty</u>
Virginia type tobacco	60,000 tonnes	6%
Cocoa-butter	21,600 tonnes	8%
Soluble coffee	18,750 tonnes	9%
Pineapple not in slices	45,000 tonnes	12%
Pineapple in slices	28,000 tonnes	15%

OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Draftsman: Mrs WIECZOREK-ZEUL

At its meeting of 5 October 1979 the Committee on External Economic Relations appointed Mrs Wieczorek-Zeul draftsman for an opinion.

It considered the draft opinion at its meeting of 22 October 1979 and adopted it unanimously with one abstention.

Present: Sir Fred Catherwood, chairman; Mrs Wieczorek-Zeul, first vice-chairman and draftsman; Mr van Aerssen, second vice-chairman; Mr Almirante; Mr Bøgh, Mrs Caretoni Romagnoli, Mr Cohen (deputizing for Mr Fellermaier), Mrs Dienesch, Mr Filippi, Mr Giummarra, Mr Edward Kellett-Bowman, Mr Lemmer, Mrs Lenz, Mr Martinet, Mr Prout (deputising for Mr de Courcy Ling), Mr Radoux, Mr Schmitt, Mr Seeler, Sir Peter B.R. Vanneck (deputizing for Sir John Stewart-Clark) and Mr Walsh.

1. The **Generalized System of Preferences (GSP)** applied by the European Community started in 1971. In general terms, the system gives exemption from customs duties on all industrial products and partial exemption on some processed agricultural products.

I. Main features of the GSP

2. The tariff preferences are generalized. This means that they are granted by most industrialized countries. An agreement to introduce a system of generalized preferences was reached at the second UNCTAD conference in New Delhi in 1968. The system is now applied by the European Community, Japan, Norway, Finland, Sweden, New Zealand, Switzerland, Austria, Canada, the United States, Australia and some East European countries. However, each of these countries has its own system for implementing the agreement, which further complicates an already involved system. For this reason the European Parliament has repeatedly urged that these schemes should be harmonized as far as possible.
3. The tariff preferences are non-discriminatory which means that they are granted to all developing countries without distinction. These are the 'Group of 77' (so named because of their original number) which has meanwhile grown to approximately 120 countries. In practice, however, these countries may make very unequal use of the tariff preferences. So far it is the most highly developed developing countries that have been able to take advantage of the GSP, while the poorest ones have been unable to use some of these preferences on account of their production structure; their administrative apparatuses also have to contend with the complicated nature of the system. In order to give the beneficiary countries a better insight into the system, the Commission is preparing a 'practical guide' which will be ready in 1980. In addition, courses are being organized for people from the beneficiary countries who are involved in exporting. It should also be noted that, in practice, it is the Latin American and Asian countries which have most to gain from the GSP, since they are not linked to the Community by preferential agreements such as the Lomé Convention or the Mediterranean agreements.
4. The preferences are autonomous, i.e. they are not dependent on negotiations with the beneficiary countries. The Community lays down the scheme for each calendar year. The preferences relate to industrial products and processed agricultural products. Imports under the GSP are subject to quotas or ceilings set for each product according to value. In order to put some restriction on the preferences granted to the developing countries in the best competitive positions, the imports of a particular product from a single developing country may in general not

account for more than half - even less for certain countries - of the ceiling set for that product. (This is known as the 'cut-off'.) The autonomous nature of the system is, however, restricted by, for example, voluntary restraint agreements.

5. The preferences are not reciprocal, which means that the beneficiary countries are under no obligation to grant exemption from their own customs duties.

II. Scope of the GSP

6. With regard to the industrial products category, the Community has increased its offer every year. The value of goods imported free of customs duty during the first half of 1971 was 478 million u.a.; by 1979 this had risen to 6,150 million EUA. However, the 1979 offer for certain industrial sectors such as steel and shoes was not increased. A positive feature is that, since 1975, the Community has considerably reduced the number of sensitive products for which tariff quotas are allocated (which are subject to more stringent conditions than the 'ceiling'). Finally, it should be noted that in 1978 the 28 least-developed countries were given a dispensation under which customs duties were not levied even where the ceiling was exceeded. Since 1977 these countries have no longer been subject to the 'cut-off'. In 1979 this exemption was extended to all industrial products, including the sensitive ones, with the sole exception of the textiles sector.
7. The number of processed agricultural products brought within the GSP has considerably increased over the years from 147 in 1971 to 310 in 1979. The import opportunities of these products now represent a value of 1,300 EUA. The increase in the number of products after 1973 is partly the result of the 'declaration of intent' in which the nine Member States pledged to seek solutions for trade problems which the enlargement of the Community would at that time cause for the Commonwealth countries in Asia. Imports of all the agricultural products included under the GSP from the 28 least-developed countries are now exempt from customs duties.
8. As far as textiles are concerned, the GSP was modified last year to take account of the conclusion of the Multi-Fibre Agreement (MFA) and the bilateral voluntary restraint agreements and autonomous arrangements connected with it. 60% of total imports in this sector were made subject to quantitative restrictions. In 1978 the GSP for textiles granted exemption to 84,000 tonnes i.e. 5.6% of the Community's total textile imports. Thus the MFA has to a large extent substituted quantitative regulations for tariff barriers. In 1979 the volume offered was increased to 162,000 tonnes.

III. The scheme for 1980

For 1980, the last year of application, the total value of the tariff preferences set out in the Commission proposals is 9,500 million EUA, of which approx. 1,350 million EUA relate to agricultural products and 8,150 million EUA to industrial products.

The following points may be noted in the Commission's explanatory memorandum relating to the proposals for 1980:

9. In general it is suggested that the proposed scheme is a 'conservative' one and that only a number of technical changes have been made. The Commission justifies this on the grounds that the original ten years' cycle expires at the end of 1980 and that new guidelines will then be laid down. It also refers to the general economic situation.
10. The Commission emphasizes that the proposals also take account of the new situation following the conclusion in May 1979 of the Multilateral Trade Negotiations (the Tokyo Round), particularly as regards more flexible rules and the granting of new tariff concessions which should benefit the developing countries¹.
11. In the case of textile products, 'the Commission is presenting for 1980 the same proposal which it had presented for 1979, which is still under discussion in the Council'². After the Nine agreed a compromise on the new generalized system of preferences for the textiles sector in May 1979, the existing system was extended for the second half of 1979 with a 5% increase in all tariff quotas. The new system would then enter into force as from 1 January 1980, marking the adoption of the sensible new principle of granting preferences in inverse proportion to the level of development of the beneficiary countries. For example, countries like Hong Kong and Romania will be given preferences for only 2% of their sales to the Community. Conversely, the percentage for other developing countries could, for example, be as high as 100%.
12. The Commission proposes to include the People's Republic of China in the GSP. As China is not a member of the Group of 77, that inclusion must be assessed on its own merits, e.g. gross national product, an economic structure dominated by agriculture, energy production, etc. These show that China must be considered as a developing country³.

¹ See Explanatory Memorandum, Section IV, paragraph 1

² See Explanatory Memorandum, Section V, paragraph 3

³ See Explanatory Memorandum, Section V, paragraph 4.

13. The Community's negotiations for a separate preferences agreement with Yugoslavia are at present still continuing and, in the interim, Yugoslavia will remain a beneficiary country under the GSP. The Commission points out that it reserves the right to adapt the preferential offer for 1980 if an agreement is concluded with Yugoslavia¹.

IV. Comments

The scheme for 1980 can, in general, be approved.

Greater importance would, however, appear to attach to the formulation of the future guidelines for the second period of application. The committee would therefore ask the Commission to answer the following questions as a matter of urgency:

- (a) Has the Commission carried out an evaluation of the existing system of preferences for the period of application since 1971?

Have any studies been made as to how the GSP affects the production structure of the developing countries (e.g. production of certain goods solely for export)?

- (b) Can it name the beneficiary countries that do not comply with the safety at work standards laid down by the International Labour Organization?

- (c) What form do the general guidelines for the second period of application take?

Do they incorporate new thinking and proposals that are a qualitative improvement on the existing system?

Are there any plans to include new countries in the GSP?

Have any proposals been made to simplify the system?

- (d) What view does it take of the proposals that imports of products from certain suppliers who invest in developing countries only on account of favourable local incentives so as in turn to export cheap goods to the industrialized countries, should in future no longer be given preferential access to the Community but should be subject to the normal Community external tariff?

The Commission is also asked to supply information on the following points:

¹ See Explanatory Memorandum, Section V, paragraph 6

- (e) Are talks going on with other industrialized countries with a view to bringing about a gradual harmonization of the various schemes?
- (f) How does the Commission assess the implications of the wise political move to include China in the GSP for the economic structure of the Community?
- (g) What, in general terms, will be the consequences of an agreement concluded with Yugoslavia for the scheme for 1980?

Use of the generalized system of preferences by the main beneficiary countries in 1977

('000 u.a.)

Origin	Total imports all products				GSP imports								
	1 to 24	50 to 63	25 to 49 and 64 to 99	1 to 99	1 to 24			25 to 99				Total 1 to 99	
					S (%)	SS (%)	NS	S	H	SS	NS		
Extra-FEC	29 357 143	10 849 929	132 965 525	173 172 597									
Class 2	15 743 606	4 808 979	54 591 427	75 144 012									
ACP	5 268 480	316 771	6 899 502	12 484 753									
Beneficiary countries ⁽¹⁾	15 572 306	5 031 944	55 267 839	75 871 963	360 371	57 295	645 543	384 504	122 988	1 256 572	1 019 776	3 847 049	
of which:													
Yugoslavia	238 202	336 298	965 756	1 540 256	—	—	11 965	35 893	18 461	184 041	185 414	435 774	
Malaysia	343 619	67 124	919 268	1 330 011	68 407	—	223 075	21 455	275	27 442	19 595	360 249	
Hong Kong	21 057	1 013 816	957 396	1 992 269	—	—	1 686	26 549	46 444	93 124	173 414	341 217	
India	552 213	437 610	650 913	1 640 736	15 175	946	20 870	68 205	3 749	93 596	122 736	325 277	
South Korea	89 475	507 499	660 860	1 257 834	7 644	—	2 971	76 873	36 147	86 271	95 181	305 287	
Brazil	2 247 154	211 271	996 301	3 454 726	71 843	767	44 536	28 001	4 946	47 954	106 937	304 984	
Romania	147 707	172 273	683 140	1 003 120	371	—	4 450	—	213	180 851	62 046	247 931	
Philippines	324 688	66 833	171 903	563 424	32 752	—	57 913	17 377	1 004	14 804	10 331	134 181	
Venezuela	27 184	435	482 592	510 211	—	—	1 143	209	—	120 348	6 178	127 878	
Singapore	34 772	112 218	481 561	628 551	610	—	5 794	24 168	4 118	32 003	57 314	123 917	
Indonesia	449 855	3 293	403 491	856 639	452	53 097	61 668	574	28	219	4 590	120 626	
Thailand	487 564	90 152	173 300	751 016	26 919	—	22 662	19 047	745	32 741	16 768	118 882	
Argentina	1 428 023	134 241	226 748	1 789 012	5 688	—	29 986	13 648	305	16 067	47 699	113 393	
Pakistan	57 401	134 555	81 684	273 640	2 312	—	15 312	22 169	137	68 733	3 821	112 484	
Mexico	163 863	62 298	202 466	428 627	7 010	127	15 463	5 043	2 346	15 978	43 656	89 623	
Columbia	601 041	55 157	56 637	712 835	4 209	2 326	1 245	7 923	32	2 234	2 697	20 666	
Peru	60 657	41 409	202 013	304 079	39	—	13 246	1 617	29	1 017	1 865	17 813	
Total 17 countries	7 274 475	3 446 482	8 316 024	19 036 986	243 431	57 263	533 895	368 751	118 979	1 017 623	960 242	3 300 184	
17 beneficiary countries (%)	46.7	68.5	15.0	25.1	67.6	99.9	82.7	95.9	96.7	81.0	94.2	85.8	

¹ In this table, beneficiary countries = Class 2 - Overseas countries and territories
- Taiwan + Yugoslavia + Rumania

² Calculations on the basis of average values

Source: EEC Statistics

ANNEX I