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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. 388/78) concerning regulations relating to the application, for the year 1979, of the generalized tariff preferences of the European Community

Rapporteur: Lord REAY

PE 55.778/fin.

By letter of 13 October 1978 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 concerning regulations relating to the application of generalized tariff preferences in 1979.

The President of the European Parliament referred this proposal 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 19 October 1978 the Committee on Development and Cooperation appointed Lord REAY rapporteur.

The committee considered the proposal at its meeting of 22 November 1978 and unanimously adopted the motion for a resolution and explanatory statement.

Present: Miss Flesch, chairman; Mr Bersani, Mr Lagorce and Mr Sandri, vice-chairmen; Lord Reay, rapporteur; Lord Castle, Mr Croze, Mr Cunningham, Mr Deschamps, Mr Dewulf, Mr Flämig, Mr Jakobsen, Mr Lezzi, Mr Martinelli, Lord St. Oswald, Mr Seefeld (deputizing for Mr Spénale) and Mr Würtz.

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

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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 concerning regulations relating to the application for the year 1979 of the generalised tariff preferences of the European Community

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council (COM(78) 470 final),
 - having regard to the Communication from the Commission of the European Communities to the Council on the future development of the European Community's generalized tariff preferences (COM(75) 17 final),
 - having been consulted by the Council pursuant to Articles 43 and 113 of the EEC Treaty (Doc. 388/78),
 - referring to its resolutions of 6 October 1970¹, 9 June 1971², 13 December 1973³, 12 July 1974⁴, 17 October 1974⁵, 16 October 1975⁶, 14 October 1976⁷, and 11 October 1977⁸,
 - having regard to the report of the Committee on Development and Cooperation and the opinions of the Committee on External Economic Relations, the Committee on Agriculture and the Committee on Economic and Monetary Affairs (Doc. 474/78),
1. Welcomes the overall increase in the value of the GSP offered in 1979, which maintains the Community's commitment to providing better access to its markets for developing countries;
 2. Notes with satisfaction the improvements offered in the field of agricultural products, an area of key importance to developing countries, particularly the least developed;

¹OJ No. C 129, 26.10.1970, p.13

²OJ No. C 66, 1.7.1971, p.15

³OJ No. C 2, 9.1.1974, p.55

⁴OJ No. C 93, 7.8.1974, p.91

⁵OJ No. C 140, 13.11.1974, p.42

⁶OJ No. C 257, 10.11.1975, p.30

⁷OJ No. C 259, 4.11.1976, p.27

⁸OJ No. C 266, 7.11.1977, p.16

3. Is however concerned about the growing conflict of interest which the extension of GSP creates with the Community's ACP partners, and calls upon the Commission to attempt to reach a satisfactory solution to this problem in consultation with the ACP group;
4. Believes that the Commission proposals for increasing the value of GSP on industrial products represents the maximum progress that can be expected at the present time;
5. Welcomes the measures proposed to help the least developed countries, thus continuing the progress made in 1977 and 1978 in this direction;
6. Approves the proposal to increase substantially the value of duty free textile imports covered by the scheme, and certain measures designed to improve the working of the system; feels however, that while appreciating the case for allocating individual ceilings for individual textile product fields to individual countries, this system will need close oversight to avoid undue rigidity;
7. Believes that the additional measures proposed to enable the GSP to be properly utilised are inadequate, and calls on the Commission to produce new proposals in this field as soon as possible;
8. Believes that the Community's GSP offer must be linked to a policy of restructuring Community industries, within the context of an industrial policy which will enable the Community and the developing countries to develop complementary and mutually beneficial industrial activities;
9. Believes that a formula must be found for ensuring that the GSP are being utilised by beneficiary countries which need them most, in the interest of the development of their economies for the benefit of all sectors of the population;
10. Urges the Commission and Council to take the initiative in promoting greater harmonization of GSP schemes operated by the different donor countries;
11. Also urges the Commission and Council to increase their efforts to achieve a coordination of views of donor countries within the context of OECD, for the GSP systems to be set up after 1980;
12. Requests the Commission to provide a detailed annual report on the working of the GSP;

13. Hopes the Commission will also produce a report as soon as possible on the working of the GSP system to date, which will enable guidelines to be established for the proposals for the new GSP system to be set up after 1980;
14. Approves the Commission's proposals subject to the above observations.

EXPLANATORY STATEMENTINTRODUCTIONA. Scope of the report

It is not here proposed to describe once again the background and history of the GSP. This has been done excellently in the report¹ on the Commission's 1978 proposals. Moreover, the background to the GSP is now well known to most people.

B. Current political and economic situation

The Commission's proposals for 1979 come at a time of considerable difficulty in relations between the developed and developing countries. The North/South dialogue is at a stalemate: the Multilateral Trade Negotiations, or Tokyo round, are bogged down; the GSP schemes operated by developed countries are under attack by the developing countries for not doing enough, and this subject is likely to be one of the main points of discussion at the UNCTAD V meeting in Manila in May 1979.

On the other hand the Community's ACP partners criticize the GSP for eroding their preferential position. In addition, many European industries are in difficulties (e.g. textiles, leather goods and footwear) and protectionism is growing both in Europe and in the other rich countries. The world is going through a period of change, which requires considerable efforts by all concerned to make the necessary adjustments. These factors should be borne in mind when considering the 1979 proposals.

THE COMMISSION'S 1979 GSP PROPOSALSA. Salient features

The proposals which the Commission puts forward manifest the intention of the Council meeting on 27 June 1978 to improve further in 1979 the Community's GSP, and subsequently both the European Council meeting held in Bremen on 6/7 July, 1978 and the Western Economic Summit (WES) held in Bonn on 16/17 July 1978 recognized the requirements of the developing countries for better access for their products.

Further the Commission is attempting to balance the needs of the developing countries for additional improvements in access to the markets of developed countries with the need to be fair to the Community's own

¹Report by Miss FLESCHE on behalf of the Committee on Development and Cooperation, Doc.302/77

industries. The proposals also attempt to take into account the concern expressed by ACP countries and others with which the Community has co-operation agreements, and special efforts are proposed in favour of the poorest countries. A major change is proposed in the way that GSP for textiles operates. It is also proposed to apply the European Unit of Account to the GSP.

The estimated value of the GSP offered for 1979 is 6,600 million EUA for industrial products and 1,300 million EUA for agricultural products, a combined total of 7,900 million EUA. This continues the EEC policy of annually expanding the volume of trade covered by the system, as the following table shows: it must however be noted that the preferences are not fully utilised.

	<u>Value of offer</u> (million units)	Utilization <u>Ratio</u>
1974	3,250 MUA	65%
1975	3,680 MUA	50%
1976	5,250 MUA	67%
1977	6,720 MUA (revised figure)	63.1%
1978	6,800 MUA (revised figure)	
1979	7,900 MEUA	

It should be borne in mind that the total value of the Community's imports in 1977 were about 170,000 million EUA, so that the proportion of imports which benefit from GSP is theoretically about 5%, but since the GSP is only two-thirds utilized (approximately), the proportion of goods actually coming into the Community under GSP represents about 3% of total imports.

B. Agricultural products in Chapters 1 - 24 of the CCT

The Commission considers that since the Community has already brought into effect in 1977 a generous offer on Tropical Products which honours its undertakings under the Tokyo Declaration there is relatively little room for major improvements in the GSP for agricultural products. However, it proposes the following new measures:

- (a) the inclusion of 13 new products in the GSP bringing the total list up to 320: the products involve Morello cherries - both fresh and in various processed forms, concentrated grapefruit juices and Hilsa fish preserved in brine both whole + filleted;

- (b) reductions in the level of preferential duties on 14 products, in particular a large number of different crustaceans, as well as squid and octopus on soluble coffee, cocoa butter, on honey and cigars, whose total trade value is estimated at some 155 million EUA and to ensure more complete utilisation of the quota, increases in the reserve share for pineapples in cubes;
- (c) to exempt the 28 Least Developed Countries¹ altogether from any duties on agricultural items covered by the GSP in Chapters 1 - 24 of the CCT, apart from the six products subject to quantitative limitations by separate regulations.

It has to be noted when considering processed agricultural products that other donor countries have not made a comparable effort in this field.

This is one of the areas of key concern to the ACP States which lead them to fear erosion of their position in the Community's markets. Many of their exports to the Community are agricultural processed goods. The ACP group contend that extension of GSP in this field has led to a decline of ACP market shares both in quantity and value to the benefit of the GSP beneficiaries, and the ACP group has provided specific examples of this. The Community reply has usually been that where such conflicts of interest took place, it was either because of the need to harmonise rates of duty applicable to products from GSP countries with those applicable to products from countries with which the Community had special agreements. Alternatively, the Community has contended that the products concerned were not of direct interest to the ACP.

The Commission believes that the inclusion of the new products in 1979 should not adversely affect the ACP countries. On the other hand, the ACP group contend that the extension of the GSP in this field will damage their exports in a number of specific cases. A Joint Permanent Working Group exists to discuss such clashes of interest, so that the ACP countries can be adequately consulted.

The Parliament has repeatedly urged that the interest of those producers in countries with which the Community has special agreements, such as the ACP States, should be borne in mind when extending GSP. To a certain extent, this is done (e.g. industrial raw materials are not featured in the GSP, because they are a very important export for ACP countries) but judging from the increasing agitation of the ACP

¹As defined by United Nations Resolution 3487 (XXX) of 12 December 1975. However, since 19 of these countries are ACPs, the proposal is perhaps not quite as grand as it sounds.

countries about this question, the Commission's reassurances do not satisfy them. It should be remembered that the Parliament has also constantly urged the effective extension of GSP.

The basic principle is whether the ACP States, who have been given virtually duty free entry into the Community, have thereby been granted preferential access. Are they entitled to demand that other Third World countries should not be given equal access? This is a key question, which must be answered both in the coming negotiations on the renewal of the Lomé Convention, and in the future GSP. Mention should be made of UN Resolution 96 (iv) adopted at UNCTAD IV in May 1976 which states that GSP "should be improved in favour of the developing countries, taking into account the relevant interests of those developing countries enjoying special advantages as well as the need to find ways and means of protecting their interests". Perhaps more effort needs to be made to find these "ways and means".

C. Industrial semi-manufactures and manufactures in Chapters 25 - 49 and 64 - 99 of the CCT

Overall it is proposed to leave the structure of the GSP very much as it has been in 1978. All the ceilings have been re-calculated on the basis of a more recent reference year - 1976. No increase has been accorded in a number of important industrial sectors, notably steel and footwear because of the precarious economic situation in these sectors, and for other products the full effect of the re-calculation cannot be applied. The increase in the quota for plywood has been limited to 5% in order to safeguard the interests of the ACP countries instead of 13.3% were the formula to be applied in full. In the field of non-sensitive products, the normal increase of 15% applies.

The Commission also proposes, as part of its special package in favour of the Least Developed Countries, to suspend the re-application of the maximum country amounts on both the sensitive and the special maximum country amounts lists, which carries a stage further the relaxations in regard to semi-sensitive and non-sensitive products introduced in 1977 and 1978. The effect of these measures is that for the Least Developed Countries, even when exporting sensitive products, there will be no reimposition of duties once they have reached their ceilings. Parliament welcomed the special measures built into the 1977 and 1978 proposals to help the Least Developed Countries and these new measures of liberalization represent further progress.

A further measure of liberalisation is indicated by the Commission in suggesting that a more liberal system of management should be introduced in the list of products subject to special maximum country amounts where the removal of the 50% limitation on imports into any one Member State can no longer be put off. This means that the re-introduction of duties when ceilings are reached in these products will not be automatic.

Overall, these measures seem to represent satisfactory progress being a reasonable balance of the various interests at stake, and representing an increase in the GSP offer which takes account of inflation and is thus a real improvement.

D. TEXTILES

(i) Background

The most fundamental change in the Commission's GSP proposals concerns textiles. It is not intended to describe in detail the problems of the textile industry in Europe, which are well known and have been discussed elsewhere¹. The Community market has been under intense pressure from textile imports from a number of sources - from eastern Europe, from southern Europe and from certain developing countries - with severe repercussions on profitability and employment in this very important Community industry.

The Multifibres Arrangement was renewed in 1977; its purpose is primarily to bring about an orderly expansion of textile trade in the world. Under Article 4, signatories to the agreement, (i.e. importers and exporters) "may conclude bilateral agreements on mutually acceptable terms" to eliminate market disruption, and this is indeed what the Community has done. By the beginning of 1978, 23 agreements were signed, in which the supplying countries 'voluntarily' agreed to limit their exports.

As part of the agreements, and to honour undertakings apparently made by the Community at the time, the Commission proposes action to be taken on the GSP as follows:

(ii) The Commission proposals

In essence, now that the 'voluntary' quantitative limits on imports have been agreed, the Commission is proposing to virtually double (from 84,000 tonnes to 162,000 tonnes) the quantity available for duty free imports. This should be seen within the context of total imports of

¹ Report by Mr NORMANTON on behalf of the Committee on Economic and Monetary Affairs on the crisis in the textile industry (Doc. 438/77)

1,500,000 tonnes of processed textile imports from all sources (excluding jute and coir products) of which 1,300,000 tonnes is from countries with low production costs.

The Commission believes that this move can be taken now because the mechanism for import limitations has been set up and is working with a consequent easing on the pressure on prices.

A further new measure is the up-dating of the old GSP classification of product to bring it into line with the system in use for the MFA, thus helping to identify the sensitivity of products and improving the co-ordination of commercial with industrial policy. A single, uniform classification system helps surveillance and control. As far as the beneficiaries are concerned, for products covered by the MFA, the new scheme for textiles is reserved for member countries of the Group of 77, of which there are now 119, and dependent territories which have concluded bilateral agreements or analogous arrangements with the Community.

Each beneficiary country is given, for each category of product, an individual duty free share based either on a percentage of 1977 imports or on a percentage of the threshold beyond which the Community can ask for voluntary restraint in accordance with the bilateral agreements. For certain very competitive countries (e.g. South Korea, Romania and Hong Kong) these duty free shares are relatively small, in view of the competitive position these countries already have in the Community market. Duty free ceilings are also set for different categories of products, depending on their sensitivity. Products covered by MFA amount to 140,000 tonnes, and non-MFA products amount to 22,000 tonnes.

The quantities offered are subject to Community tariff ceilings. Some of these are allocated among Community Member States, although there are provisions made for each State to exceed its share providing the Community ceiling is not reached.

The Least Developed Countries will benefit from two innovations: for MFA products, the limitation on individual shares will not be applied when ceilings are not specifically allocated; for non-MFA products the maximum country amounts will not be applied to products which are subject to non-allocated ceilings.

The Commission believes that the new scheme for textiles is simpler, provides security for all users, and particularly the less competitive ones, and a degree of objective differentiation amongst beneficiaries.

(iii) Comment

Many of the ideas proposed for textiles are to be welcomed. The new classification system should help considerably in controlling textile imports and will clarify the issues involved in drawing up a policy for the textile industry. The doubling of the duty free admission appears to be a quid pro quo for the acceptance by the supplying countries of the bilaterally agreed limitations. The more flexible system whereby Member States can exceed their ceiling providing the Community ceiling is not breached is also to be welcomed.

However, your committee has certain reserves about the proposal to give each beneficiary country an individual allocation for individual products.

The system that was introduced last year, which the Parliament welcomed, provided for 30% of the total GSP to be reserved for the very competitive countries, and 70% for the remainder. This system appeared flexible, allowed for competition, and for freedom of trade. The new system, as proposed by the Commission seems to be much more rigid. This might thus inhibit competition amongst developing countries, and could also be seen as a means of forcing supplier countries to produce goods which although complementary to existing high-priced Community goods, may not be in the long-term interest of consumers, or indeed of the Community as a whole, or of course of the developing countries concerned. Further, it increases the bureaucratic controls necessary in order to implement it.

To make these points more simply, the Commission is at present proposing to allocate shares on the basis of 1977 tariffs by each country or according to a percentage of the threshold beyond which the Community can request voluntary restraint in accordance with the bilateral agreements. Thus the Community can not only set overall limits to production, on the basis of "voluntary" bilateral agreements, but virtually specify what type and what quantity of goods from which country can be imported duty free and which industries in these countries should be developed, presumably to meet Community needs.

The Community has given undertakings at the time of signing the bilateral agreements that the GSP would be improved both quantitatively and qualitatively. It is important that the sacrifices made by the supplier countries should be compensated by improvements to the GSP, but it would perhaps be advisable that the method which the Commission proposes should be further discussed before being implemented.

(iv) Additional measures

The Community will be organizing a programme of seminars in beneficiary countries with the emphasis not so much on general expositions of the GSP but on practical discussions with business interests and selective briefings for particular economic sectors. The Commission believes that more work in this field will be necessary and expresses the hope that agreement can be reached on the appropriate means to achieve this. The European Parliament has always laid great emphasis on these additional measures and in view of the failure to reach agreement on the European Agency for Cooperation, it is to be hoped that the Commission will produce new proposals for providing this additional help.

(v) Restructuring

No mention is made in the Commission's document of the need to restructure the Community's own industry. It is not made clear that the quantitative controls which have been achieved under the MFA and bilateral agreements are a temporary agreement, lasting for five years only, and based on the understanding that this period when the Community market will be more or less protected will be used to achieve substantial restructuring.

Restructuring is not just necessary in textiles, but in many other industries, such as leather goods, footwear and steel.

When the GSP system was created during the boom conditions of 1968, the possibility that growth would virtually halt in the developed world could not be envisaged.

GSP now needs to be linked to restructuring policies. In practice, this means that the internal policy of the Community and its policy on GSP need to be considered jointly.

The absence of mention of this aspect in the existing Commission proposals is noteworthy.

(vi) List of beneficiary countries

Parliament has repeatedly called for this list to be revised, so that relatively 'rich' countries should not benefit from GSP. There are of course political and economic problems in revising this list, and it could be argued that although certain countries are rich because of dependence on one product, they need the benefit of GSP in order to help them diversify. Hong Kong for example is currently making great efforts to diversify into product fields other than textiles, and has been successful in building up its electronics industry partly as a result of GSP. The Parliament appreciates that the problems involved in revising the list of beneficiaries are considerable, but believes that a new formula must be found to ensure that GSP are being effectively used by those countries and sectors of industry which most need it in their development policy.

(vii) Harmonisation of donor schemes

The Parliament has repeatedly drawn attention to the need for greater harmonisation amongst the various GSP systems. Schemes operating include those of the EEC, Japan, Norway, Finland, Sweden, New Zealand, Switzerland, Austria, Canada, United States and Bulgaria. All the systems are autonomous, having their own rules, their own special mechanisms, and very different eligibilities. Certain common features exist, e.g. the same rules of origin are implemented in different schemes. It is right that each group or country should be able to draw up its own scheme, but it must surely be possible to achieve a greater degree of harmonisation, by mutual consultation. Perhaps the Commission could take the initiative of suggesting such consultation between donor countries.

(viii) Minimum working standards

Mention has been made in Parliament's reports¹ of the need for a link between economic development policy and certain basic social norms with regard to working standards. The Commission is currently studying this problem, with a view to drawing up proposals; the subject is a

¹See for example FLESCH report (Doc.302/77)

tricky one, since it could be seen by Third World countries as another 'non-tariff barrier', another example of hidden protectionism, but on the other hand it could have the advantage, provided it was not used for that purpose, of making free trade policies more acceptable to vulnerable sectors of European industry.

(ix) Evaluation of GSP

Finally, now that considerable experience has been gained in running the GSP, it would perhaps be a good idea for the Commission to present an annual evaluation of the effectiveness of GSP, which would be available for Parliament to see.

OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Draftsman : Sir Geoffrey de FREITAS

On 30 October 1978 the Committee on External Economic Relations appointed Sir Geoffrey de Freitas draftsman.

The draft opinion was adopted unanimously at its meeting of 22 November 1978.

Present: Mr Scott-Hopkins, vice-chairman and acting chairman; Sir Geoffrey de Freitas, draftsman; Mr Baas, Mr Bersani, Lord Castle, Mr Fitch, Lord Kennet, Mr Tolman and Mr Vandewiele.

1. The generalized tariff preferences scheme (GSP) for 1979 is being drawn up in a period of turmoil. When the system was first set up in 1968, no-one could foresee that the economic situation would have changed so radically by the mid-1970s. In the 1960s, the relationship between the industrialized nations and the developing countries was much more clearly defined in some respects than it is now. In the 1960s, the economies of the industrialized nations grew annually as though following a natural law. At the same time, the gap separating them from the developing countries seemed likely to go on increasing. It was clear that the economic position of the developing countries had to be improved, for one thing by facilitating their access to the industrialized nations' markets.

2. It would be an exaggeration to claim that the relationship has been completely reversed. After all, it is not only our continent which has undergone an economic crisis; the non-oil-producing developing countries in particular have suffered from its adverse effects. And we know these effects only too well: recession in world trade, uncertainty with respect to export revenues (especially in the case of those countries whose income derives mainly from a single crop), reduction in growth rates, unemployment, etc.

3. But compared with 1968, there are two aspects of the traditional pattern which have changed radically. Firstly, 'growth' and 'prosperity' can no longer be taken for granted in the West now that we, too, have to contend with serious economic problems such as inflation and unemployment. Secondly, some developing countries are becoming rapidly industrialized and the range of products they can supply increasingly diversified. Brazil, Hong Kong and South Korea are good examples of this. It is above all the most-developed developing countries which have so far been able to derive most benefit from the GSP.

4. As regards the specific relationship between the developing countries and the Community we might add that as a result of the preferential agreements which the Community has concluded with a large number of developing countries (Convention of Lomé and the Mediterranean Agreements), the benefits accruing to these countries under the GSP have to some extent been nullified. Consequently the system of generalized preferences is of particular importance to the Latin-American countries and many Asian countries - which are not associated with the Community by preferential agreements.

5. The conclusion that must be drawn is that when the Community is drawing up its generalized system of preferences it must try to strike a proper balance between a number of interests which partly contradict one another, such as :

- the desire to continue encouraging world trade in general ;
- the developing countries' need to obtain easier access to the industrialized nations' markets ;
- the Community's responsibility to protect its own industries ;
- the concern of those countries with which the Community has concluded preferential agreements at the whittling away of the preferences granted to them ;
- the need to concentrate our efforts in particular on the poorest and least developed countries.

This is an extremely difficult task. In practice it means that while the preferences must be constantly improved, the Commission must be more selective than in the past as regards the industrial sectors and the beneficiary countries concerned.

6. Between 1974 and 1978 the value of the import opportunities falling within the terms of the Community offer rose from 3,250 m u.a. to 6,800 m u.a. with respective annual increases of 430 m u.a., 1,920 m u.a., 1,120 m u.a. and 80 m u.a. In 1979 the preferential offer will represent a value of 7,900 m EUA (6,600 m EUA for industrial products and 1,300 m EUA for agricultural products) which corresponds to roughly 4% of total Community imports (which in 1977 amounted to 170,000 m EUA).

However, these opportunities have never been fully utilized. In the last few years the utilization percentage has been roughly 65% (except in 1975 when it was only 50%). On previous occasions your committee has pointed out that the preferences granted were still being insufficiently utilized, especially by the least developed countries. This is due in part to the system's extreme complexity. We are, however, aware that the Commission is doing its utmost to increase the utilization of the preferences granted in particular for the benefit of the least developed developing countries. Their efforts are also reflected in the present proposals.

7. With respect to agricultural products, the Commission states that after the sizeable offer on tropical products which it made as part of the Tokyo Round, there is little room for further improvements in the generalized system of preferences. Nonetheless, the following three improvements are proposed :

- the inclusion of 13 new products in the system, bringing the total list up to 320 ;
- reductions in the level of preferential duties on 14 products, whose total trade value is estimated at 155 m EUA ;
- total exemption for the 28 least developed countries from all duties on agricultural items covered by the GSP in Chapters 1 to 24 of the Common Customs Tariff (CCT) (apart from quantitative limitations on six of these products).

8. Nor are there any radical changes in the preferences granted for industrial semi-manufactures and manufactures. The exception to this is the introduction of a few liberalization measures in favour of the least developed countries with respect to the suspension of customs duties if the ceiling is exceeded and to the abolition of quantitative restrictions on importation into a Member State of the Community. And, as usual, all the ceilings have been recalculated on the basis of a more recent reference year (1976).

9. The most radical change in the generalized system of preferences will be in the textile sector. In the case of these products the GSP needs to be adapted to the situation which has arisen since the conclusion of the Multifibre Arrangement (MFA) and the related bilateral voluntary restraint agreements and unilateral arrangements.

Up to the end of 1977 there was scarcely any possibility for the Community to make improvements under the GSP since the control machinery was not equal to the task of ensuring the orderly growth of imports, especially of sensitive products.

10. The 1978 GSP for textiles covered a duty-free volume of 84,000 tonnes. That year the total imports of textile products into the Community amounted to 1.5 million tonnes of which 1.3 million tonnes originated in countries with low production costs. Of that, 1.1 million tonnes were products covered by the MFA, of which 900,000 tonnes were subject to voluntary restraint of quantities.

11. In other words, 60% of total textile imports into the Community are subject to quantitative restrictions. This means that tariff restrictions have largely been replaced by quantitative arrangements. That fact must be taken into account when the scheme for textile products is drawn up; which means that the GSP must be adapted to the MFA and voluntary restraint measures. In the Commission's proposals this development is taken into account as follows :

- (a) A new system of product classification has been developed which takes account of the sensitivity of products in relation to existing industrial sectors and gears commercial policy to industrial policy. This classification - on which the bilateral agreements are also based - has been accepted by the third countries involved.

As regards the coordination of commercial policy with industrial policy, it should be noted that the binding regulations on voluntary restraint are only temporary. The bilateral agreements will expire at the end of 1982 and the MFA at the end of 1981. This period must be used to improve the competitive position of the Community's industry at Community and world level. It is worthwhile recalling that the Community's partners in question have accepted the bilateral agreements explicitly on this political condition.

- (b) The volume eligible for exemption from duty has been doubled to 162,000 tonnes. Of this, roughly 140,000 tonnes are products covered by the MFA with 22,000 tonnes not so covered. It has been possible to double the total volume because of the considerable price increase on imports into the Community resulting from the bilateral agreements. Consequently there is no longer any danger that the Community market might be flooded with cheap goods. This measure gives an important advantage to our textile-producing partner countries as compensation for the bilateral agreements : they are now more certain of being able to export a larger quantity of products and of a real increase in their export revenue since the pressure on import prices has been eliminated.

- (c) (i) As regards the products covered by the MFA (a total volume of 140,000 tonnes, equal to 27% of imports from beneficiary countries in 1977) the GSP is reserved for the member countries of the Group of 77 (which now number approximately 120) and dependent territories which have taken voluntary restraint measures, or intend to do so, whether or not via bilateral agreements. For each category of product each beneficiary is given an individual quota share corresponding to a certain percentage either of its actual exports to the Community in 1977 or of an import threshold agreed under the terms of the bilateral agreements. The volume offered to Hong Kong, Romania and South Korea corresponds to a proportion of that specified for the other beneficiaries in view of the special competitive position of these three countries and their dominant position on the Community markets.

Although this system is less flexible than last year - when 30% of the GSP was reserved for the most highly competitive countries and 70% for the remainder - it has the advantage of providing greater security for the beneficiary countries, which will now no longer need to compete with each other. Furthermore, the Commission will now be able to monitor imports more effectively.

(ii) For products not covered by the MFA (a total of 22,000 tonnes, equal to 55% of imports from beneficiary countries in 1977) the GSP will remain open to all countries and territories which are normally beneficiaries in the other industrial sectors. For these products there will be no individual quota share for each country; in other words, the present system will be maintained.

(d) The quantities offered are subject to Community tariff ceilings either allocated among the Member States or not. As far as the allocated ceilings are concerned, the Member States will have the right to exceed their share as long as the Community ceiling has not been reached.

(e) The least developed countries will be able to utilize the GSP on more favourable terms since in their case :

- for MFA products there will be no limitation on individual shares for ceilings not allocated (i.e. the Community reserve),
- for non-MFA products, the cut-off (re-introduction of customs duties once 50% of the total volume of a certain product has been exceeded by one exporting country) will not be applied.

It is, however, doubtful whether the least developed countries, given their low utilization percentage, will benefit greatly from these special provisions.

12. The Committee on External Economic Relations welcomes the fact that the Commission has proposed a number of measures designed to give the beneficiary countries a better understanding of the generalized system of preferences. To this end, seminars will be organized at which not only general information will be given but also practical discussions will be conducted with businessmen. The developing countries have a great need for wide-ranging information on how the system works.

13. The system is further complicated by the fact that, apart from the Community, a large number of other industrialized nations have introduced their own GSP. The various systems need to be coordinated as much as possible.

14. The difficulties which the beneficiary countries, and especially the least developed countries, encounter in this labyrinth of administrative rules and provisions must be cut to a minimum. Only then will they be in a position to derive maximum benefit from the preferences granted to them.

Subject to the above comments, the Committee on External Economic Relations recommends that the Committee on Development and Cooperation, being the committee responsible, adopt these proposals unchanged.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr M. CIFARELLI

At its meeting of 30/31 October 1978 the Committee on Agriculture appointed Mr Cifarelli draftsman.

It considered the draft opinion at its meeting of 30 November/1 December 1978 and adopted it by 9 votes with 3 abstentions.

Present: Mr Caillavet, chairman and deputy draftsman; Mr Hughes, vice-chairman; Mr Andersen, Mr Cunningham, Mr Früh, Mr Hansen, Mr Joxe, Mr Klinker, Mr McDonald (deputizing for Mr Pucci), Mr Ney, Mr Pisoni and Mr Tolman.

1. In respect of agriculture, the Generalized System of Preferences (GSP) provides for tariff concessions, mostly in the form of duty reductions or total exemption, on some 300 agricultural products. There are no restrictions on quantity, except in respect of products subject to quotas, i.e. tobacco, canned pineapple, cocoa butter and soluble coffee. A selective safeguard clause provides for the reinstatement, if necessary, of the duty when the quantities or the prices of imports represent a threat to similar or competitive Community products.

The number of independent developing countries which are now beneficiaries of the GSP is 113.

2. Within the agricultural sector, i.e. Chapters 1 to 24 of the Common Customs Tariff, the Commission's new proposals for the GSP for 1979 comprise the following concessions.

- inclusion of 13 new customs duties headings or subheadings concerning three products: Morello cherries, grapefruit juices and Hilsa fish;
- reduction in the level of preferential duties on some crustaceans (generally, from 8% to 7%), on octopus, squid and cuttlefish (from 5-6% to 4%), on honey (from 25% to 22%); on the quotas for soluble coffee (from 9% to 7%) and for cocoa butter (from 8% to 6%), and on cigars (from 47% to 42%); moreover an increase in the reserve share of pineapples not in slices;
- complete exemption for the 28 Least Developed Countries¹ from duties on items covered by the GSP, except for products subject to quota restrictions.

3. It will be seen from the annexed Tables I and II that imports from developing countries of products newly granted tariff concessions under the 1979 GSP are not large, either absolutely or as a fraction of imports from all the third countries.

¹ These are: Afghanistan, Upper Volta, Bangladesh, Benin, Butan, Botswana, Burundi, Chad, Ethiopia, Gambia, Guinea, Haiti, Laos, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, the Arab Republic of Yemen, the Central African Republic, the Peoples' Democratic Republic of Yemen, Rwanda, Western Samoa, Somali, Sudan, Tanzania and Uganda.

It should be borne in mind that in many cases no statistics are available for the exact tariff subheading to which the new concessions apply, hence the data shown in the tables should be regarded as approximate indications.

4. Some of the products, however, are of considerable importance for the developing countries: this is particularly the case for honey (almost 50% of total imports from third countries), crustaceans and molluscs. For honey, the proposed reduction would bring the CCT rate to 22%, as compared with the 25% of the current GSP, the 30% normal CCT (or the 27% conventional duty rate).

The tariff barrier against honey thus remains rather high in absolute terms, in order to protect domestic production, and it is therefore doubtful whether the present modest reduction will have any substantial effect on the evolution of imports of this product from the countries to which the GSP applies. The reduction for the other two products is also of the order of 1-2% with respect to the current GSP rate and so unlikely to have a significant effect.

5. The only proposal for 1979 of any importance, therefore, is that concerning the total exemption from duty for the 28 Least Developed Countries, and it is an innovation to be welcomed insofar as it accords with the Committee on Agriculture's oft-repeated call to make the poorest countries the principal beneficiaries of the GSP¹.

6. The Commission has very usefully provided, at our committee's request, updated information on the utilization of the GSP by the beneficiary countries. These statistics, which are annexed to the present opinion, show that the rate of utilization of the tariff quota has been high for tobacco and canned pineapple, and medium for soluble coffee, while for cocoa butter it has been practically nil (0.3% in 1977). It would be useful for the Commission to provide an elucidation in respect of this product and perhaps suggest remedies (substitution of other products for cocoa butter, a more vigorous publicity campaign, further reduction of duties or similar measures).

In its reply, the Commission explained that there was strong competition from the ACP countries which are exporting 30 to 40 thousand tonnes of this product to the Community free of customs duty. In addition, the duty paid on cocoa butter used by industry to manufacture chocolate and other products is refunded to industry, which means that the concessions granted under the GSP are of less significance. Nevertheless, the reduction in duty now proposed, from 8% to 6%, ought to have a beneficial effect on the volume of imports taken from GSP beneficiary countries.

¹ See the CORRIE opinion on the 1977 GSP in Doc. 302/77

7. Finally, the general remarks put forward by our committee in previous years again apply to the present proposals. The Commission should reply to these, and furnish information on what has been done in the meantime, notably in respect of:

- coordination at administrative level among the Nine; the shortcomings in this area are an obstacle to full utilization of the GSP by the beneficiaries;
- the list of beneficiary countries, where countries with a high GDP will be found next to some of the poorest;
- increased publicity, especially vis-à-vis the poorest beneficiary countries, which are also the ones that make the least use of the GSP;
- the relationship between the GATT negotiations and the offers under the GSP.

CONCLUSIONS

8. The Committee on Agriculture

1. Welcomes the fact that for the 28 Least Developed Countries total duty exemption is proposed for non-quota agricultural products included in the GSP, because it feels that this proposal is intended to give more help to the least advanced countries - something the committee has repeatedly urged;

2. Is of the opinion that the remaining proposals in the area of agriculture are rather limited in scope and give rise to no specific reservations or comments;

3. Requests the Commission to inquire into the reasons for the non-utilization by the beneficiary countries of the 21,600 tonne quota for cocoa butter at a reduced duty rate and to propose suitable remedies;

4. Urges the Commission once again to endeavour to improve co-ordination at administrative level among the Member States, to promote publicity in the countries benefiting from the GSP and, possibly, to revise the list of these countries so as to increase the effectiveness of the system.

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IMPORTS TO THE COMMUNITY (1975)¹

A - New products included in the GSP

Products	From all third countries		From developing countries	
	tonnes	value (1000 EUA)	tonnes	value (1000 EUA)
Cherries (all types)				
- from 1 May to 15 July	10,651	4,948	-	-
- from 16 July to 30 April	1,899	867	-	-
Fruit preserved by freezing, without sugar ²	24,830	10,342	750	309
Cherries provisionally preserved	6,888	2,254	-	-
Dried fruit ³	1,882	1,343	948	492
Fruit preserved by freezing with added sugar	190	138	-	-
Fruit juices of specific gravity exceeding 1.33 ⁴	1,627	1,559	533	286
Spirits prepared from pears, apples or cherries in containers holding two litres or less	103	332	34	100
Fish, dried, salted or in brine ⁵ , not in fillets	5,383	4,388	337	426
Idem, in fillets	202	324	-	-

¹ Source: EUROSTAT - Analytical tables for external trade, 1975

² except berries: strawberries, raspberries, etc.

³ except apricots, peaches, prunes, apples, pears and papaws

⁴ except grape-, apple- and pear-juice

⁵ except herring, cod, anchovies, halibut and salmon

ANNEX II

IMPORTS TO THE COMMUNITY (1975)¹

B - Products for which improvements in the GSP are proposed

Products	From all third countries		From developing countries	
	tonnes	value (1000 EUA)	tonnes	value (1000 EUA)
Crawfish	2,254	13,778	1,276	8,508
Lobsters (live)	808	4,827	53	293
Crabs and freshwater crayfish	1,365	3,534	-	-
Shrimps and prawns	23,908	54,857	16,666	38,277
Other crustaceans ²	585	1,547	154	426
Molluscs ³	31,438	22,572	14,389	11,896
Honey	81,238	52,898	42,720	26,359
Extracts or essences of coffee and preparations based on these	8,083	40,122	1,035	3,885
Cocoa butter	37,918	96,741	1,746	4,143
Cigars	979	17,003	236	3,270

¹ Source: EUROSTAT - Analytical tables for external trade, 1975

² other than crawfish, lobsters, crabs and freshwater crayfish, shrimps and prawns

³ including octopus, but excluding oysters, mussels and snails

Utilization of GSP agricultural tariff quotas
in 1976 and 1977¹

		Quota (tonnes)	Utilization (tonnes)	%
1. Virginia tobacco ex 24.01 A+B	1976:	38,000	37,220	97.9
	1977:	60,000	58,973	98.3
	1978:	60,000 (2% reserve)		
2. Other tobaccos ex 24.01 A II	1977:	2,500	2,349	94.0
3. Cocoa butter 18.04	1976:	21,600	1,093	5.1
	1977:	21,600	70	0.3
	1978:	21,600 (10% reserve)		
4. Soluble coffee ex 21.02 A	1976:	18,750	14,893	79.4
	1977:	18,750	11,511	61.4
	1978:	18,750 (10% reserve)		
5. Canned pineapple, not in slices	1976:	30,000	25,400	84.7
	1977:	45,000 (20% reserve)	31,818	70.7
	1978:	45,000 (20% reserve)		
6. Canned pineapple, in slices	1976:	28,000	23,672	84.5
	1977:	28,000	26,497	94.6
	1978:	28,000 (5% reserve)		

¹ The unofficial figures in this and the following tables were supplied by the Commission (DG VI A 1)

UTILIZATION OF THE GSP
by the beneficiary countries

EEC imports

in 1000 EUA

	1976	1977
1. Agricultural products in Chapters 1-24 of the CCT, apart from those subject to quotas or ceilings	547,381	645,635
2. Virginia tobacco (ex 24.01 A+B)	61,381	116,309
3. Other tobaccos (ex 24.01 A II)(ceiling)	-	-
4. Cocoa butter	3,830	358
5. Soluble coffee	90,668	131,813
6. Pineapple, not in slices	9,963	16,597
7. Pineapple, in slices	11,988	17,414
Total	725,211	940,755

EEC imports from less-favoured countries in 1976
(in 1000 EUA)

Origin	Total CCT 1-24	Under GSP
Bangladesh	20,341	6,738
Afghanistan	6,459	1,024
Laos	13	-
Butan	3	-
Nepal	1,029	23
Sikkim	-	-
Maldives	10	-
Peoples' Democratic Republic of Yemen	412	129
Arab Republic of Yemen	117	25
Haiti	25,363	991
	<u>53,747</u>	<u>8,930</u>

Situation as at 20.6.1978

IMPORTS FROM GSP COUNTRIES
(in descending order and 1000 EUA)

Products Chapters 1-24 CCT

	GERMANY	BENELUX	FRANCE	ITALY	DENMARK	IRELAND	UNITED KINGDOM	EEC
MALAYSIA	22,130	43,359	3,869	2,725	6,272	653	144,069	223,077
INDONESIA	20,952	17,262	7,597	989	980	658	13,230	61,668
PHILIPPINES	17,349	7,324	2,853	1,179	954	351	27,904	57,914
BRAZIL	7,476	2,186	16,226	510	253	-	17,888	44,539
ARGENTINA	13,940	5,464	4,288	585	146	-	5,563	29,986
SRI LANKA	2,396	2,787	4,873	98	236	349	15,225	25,964
THAILAND	5,413	2,653	9,239	982	683	-	3,693	22,663
CUBA	524	979	16,266	338	86	11	4,384	22,588
CHILE	16,130	334	2,393	550	1,257	-	486	21,150
INDIA	1,156	1,709	7,228	620	66	-	10,090	20,869
MEXICO	9,827	2,104	785	11	328	-	2,405	15,460
PAKISTAN	2,482	607	2,770	24	4,302	-	5,129	15,314
IRAN	3,097	2,459	3,136	-	562	-	4,528	13,782
PERU	6,212	2,188	793	2,296	392	-	1,367	13,248
YUGOSLAVIA	8,150	358	595	2,636	-	-	228	11,967
SINGAPORE	1,653	1,243	561	58	8	-	2,181	5,704
BANGLADESH	604	2,639	472	-	-	-	1,295	5,010
ROMANIA	4,018	246	42	142	-	-	-	4,448
ECUADOR	2,366	226	808	24	-	-	22	3,446
PARAGUAY	1,617	761	549	41	1	-	10	2,979
KOREA (SOUTH)	1,311	976	460	-	14	-	208	2,969
KENYA	61	-	-	-	215	-	2,314	2,590
MOZAMBIQUE	-	59	2,065	-	-	-	4	2,128
AFGHANISTAN	676	37	865	171	-	-	23	1,772
HONG KONG	158	285	120	-	15	-	1,106	1,684
GUATEMALA	1,167	11	-	-	1	-	200	1,379
COLOMBIA	310	33	846	22	-	-	33	1,244
VENEZUELA	16	33	1,095	-	-	-	-	1,144
NEW GUINEA	283	784	7	-	-	-	-	1,074
EL SALVADOR	818	-	-	-	-	-	90	908
SYRIA	231	85	490	19	47	-	-	872
PANAMA	790	74	-	-	1	-	-	865
HONDURAS	439	72	62	40	19	-	196	828

	GERMANY	BENELUX	FRANCE	ITALY	DENMARK	IRELAND	UNITED KINGDOM	EEC
EGYPT	50	36	617	25	-	-	53	781
KUWAIT	23	6	62	-	-	-	351	442
BERMUDA	-	-	440	-	-	-	-	440
URUGUAY	347	27	26	-	-	-	-	400
TANZANIA	17	-	-	-	-	-	374	391
CYPRUS	18	-	12	-	-	-	351	381
HAITI	63	14	233	-	4	-	11	325
SENEGAL	294	8	-	-	-	-	-	302
BURMA	35	130	-	-	-	-	64	229
GHANA	-	-	-	-	-	-	220	220
DOMINICAN REPUBLIC	133	-	-	-	-	-	20	153
MOROCCO	52	12	-	-	-	-	77	141
IRAQ	42	23	32	-	-	-	-	97
IVORY COAST	-	-	-	78	-	-	-	78
NICARAGUA	24	8	-	-	-	-	40	72
COSTA RICA	66	2	-	-	-	-	4	72
BOLIVIA	-	-	64	-	-	-	1	65
YEMEN ARAB REPUBLIC	-	-	54	-	-	-	-	54
MALAGASY REPUBLIC	9	-	-	-	16	-	11	36
SWAZILAND	-	-	-	-	-	-	22	22
SUDAN	19	-	-	-	-	-	-	19
PACIFIC ISLANDS (USA) ¹	-	-	-	15	-	-	-	15
GRENADA	3	-	-	8	-	-	-	11
MALAWI	10	-	-	-	-	-	-	10
JAMAICA	2	4	-	-	-	-	4	10
LEBANON	-	-	10	-	-	-	-	10
GUINEA	-	-	-	-	-	-	7	7
CAPE VERDE ISLANDS	-	-	2	-	-	-	-	2
ARUBA & CURAÇAO	-	2	-	-	-	-	-	2
SEYCHELLES	1	-	-	-	-	-	-	1
MAURITIUS	1	-	-	-	-	-	-	1
CAYMAN ISLANDS	-	-	-	-	-	-	1	1
BARBADOS	-	-	-	-	-	-	1	1
E. INDIES	1	-	-	-	-	-	-	1
SAUDI ARABIA	-	-	1	-	-	-	-	1
P.D.R. OF YEMEN	-	-	1	-	-	-	-	1

¹ Islands in the Pacific under United States administration or sovereignty

646,027

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Letter from the chairman of the committee to Miss Colette FLESCH,
chairman of the Committee on Development and Cooperation

22 November 1978

Dear Madam Chairman,

At its meeting of 21/22 November 1978 the Committee on Economic and Monetary Affairs examined the proposals submitted by the Commission in regard to the European Community's generalized tariff preferences scheme for 1979.

In contrast to the scheme proposed in 1978, when there was no change in what the Community offered, the Commission proposes that for 1979 the import ceilings for a number of semi-sensitive products should be substantially raised. The Council has endorsed this line in the hope that it will help to improve significantly the overall results of the multi-lateral trade negotiations. The Commission makes it clear, however, that these proposed quota increases are exceptional and in no way prejudice the implementing measures taken in the longer term. Any appreciable increase in quotas designed to make access to the Community markets still easier has to be preceded by a critical appraisal of the state of our industries. Several industries now facing extreme difficulties, notably steel and footwear manufacturing, are at present incapable of withstanding excessively strong competition from low-price imports. Consequently, any increase in the quotas for these products has either had to be dismissed or else ~~strictly~~ strictly limited. In this connection, it needs to be emphasized once again that the 'crisis' industries, which are protected by special temporary measures against competition from imports at excessively low prices, must take advantage of these measures to reorganize, for only when they have done so will it be possible to satisfy the demands of the third countries and improve access to our markets. Coordination of our trade and industrial policies is essential.

Apart from industrial manufactures and semi-manufactures, the proposal also covers agricultural products, which are extremely important, but this is a matter which requires the opinion of the Committee on Agriculture. Finally, a special chapter is devoted to textiles. A new scheme is proposed to rationalize this sector following the renegotiation of the Multifibre Arrangement and the conclusion of bilateral agreements with most of the Community's suppliers of textiles. The various bilateral agreements and the autonomous arrangements have made for improved market

discipline and are now adequate to forestall market disturbances. They have also made possible a substantial increase in import prices. Consequently, less importance now attaches to the level of tariffs, which has led the Commission to propose a doubling of imports under the duty-free entry arrangements. The Committee on Economic and Monetary Affairs has given extensive coverage to its views on the situation in the Community textiles industry and on the relevant import mechanisms in its report on the crisis in the textile industry (Doc. 438/77). As far as the present proposals are concerned, it should perhaps be recalled that steps need to be taken to encourage the developing countries to diversify their production still further. In this regard, it may reasonably be asked why countries like Hong Kong, South Korea and Rumania, which enjoy a dominant position on the Community textile market, should still benefit from the duty-free arrangements for textiles. This question is an important one, notwithstanding the fact that a limit is placed on the volume of imports from these countries.

Last year the Committee on Economic and Monetary Affairs urged a more rational sharing of advantages among the countries currently benefiting from the scheme, so that it would favour the poorest. The Commission has formulated a few proposals with this in mind. However, pending the review of the list of beneficiary countries, which has been postponed until after 1980, much more still needs to be done to improve the position of the poorest countries.

There has been no improvement in the use of the GPS, which is roughly 63.1% of capacity. Measures must be taken to encourage further take-up. The Commission hopes that it will be possible to reach an agreement next year on suitable arrangements for meeting the demand both from exporters and importers for information on the system of generalized preferences.

Would you please consider this letter as the opinion intended for your committee on the generalized preferences scheme for 1979.

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(sgd) Edgard PISANI

Present: Mr Pisani, chairman; Mr Ansquer, Mr Edwards, Mr Ellis, Mr Glinne
Mr Haase, Mr Halvgaard, Mr Starke, Mr Stetter