

# COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a  
COUNCIL REGULATION (EEC)  
applying generalized tariff preferences for 1987 in respect of certain  
industrial products originating in developing countries

Proposal for a  
COUNCIL REGULATION (EEC)  
applying generalized tariff preferences for 1987 to textile products  
originating in developing countries

Proposal for a  
COUNCIL REGULATION (EEC)  
applying generalized tariff preferences for 1987 in respect of certain  
agricultural products originating in developing countries

Draft  
DECISION  
OF THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES OF THE  
EUROPEAN COAL AND STEEL COMMUNITY, MEETING WITHIN THE COUNCIL  
applying for 1987 the generalized tariff preferences for certain steel  
products originating in developing countries

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(submitted to the Council by the Commission)

Only the explanatory memorandum has been reproduced. The detailed proposals  
were published in OJ C 289/86, 17 November 1986.  
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## INTRODUCTION

These proposals from the Commission to the Council - 3 draft EEC Regulations and a draft ECSC Decision - are intended to constitute the legal basis for the operation of the European Community's scheme of Generalized Tariff Preferences during the year 1987.

The main underlying aim in these proposals is to complete the application of the policy guidelines for a GSP scheme, which can continue to develop in response to evolving circumstances during the remainder of the present decade and which were put forward by the Commission in its "Mid term Review" Communication to the Council (1) and in the specific proposals for the 1986 GSP scheme (2), which were eventually accepted only in part by the Council. In particular, the Commission calls on the Council to respond to the emerging challenge of suppliers - as yet limited in number and in sectors - which on any realistic assessment must be considered to have become fully competitive with the EC's own industries and no longer therefore to need the GSP advantage. In such situations, the logical conclusion to the EC's present policy of differentiation in the allocation of benefits in sensitive industrial products is exclusion - as the Commission is again proposing in a small number of product/country situations, on the basis of criteria which have been carefully drawn up to be objective, coherent and fair.

The EC must, however, also continue to respond to the needs for improved access to the EC market of less competitive suppliers in the developing countries, many of which have not benefitted to anything like the same extent from the recovery in economic activity in the industrialised countries, now under way for three years. The Commission's proposals therefore, go well beyond merely redistributing among the less advanced beneficiary countries the benefits to be withdrawn from fully competitive suppliers, and present a package of important qualitative and quantitative improvements in the EC's GSP offer - in terms both of further liberalisation of the management of the scheme and of substantial increases in the value of preferential limits.

The Commission is also calling upon the Council to accept certain changes in the administration of the scheme, designed to make its machinery more "Communautaire", less rigid and more predictable and transparent but at the same time able to respond more quickly should unexpected problems suddenly arise.

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(1) Doc COM (85)/203 final of 6 May 1985  
(2) Doc COM (85)/425 final of 9 August 1985

In the textiles sector these proposals do not envisage any change for 1987 to the existing structure, as the negotiations for a further renewal of the Multifibre Agreement and of the attendant bilateral agreements with the main supplying countries, which have up to now largely conditioned GSP entry for these products, are still in progress.

Maintenance of the existing structure of the EC's scheme for preferential imports of agricultural and fishery products was endorsed in the 1986 GSP scheme. The Commission's proposals for 1987, have been drafted with a particular emphasis on products of interest to the countries of Latin America : apart from improvements of preference margins on (16) products already included, the inclusion is proposed of (2) new products (noteworthy among which is green coffee.) The volumes of the preferential limits on products currently subject in this regulation to tariff quotas need to be recalculated to provide for a full year's participation by Spain and Portugal on an equitable basis but the Commission is also proposing a revision of the preferential duty rates in the quota on Virginia flue-cured tobacco to redress the erosion of the preference through inflation.

#### THE ECONOMIC BACKCLOTH TO THE PROPOSALS FOR THE 1987 GSP SCHEME

In its annual review and adjustment of its GSP scheme the EC is faced with the need to reconcile 3 different imperatives.

- to maintain and within the limits of the current economic situation improve preferential access to its market for those developing countries, which are still largely dependent on the GSP tariff advantage to be able to compete in the EC market ;
- to ensure that the increased competition thus created for the EC's own industries, agriculture and fisheries remains at a level which does not create unfair stresses;
- to keep faith with those other developing countries, whose interests the EC has also committed itself to have regard to under preferential agreements in the framework of the Lomé and Mediterranean polices.

In this complex balancing exercise it is essential to situate the potential GSP advantage in a correct perspective. Not merely can the GSP by itself not be a panacea or provide a solution to the trade problems with which any beneficiary country may be faced, but it will only come into play if all the other major elements in the production and marketing chain are already in place, and the overall economic and administrative framework in the exporting country is supportive.

At one end of the scale now are exporters of a limited number of products in the most advanced developing countries, who can so readily fulfill the requirements to produce a competitive product that they can sell in the EC market regardless of whether or not they enjoy a GSP advantage. At the other end are unknown, would-be exporters who still have so much development work to do to adapt their products to the requirements of the EC customer in terms of quality of materials and inputs, design, performance, delivery, volume of production etc that the GSP advantage itself still cannot offset all these handicaps to make their products competitive.

In between, however, is now a very wide band of exporters in more and more developing countries, who are increasingly in a position to take advantage of the GSP offer.

No GSP donor can be expected however, or indeed has ever agreed to put forward a GSP offer which is not subject to conditions and limitations. The EC in its GSP scheme has sought progressively to tailor its offer to the real needs and attainments in the beneficiary countries.

For 1987 the Commission believes that the EC can permit itself a prudently controlled expansion of its GSP offer : although there are still negative aspects in the EC's general economic situation, notably a depressingly high level of unemployment, the EC overall is in the third year of a revival of economic activity. The sacrifices of recent years must not be put in jeopardy but important sectors of EC industry have emerged not merely leaner but fitter to face with confidence an increase in overseas competition. At the same time it needs to be recognised that unlike the experience in most previous business cycles, many developing countries whose economies were already much more fragile than that of the EC, have not shared in the benefits of this economic revival but remain shackled by an awesome combination of problems - massive overseas debts, falling commodity prices and a decreasing labour cost advantage.

#### ARTICLE 113 AS THE LEGAL BASIS OF THE EC'S GSP SCHEME

The question of the legal basis for the EC's GSP Scheme is now in front of the Court of Justice in Luxembourg (Case 45/86). In the meantime, the Commission is once again basing its proposals for the industrial and textile regulations on Article 113.

#### THE SCHEME FOR INDUSTRIAL PRODUCTS

With the inbuilt bias in the agreed objectives of the GSP towards promoting industrialisation, it is inevitable that the EC's arrangements for preferential imports of manufactured and semi-manufactured industrial products should remain the centre-piece of its GSP schemes.

The Commission believes that both

- the analysis which it had prescribed 12 months ago of the stage in its evolution at which the EC 's GSP scheme had now arrived; and
- the strategy it had put forward to shape the scheme for the second half of the decade

remain essentially valid.

The Commission had drawn particular attention to the challenge being posed by the emergence even if as yet only on a limited scale and confined to a few sectors, of suppliers of manufactured products in a handful of the most advanced developing countries, which on any realistic assessment must be considered to have become fully competitive with the comparable EC industry and thus to have attained the GSP's objectives.

Having for many years insisted that in those situations where the GSP has to be limited and choices therefore have to be made, under which a differentiation in the allocation of GSP is fully justified, the Commission had proposed a further refinement to its existing techniques of differentiation by withdrawing the GSP benefit in selected product/country cases where it was no longer required and redistributing it in favour of less competitive suppliers.

#### PROPOSED CHANGES AND IMPROVEMENTS FOR 1987

Against the economic background already sketched out, the Commission invites the Council :

- to accept that the framework for the EC's 1987 scheme should be an overall improvement in the possibilities for developing countries of preferential access to the EC market, especially for those countries still needing to rely on the GSP advantage to break into the market; and
- at the same time to carry forward to their logical conclusion the uncompleted new measures of accentuated differentiation adopted in the current year's scheme.

To translate these objectives into reality, the Commission is proposing the following qualitative and quantitative improvements :

Liberalisation of the GSP Scheme by the outright transfer to the Non-Sensitive List of 11 products currently treated as sensitive, of which 6 transfers would be directly attributable to the removal from the scheme of certain dominant suppliers. Only 4 new products need to be brought on to the Sensitive List, as the consequence of a deterioration in the situation of the counterpart EC industry, ie. a net reduction of 7 products. On to this shortened list of Sensitive products, in the estimation of the Commission, while it will be necessary to introduce 11 new industrial country quotas - against certain highly competitive suppliers of various chemical and electronic products, no less than 39 ICQs can be eliminated 33 from applying the criteria for exclusion ie. a net reduction of 28 ICQs.

Increases in the values/volumes of Preferential limits :

The second benefit resulting from the exclusion from the EC's GSP scheme of fully competitive suppliers in these 29 product cases is that it enables the guaranteed amounts to which they had previously been entitled, to be redistributed to other less competitive suppliers. However, for its 1987 proposals, the Commission has also reviewed and re-evaluated against updated trade and consumption statistics all of this year's preferential limits, on the basis of the new formula it had put forward in 1985, ie.

- in those sectors such as chemical products, for which the necessary statistics are available, individual preferential limits should in general be set at 1% of internal consumption;

- otherwise, they are calculated in general at between 1% and 5% of total third country imports, depending upon the number of effective suppliers.

Applying calculations on the basis described above, gives increases of more than 20% to preferential limits on 15 products, and from 10% to 15% on 30 other products. However, in certain well-known problem areas, such as ECSC products, no increase can be contemplated, while the application of the formula would also lead to slight reductions in the preferential limits on 3 highly sensitive products.

Selective exclusions An important step has been taken in the 1986 GSP scheme to push forward differentiation by a 50% reduction in the 1985 value of the individual country quota in 29 product/country cases. This accentuated graduation was the precondition for a significant liberalisation of the EC's GSP scheme achieved in 1986.

The criteria the Commission put forward in 1985 on which to base selective productive country exclusions have been incorporated into the current year's regulation to justify an accentuated differentiation ie that for the products in question :

- a) the supplying country has demonstrated its competitiveness either by being responsible for at least 20% of the EC's total third country imports of that product; or that
- b) its total exports into the EC reached at least 10 times the value of the quota
- c) the sensitivity of the product in question has already been attested by the supplying country concerned having been made subject to an individual country quota for two years in both of the above cases. Moreover in the second case the quota has been imposed during the two preceding years.

The EC's claim that these criteria are objective, fair and coherent has not been refuted by any of the 4 countries concerned - Brazil, Hong-Kong, Singapore and South Korea. Applying these same tests now to 1984/85 trade statistics has confirmed the validity of the Commission's criteria, and the conclusion that in these 29 product/country cases the agreed objectives of the GSP can be considered to have been fulfilled. The Commission accordingly renews its proposal to go beyond an accentuated differentiation to the selective withdrawal of GSP benefit in 1987 in all these 29 product/country cases.

For 4 other sensitive products, examination of 1984/1985 trade statistics has brought out that a supplier, who has already been subject for two years to an ICQ, can be deemed to have become fully competitive on the basis of the criteria of 20% of market share or imports exceeding 10 times the value of the ICQ.

The Commission accordingly proposes that the following 4 product country/cases be also excluded in 1987 :

<u>PRODUCT</u>	<u>CCT HEADING</u>	<u>SUPPLYING COUNTRY</u>	a) <u>PERCENTAGE OF 1985 THIRD COUNTRY IMPORTS</u> b) <u>IMPORTS EXCEEDING AVERAGE VALUE OF 1984/1985 QUOTAS</u>
Methanol	29.04	Libya	b) 108 times
Other tyres	ex40.11	South Korea	b) 15 times
Other clocks	91.04	Hong Kong	a) 20.5%
Brushes, brooms etc.	96.01 B ex III	South Korea	a) 21.5%

From its experience of controlling and monitoring preferential imports the Commission has however noted that special problems can arise when an exporting country captures 25% or more of total imports of a sensitive product thus providing strong evidence of its competitive capacity and the reality of the problem is proved by the duties having to be reintroduced during the preceding exercise.

The Commission accordingly proposes that this indicator of trade performance : a supplying country capturing 25% of EC imports of a sensitive product, even though only subject hitherto to a tariff ceiling, should now be accepted as an alternative set of criteria for the withdrawal of GSP benefit.

The Commission also considers, however, that in the assessment of situations which justify product/country exclusions regard should continue to be paid to the overall economic situation of countries whose performance might otherwise indicate that they could in future support exporting without the benefit of preferential entry.

The Commission therefore proposes that in application of this alternative set of criteria regarding product/supplier situations currently subject only to tariff ceiling, the EC should also exclude from GSP benefit in 1987;

<u>PRODUCT</u>	<u>CCT HEADING</u>	<u>SUPPLYING COUNTRY</u>	<u>PERCENTAGE OF THIRD COUNTRY IMPORTS IN 1985</u>
Methanol	29.04 A I	Saudi Arabia	28% ) N.B.
Ethylene glycol	29.04 C ex I	Saudi Arabia	47,5%) For all
Isopropylamine and its salts	29.22 A ex II	Romania	35,9%) these
Polyethylene, linear - low density*	39.02 C I (a) (39.02.03)	Saudi Arabia	30.9% the
Choline chloride	29.24 ex B	Romania	35,5%) duties
Clocks with watch movements	91.02	Hong Kong	74,5%) were
Watch cases and parts	91.09	Hong Kong	29,6%) reintroduced in 1985.

\* For technical reasons, this product was not subject to ceiling treatment in 1985, but for practical purposes the GSP treatment was comparable.

Tariff amounts with automatic termination of preferential benefit.

In regard to certain products of the petrochemical sector, for which it is possible to land very large quantities of a product in a single shipment, the Commission is of the view that in order to ensure a stricter control of such preferential imports it is desirable to make them subject to a machinery which conditions the granting of duty free entry to prior authorization.

This means that not merely will these duty free amounts be administered by the Commission, but that charges will not be effected unless there has been a formal authorisation on the part of the Commission.

Thus, once the amount fixed for each of these products has been reached, the Commission will be able to suspend granting preferences, even if this involves cutting a shipment into two.

Non-Sensitive industrial products : calculation of reference base

In the 1986 GSP Scheme the preferential limits applicable on sensitive industrial products, which in many instances had over the years lost any relationship to actual trade flows were comprehensively reviewed, up-dated and recalculated under a new formula which related these limits more directly to internal consumption or to total third country imports.

The Commission considers that it is now timely to undertake a similar exercise in regard to the reference base which is referred to when consultations take place between the Commission and Member States under the safeguard style procedure available since 1981, allowing the reintroduction of duties on Non-sensitive products.

The current formula for calculating these reference bases relates them back to the maximum country amounts applicable on such products in 1980, which were themselves based on 1977 trade flows. Since 1981 the reference bases have been increased each year by varying flat-rate percentages, which now often bear little if any relationship to present day trade flows.

With an aim similar to that accepted in the new method for calculating preferential limits for Sensitive products the Commission therefore proposes that if the calculation of a reference is required, from 1987 onwards the calculation should in general be on the basis of a new formula - 4% of third country imports in the most recent year for which confirmed trade statistics are already available - in this case 1984.\*

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\* For 13 products, however, where such a ratio would give rise to unacceptable distortions, this ratio should be reduced to 1%

## TEXTILES

In its Mid-term Review Communication the Commission stated that the GSP arrangements for textiles would be re-examined following the expiry of the Multifibre Agreement III ie after 31 July 1986 -"in the light of the situation then prevailing".

Negotiations for the renewal of the Multifibre Agreement and of the attendant bilateral self-restraint agreements are still continuing and the Commission therefore proposes that for 1987 the present structure of the GSP textile scheme should be prolonged in its entirety. Nevertheless for technical reasons, on some products covered by the MFA the Commission has to propose certain modifications in the GSP offer as the consequence of changes in the categorisation of products - mergings, splittings or regroupings - which have been decided upon in the overall framework of the EC's textile policy. In addition the Commission has also come to the conclusion that it is now desirable to do away with the subdivision of categories 1,2,3 and 32, which have been particular to the GSP textile scheme; the subdivision of category 58 should, however, be retained since it has proved to be in the interest of the beneficiaries.

As is spelt out in more detail in the section on administration, the Commission proposes to replace the term "allocated ceiling" employed in the textile sector with the term "quota" used in the industrial and agricultural regulations.

For 1987 the Commission believes that allocation could be given up on 26 preferential limits in the textile sector of interest to various suppliers, which represents an important qualitative improvement on the terms of access.

## ADMINISTRATION OF THE EC'S GSP SCHEME

### Introduction of non-allocated quotas

The Commission has already in the explanatory memoranda introducing its GSP proposals in previous years expressed concern at what it considers are unacceptable differences between Member States in the level of utilisation of shares on many individual country quotas. Its studies have repeatedly confirmed that the allocation of quotas has indeed often been the main reason for underutilisation to the point even of sterilisation of many quotas.

Furthermore, the very act of allocating shares is in conflict with the objective to which the EC has committed itself of completing the internal market by 1992. This kind of distortion can no longer be justified. Lastly, the allocation of shares on the basis of an identical and inflexible key which cannot take account of widely varying trade patterns in relation to different products and different suppliers, cuts across the cardinal principle of the uniform application of the Common Customs Tariff. The Commission is therefore proposing to abolish the allocation of quotas.

### Re-introduction of normal duties on products subject to preferential limits other than quotas and other administrative questions

The Commission has also become increasingly unhappy at the manner in which tariff ceilings, which are supposed to be a Community instrument of control, are administered in practice as well as at the application of the procedure which can lead to the re-introduction of duties on Non-Sensitive products, for which no a priori preferential limits are calculated.

The administration of products other than those under quota remains essentially in the hands of Member States, who can request the re-introduction of duties just on the basis of national considerations. However, the understanding under which the Commission automatically gives effect to a request by any Member-State for the reintroduction of duties has been undermined by wide divergences between Member States in their approach to similar situations of ceilings being exceeded. The Commission believes that in accordance with the spirit of the Single European Act, which envisaged a strengthening of the power and authority of the Commission to act to further Community objectives, the Commission should now be given a delegated authority to examine facts and circumstances, and the right to consult other Member States in deciding whether to re-introduce duties at the ceiling level.

For Non-Sensitive products, a procedure of obligatory consultation between the Commission and Member States has been written into the relevant annual regulations since 1981. This procedure has also not in the opinion of the Commission resulted in a balanced assessment always being carried out, since in any event a requesting Member State in practice still usually has the last word on the matter.

In regard to administrative questions, for instance, the Commission's powers to effect an a posteriori rectification of charges against preferential limits also needs to be strengthened to enable more rapid and effective action to be taken.

#### Transformation of "allocated ceilings" on textile products into quotas

Since the major reform of the machinery for GSP imports of textile products brought into operation in 1980, the instruments used to control GSP imports - both those covered by the MFA and those outside the MFA - have been indicative ceilings and allocated ceilings. The one difference is that the obligation to reintroduce duties once a Member State share has been used up, is not quite so strict. In practice, however, in spite of the difference in terminology, as the allocated ceilings are divided up between Member States on the basis of a fixed key and are not supposed to be exceeded, they constitute a form of control very similar to the individual country quotas operated on some sensitive industrial products, although they do not provide for the operation of a reserve shares .

However, this difference in terminology has frequently led to confusion among users of the GSP. The Commission, therefore, proposes that as there is no economic justification for maintaining this difference, the GSP terminology should be standardised in 1987 and these allocated ceilings henceforth be termed quotas, with however a consequent obligation on Member States to avoid any individual quota share being exceeded.

#### Transfer between Member States of unused/partly used shares in textile quotas

The Commission's concern about underutilisation of GSP quotas on sensitive industrial products has already been referred to. For very similar reasons underutilisation persists also of the allocated ceilings on textiles; indeed the absence of a reserve share system has meant that the system is even more rigid than for the industrial quotas, with the result that average utilisation of these allocated ceilings has been no more than 70%. The volume of many of these allocated ceilings (future quotas) is nevertheless so low that it would be impracticable to introduce a reserve share system. The Commission proposes that as a measure to introduce flexibility and therefore encourage fuller

utilisation, any Member State which has used up its quota share could approach another Member State/States with a view to arranging through the Commission the transfer partial or entirely of the unused part of that/other Member State's share.

(In such a situation, a Member State which acquires additional volumes would not of course be bound by the ordinary legal obligation not to exceed its original quota share).

#### Enhanced transparency in the operation of the GSP scheme

In the interests of enhancing transparency in the operation of the EC's GSP scheme, the Commission proposes that the practice of the publishing periodically in the Official Journal (C series) the attainment of 100% of the ceilings of sensitive industrial products should from 1987 be extended to 100% of ceilings in all sectors ie. to textile and agricultural products as well. The publication of historical figures should similarly be extended to all sectors of the EC's scheme.

#### Statistical returns

Following serious difficulties which have been experienced in monitoring and therefore controlling imports of certain highly sensitive industrial products, which have revealed the inadequacy of the present provisions requiring monthly or 10 day statistical returns to the Commission, the Commission is asking to be empowered to request if necessary any Member State to submit to it up-to-date statistics of the preferential imports of a given product at any interval, or any other relevant information.

#### THE SCHEME FOR AGRICULTURAL PRODUCTS

The 1985 Mid-term Review and the GSP scheme adopted by the EC for 1986 confirmed that no major modification was required of the basic principles of the EC's scheme for agricultural and fishery products : since its first introduction in 1971 these tried and tested principles have enabled the scheme to evolve very successfully, with over the years a massive enlargement of its product coverage and many improvements in preferential tariff margins, as well as the introduction of important additional concessions in favour of Least Developed Countries.

At the same time the Commission will naturally continue to respect

- the principles of the Common Agricultural Policy and the Common Fisheries Policy, and the various market arrangements established under the framework of these policies; and
- the obligations to particular groups of developing countries written into the Lomé III and the Mediterranean Preferential Agreements.

The Commission proposes the inclusion of the following two new products for 1987 which are of particular interest to certain Latin American countries.

<u>OCT heading</u>	<u>description</u>	<u>Proposed GSP rate</u>
06.03/A/ex I	Fresh carnations, from 1 June to 31 October	20%
09.01 A I a)	Coffee, unroasted, not freed of caffeine	3% within an individual country non-allocated quota of 5.000 tonnes for each supplying country

#### Improvements in preferential margins

A complete list of these (16) proposed improvements in preferential margins on products already included in the EC's GSP schemes is to be found in Annex 1. It should be noted that of these products 11 concern situations where as the result of the final series of MFN tariff reductions under the Tokyo Round, the GSP preferential margin has been significantly reduced and an improvement in the GSP rate is therefore required to restore previous relativities, while the other 5 products are various coffee products for which the inclusion of unroasted coffee also supposes certain corresponding adjustments in their GSP rates.

#### Virginia "flue-cured" tobacco : restoration of the value of the preferences

The Commission can also no longer ignore the continued erosion in the real value of the preference accorded in the global tariff quota for Virginia "flue-cured" tobacco : the sustained rise in world market prices for tobacco over several years has resulted in the effective preference in this composite tariff available to practically all the intended beneficiaires, which was originally equivalent to 50% of the MFN rate being reduced to a maximum of no more than 25% but for some suppliers disappearing altogether. The Commission believes that a permanent solution is required in a new GSP duty rate structure, which can guarantee to offer a preferential margin regardless of the height to which tobacco prices may eventually rise. Accordingly it is proposing that although the pro-rata duty of 6% and the minimum duty payable of 16 ECU per 100 kg should remain unchanged, the maximum duty per 100 kg should be brought down from 30 ECU to 20 ECU

Agricultural products subject to preferential limits : adjustments in the shares/attribution to Spain and Portugal

The EC's 1986 GSP scheme provided for the participation of Spain and Portugal in the global tariff quotas on the 5 agricultural products currently subject to preferential limits, intended to give the two new Member States preferential rights on a similar basis to the previous 10 Member States. However, as Spain and Portugal only began offering preferences with effect from 1 March 1986, the quota shares awarded to them were generally calculated only on a 10 month basis.

For Spain and Portugal, the volume of the global quota for soluble coffee was, however, already calculated on a 12 month basis for the EC's 1986 GSP Scheme, with only a nominal increase in its total volume, and nominal shares for Spain and Portugal. No further recalculation is therefore required for 1987. The results of recalculating shares for Spain and Portugal now required for 1987 on a full 12 month basis on 3 of the other products are as follows :

		<u>1986 (tonnes)</u>	<u>1987</u>
- preserved pineapples in slices :	Spain	840*	1200*
half-slices or spirals :	Portugal	<u>75</u>	<u>90</u>
total volume of quota :		32,475	32,850
- preserved pineapples-other than:	Spain	2750	3300
in slices, half-slices or spirals:	Portugal	<u>100</u>	<u>120</u>
total volume of quota :		46,750	47,230
- unmanufactured Virginia	Spain	4167	5000
"flue cured" tobacco :	Portugal	<u>625</u>	<u>750</u>
total volume of quota :		65,992	66,950

It should be noted that for all these products the reserve share will also remain unchanged.

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\* For 1986 Spain voluntarily gave up an entitlement to a further 1000 tonnes in its quota share, which was redistributed to other Member States (reservation by DG VIII about the calculation for 1987).

Unmanufactured tobacco, other, excluding the sun-cured or oriental tobacco

Non Virginia - "black" - tobacco is a product which has been traditionally imported in large volume into Spain, mostly from Latin America. However, in the discussions on the EC's 1986 GSP scheme a particular problem came to light because of an untypical pattern of trade flows into the EC. Regretably for 1986 a solution was adopted which the Commission has from the outset regarded not merely as temporary but as unsatisfactory : to avoid trade diversion the previously applied form of preferential limit, a flexible tariff ceiling was converted into a tariff quota with a total volume of 12,917 tonnes . The Commission proposes that the previous regime of a tariff ceiling should now be restored, with an indicative volume of 20.000 tonnes.

Additional concessions for Least Developed Countries :

In the 1983 GSP scheme the EC agreed to a major extension of product coverage in favour of Least Developed countries with the aim of giving these countries virtually the same terms of preferential access as ACP suppliers ie duty-free entry on all otherwise dutiable agricultural products, apart from those items where the sole protection was a variable levy or similar instrument.

The Commission proposes that this exercise should be continued by the inclusion of the (3) products which have still not been brought within the scope of this arrangement :

ex 08.10 A	Strawberries, frozen
20.07 A I a)	
A I b)2	} Grape juices
B I a)1 aa)	
B I a)1 bb)22	
B I a)1 aa)22	
B I b)1 bb)22	
ex 20.07 A III	Pineapple juices

Finally the two remaining preferential limits - on the quotas for unmanufactured tobacco countries which are still applicable against Least Developed should be abolished by adding heading n°24.01 to the list of Annex IV of the regulation concerning agricultural products

RULES OF ORIGIN

The Commission is currently engaged in a major exercise to transpose all its Rules of Origin, under the numerous preferential trading arrangements to which the EC is party, into the Harmonised System. For the GSP Rules of Origin the following guidelines are being applied :

- the economic effect of this transposition is intended to be neutral;
- the basic rule regarding the achievement of substantial transformation by a process criteria ie the change of tariff heading at the level of four-digit tariff position will be maintained;

- the present lists A and B are to be combined into a unified list with the object of making the relevant exception rules much clearer and easier to understand - thus henceforth only one list would need to be consulted. It could be assumed that any product which did not appear on this list would be subject to the basic change of tariff heading rule. This transposition exercise is being carried out in collaboration with the other GSP donors whose Rules of Origin are based on the process criterion.

The Commission also began some months ago an in-depth study of the implications of introducing the donor country content provision into its GSP rules of origin. Such a study, however, necessitates wide-ranging consultations with every interested economic sector and the large number of federations representing them. No proposal will be put forward by the Commission until its Services have completed this exhaustive programme of consultations.

#### ADDITIONAL MEASURES

The Commission continues to receive numerous requests from interested parties, in particular Governments of beneficiary developing countries to organise seminars about the EC's GSP scheme, and to collaborate with the UNCTAD Special Technical Assistance Project on the GSP, only a part of which the Commission's Services are able to respond to because of both budgetary and staff constraints. The Commission intends to organise in 1987 a new programme of GSP information seminars and related actions with particular emphasis on helping less advanced and Least Developed country to maximise their utilisation of the EC scheme and to publish an up-dated version of its Practical Guide to the GSP should the necessary resources be made available.

Increases of preferential margins

CCT HEADING NUMBER	PRODUCTS	RATE MFN BEFORE 1980	RATE GSP '81	RATE MFN '86 = MCN OFFER	GSP TO FORESEE WITH PREF. MARGIN='81	PROPOSAL GSP '87	OBSERVATIONS (GSP-1986)
0 8.10 C	Fruit of the species <i>Vaccinium myrtilloides</i> and <i>Vaccinium angustifolium</i>	20%	8%	4%	1,6%	2%	Erosion by MCN (3%)
0 8.10 ex D	Quinces	20%	11%	18%	9,9%	10%	" (11%)
0 9.01 A I b)	Coffee, unroasted, free of caffeine					5%	Decrease corresponding to green coffee (9%)
0 9.01 A IIa)	Coffee, roasted, not free of caffeine					7%	" (12%)
9.01 A IIb)	Coffee, roasted, free of caffeine					8%	" (13%)
9.01 B	Husks and skins					5%	" (8%)
9.01 C	Coffee substitutes containing coffee in any proportion					8%	" (14%)
0 9.04 A I b)	Pepper, neither crushed nor ground, other	17%	5%	10%	2,9%	3%	Erosion by MCN (4%)
15.03 C	Lard stearin, oleostearin ....., other	12%	5%	10%	4,2%	4%	" (5%)
20.05 ex BI	Jams and marmalades of citrus fruit, excluded	27%	19%	25%	17,6%	18%	" (19%)
ex BII	orange jam and marmalade	+ das	+ P	+ das	+ P	+ P	" + P
20.06 BIIa)2	Grapefruit segments, not containing added spirit, containing added sugar, packings > 1 kg.	20% + das	11% + P	17% + 2 das	9,3% + P	9% + P	" (10%) + P
20.06 BIIb)2	Idem, packings ≤ 1 kg.	20%	11%	17%	9,3%	9%	" (10% + P)
20.06 BIIb)3	Mandarins (etc), without added spirit, containing added sugar, packings ≤ 1 kg.	22%	20%	20%	18,2%	18%	" (19% + P)
21.04 B	Sauces with a basis of tomato purée	18%	6%	16%	5,3%	5%	" (6%)
21.04 ex C	Other sauces and condiments						
	- Products with a tomato ketchup basis	18%	8%	12%	5,3%	5%	" (7%)
	- Other, excluding sauces with a vegetable oil basis.	18%	6%	12%	4%	4%	" (5%)