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## THE EUROPEAN COMMUNITIES SCHEME OF GENERALIZED PREFERENCES

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The 1980 scheme is the last of the first decade of application of the GSP. The Community is following the general lines of previous schemes, with just a few technical adjustments. A new scheme will come into force in 1981.

Two provisions characterize the 1980 scheme:

Firstly - The People's Republic of China is included amongst the beneficiary countries, in accordance with the specific provisions which exclude sensitive products in the industrial and agricultural sectors and certain other products.

During the first year in which preferences will be applied in the textile sector, China will be treated as a particularly competitive country, in much the same way as Romania and Hong Kong are.

Secondly - The 1980 GSP confirms the trend towards favouring those developing countries which are less advanced than those which have already achieved a certain level of competitiveness.

Despite the developments in the economy, which are greatly influenced by the energy situation, the Community has effectively reflected in its offer for 1980 its desire to extend the preferential benefits granted to the developing countries in a continuous and pragmatic manner.

The EEC's generalized preferences scheme came into force on 1 July 1971 (1). From year to year, the scheme has been progressively improved and its scope widened. The scheme involves full exemption from customs duties for all industrial goods and partial exemption for certain processed agricultural products.

The implementation of the generalized system of preferences (GSP) forms part of the Community's attempt to achieve a progressive reorganization of economic relations between industrialized and developing countries along lines at once more equitable and more in keeping with the needs of the modern world. In other words, generalized preferences are an instrument of development cooperation which forms an integral part of the European Community's other economic policies.

## 1. Background

It was in 1968, at the second UNCTAD (2) session in New Delhi, that the idea put forward by the European Communities in May 1963 at a GATT (3) meeting in Geneva gained ground and led to an agreement in principle to set up a generalized preferences system. It took UNCTAD two more years to reach agreement on the main features of such a system (1970).

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(1) The population of the European Community (Belgium, Denmark, Federal Republic of Germany, France, Ireland, Italy, Luxembourg, Netherlands and the United Kingdom) is approaching 260 million.

(2) UNCTAD = United Nations Conference on Trade and Development.

(3) GATT = General Agreement on Tariffs and Trade.

There thus exists a single generalized preferences system with a number of different schemes for its implementation by the various countries which responded to the UNCTAD appeal.

The dates on which these schemes were brought into operation are as follows:

- European Community	1 July	1971,	population	260 000 000
- Japan	1 August	1971,	population	112 800 000
- Norway	1 October	1971,	population	4 000 000
- Finland	1 January	1972,	population	4 700 000
- Sweden	1 January	1972,	population	8 200 000
- New Zealand	1 January	1972,	population	3 100 000
- Switzerland	1 March	1972,	population	6 400 000
- Austria	1 April	1972,	population	7 500 000
- Canada	1 April	1974,	population	23 800 000
- United States of America	1 January	1976,	population	215 100 000

Individual mention should be made of Australia, which brought a special system of preferences into operation as early as July 1963, replacing it on 1 January 1974 by a new and much wider scheme more closely akin to the generalized preferences system adopted by the other donor countries. Certain Eastern European State-trading countries also operate generalized preferences schemes.

## 2. The main features of the system

The tariff preferences are:

- generalized: they are normally granted by the majority of industrialized countries;
- non-discriminatory: they are accorded to all developing countries without distinction;
- unilateral: they are not the outcome of negotiations with the beneficiary countries.

These preferences are not reciprocal: the beneficiary countries are not required to grant corresponding duty exemption in return.

### Scheme for industrial products

Goods imported under the generalized preferences system enter the European Community duty-free, within the limits of certain quantities (ceilings or quotas). Once the limit is reached, the customs duties laid down in the Community's Common Customs Tariff may again be applied.

The volume of these ceilings or quotas are generally calculated on the basis of a formula which combines a basic amount, corresponding to the value of imports from beneficiary countries in a given reference year, and an additional amount representing 5% of the value of imports from all other countries. However, in certain cases, where the Community industry is experiencing difficulties, it is not always possible to apply this formula.

For the 1980 scheme, the reference year for the calculation of the basic amount and the additional amount is 1977.

The ceilings are reserved for semi-sensitive or non-sensitive products, the reintroduction of customs duties on these products being discretionary.

A system of tariff quotas is applied to particularly sensitive products, i.e. products in respect of which the Community industry concerned is in a difficult position; once the limits are reached, customs duties are automatically reintroduced. In the case of these products the volume of preferential imports is allocated among the EEC Member States in the form of quotas.

To prevent the more advanced or more competitive of the GSP beneficiary (i.e. developing) countries using up the preferences offered by the Community to the exclusion of other beneficiaries, maximum country amounts "butoirs") are fixed for each beneficiary. They lay down a specific maximum percentage of the quotas or ceilings (normally 50%, in some cases 20% or 30%) which may be used by any single beneficiary.

In practice, the maximum country amounts are normally applied only in respect of semi-sensitive and quota products. For a number of products, there is a specific maximum country amount.

In order to qualify for duty exemption under the GSP, exporting countries must comply with certain rules regarding the origin of goods, in particular, by providing certificates of origin. These formalities are intended to prevent any deflection of trade. For example, countries which are not covered by the Community preferences scheme might attempt to avoid Community customs duties by routing their exports through beneficiary developing countries. The certificate of origin contains a certified declaration that the product in question has undergone, in the country of origin, the processing required under Community rules, in particular when the exporting country has had to include some parts or elements imported from a third country. Although this system may appear somewhat complex, it safeguards the interests of the countries covered by the Community's GSP.

Particular care has been taken with the rules of origin to accommodate the member countries of regional economic groups. The extension of the rules of origin is aimed at encouraging regional integration and the Community has adopted a cumulative system for exports entering the EEC from common markets such as ASEAN (1), the Central American Common Market (2) and the Andean Group (3).

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(1) Singapore and Thailand, Indonesia, Malaysia, Philippines.

(2) Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

(3) Bolivia, Colombia, Ecuador, Peru and Venezuela.

### 3. Scope of the European Community's scheme

The European Community is the world's biggest importer and exporter.

In 1978 its total imports from non-member countries were worth 173 837 million EUA (1) (US\$ 220 772 million), comprising 23 181 for foodstuffs, beverages and tobacco, 46 551 million EUA for energy products, 21 965 million EUA for raw materials and 82 140 million EUA for industrial products. Total exports from the nine Community countries to third countries amounted to 170 007 million EUA (US\$ 215 908), comprising 11 432 million EUA for foodstuffs, beverages and tobacco, 7 063 million EUA for energy products, 3 925 million EUA for raw materials and 147 587 million EUA for industrial products.

Total imports into the European Community from the developing countries in 1976, 1977 and 1978 amounted to 54 976 million EUA (US\$ 68 213 million), 70 021 million EUA (US\$ 78 287 million) and 75 137 million EUA (US\$ 85 740 million) respectively.

#### a) Industrial products

It is essentially this category of goods which the Community's generalized preferences scheme tries to encourage by allowing duty exemption on imports.

Since 1971, the volume of the offer on duty-free imports in the industrial sector - including textile products - has been considerably increased:

- 478 million u.a. (second half of 1971)
- 1 055 million u.a. in 1972
- 1 185 million u.a. in 1973
- 2 800 million u.a. in 1974
- 3 080 million u.a. in 1975
- 3 589 million u.a. in 1976
- 4 992 million u.a. in 1977
- 5 500 million u.a. in 1978
- 6 150 million u.a. in 1979 (+ 8 600 million US\$)
- 6 900 million u.a. in 1980 (+ 8 763 million US\$)  
(not including textiles).

It can thus be seen that the European Community has improved its offer each year, despite the unfavourable economic situation. The Community believes that it is necessary to make adequate allowances for the economic difficulties encountered by the developing countries.

Given the difficult economic situation which the Community is facing in certain industrial sectors, the increase in the quotas and ceilings is not as great as it would have been had the normal calculation formula been applied. The amounts for 1980 are the same as those for 1979 in the case of mineral oils, leather, superphosphates and incandescent lamps and tubes.

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(1) EUA = European Unit of Account - 1 EUA = US\$ 1.24 in 1975; US\$ 1.12 in 1976; US\$ 1.14 in 1977; US\$ 1.27 in 1978.

The increase in the quota for plywood has been restricted to 5% in order to safeguard the interests of the ACP countries (1). The offer for sensitive and semi-sensitive products exceeds 1 200 million EUA and this represents a general minimum increase in ceilings of 16%.

Since 1975, there has been a considerable reduction in the number of sensitive products, other than textiles and ECSC (2) products, in respect of which tariff quotas are provided for under the Community's GSP:

- 53 in 1971
- 58 in 1972
- 50 in 1973
- 51 in 1974
- 13 from 1975 to 1979
- 12 in 1980.

Non-sensitive products have increased very considerably (37%) from 3 800 to 5 200 million EUA.

In 1978, the 28 least-developed countries were exempt from the reintroduction of customs duties provided for in the ceiling system. In 1977 these countries already enjoyed the same kind of exemption with respect to the maximum country amounts.

In 1979, this exemption was extended to all industrial products - including quota items - with the exception of the textile sector.

#### b) Processed agricultural products

Between 1971 and 1973, there were 147 processed agricultural products which came under the European Community's generalized preferences scheme. The initial annual value of the preferences granted in respect of agricultural products did not exceed 90 million u.a. In the first year in which the GSP was applied by the enlarged Community, the number of processed agricultural products covered by the GSP was raised to 187 and the value of the offer worked out at 450 million u.a.

In 1979, three new products were brought into the GSP bringing the total to 310 with an estimated value of 1 300 million EUA and preferential rates of duty have been further reduced in 11 products already included in the GSP.

The number of products covered by the GSP in 1980 remains unchanged. Apart from an increase in the tariff reduction for dried bananas, the emphasis has been placed on a better utilization of the advantages already gained through various technical adjustments.

The tariff system applied to "Virginia" tobacco will be altered so as to attenuate, at least in part, the restriction in the scope of the preferential treatment on certain Community markets which has come about since the introduction of the new European unit of account (EUA).

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(1) African, Caribbean and Pacific countries which are participants in the Convention signed on 28 February 1975 in Lomé (the capital of Togo).

(2) ECSC = European Coal and Steel Community.

Since most of the quota for pinapples (other than pinapple slices) was not used in 1978, the Community reserve in this sector will be increased.

The tariff system for palm oil will be altered to take account of the new tariff classification for palm oil which the Commission proposed to the Council on 26 September 1978.

The volume of trade covered by the GSP in 1980 will be equivalent to 1 300 million EUA.

For the 28 least-developed countries a considerable improvement was made in 1979 in that they are now exempted from duty on all agricultural products included in the GSP.

Of the six products which are still subject to quotas, the least developed countries will be exempted from duty on three (cocoa butter, cocoa beans and clover) in 1980 and the quantitative restrictions for cocoa butter and soluble coffee will be lifted in their case.

### c) Textiles

The tariff quotas and ceilings have been as follows:

- 19 429 tonnes in 1971 (July-December)
- 39 444 tonnes in 1972
- 42 631 tonnes in 1973
- 68 205 tonnes in 1974
- 75 323 tonnes in 1975
- 79 131 tonnes in 1976
- 84 000 tonnes in 1977
- 84 000 tonnes in 1978
- 88 000 tonnes in 1979
- 115 000 tonnes in 1980.

Up to the end of 1977 (the GSP for textiles being considered as a transitional scheme) there was scarcely any potential for improvement in the volume covered by the preferential arrangements since the machinery for controlling quantities was not equal to the task of ensuring the orderly growth of textile imports.

In October 1978, the Commission proposed the introduction of a new preferences scheme for textiles in order to bring it in line with the system introduced at the beginning of 1978 when the Multifibre Arrangement (M.F.A.) was renewed.

Because of technical difficulties, it was not possible to bring this system into operation in 1979 and the 1978 system was extended for one year with quantities being increased by 5%.

The GSP for textiles came into force on 1 January 1980. The overall volume of preferential imports is up 31% compared with 1979.

The classification of the products has been brought into line with the system adopted for the bilateral agreements which the Commission concluded with its main suppliers in the context of the Multifibre Agreement (M.F.A.).

In future, the preferences will be limited to those developing countries which have signed a voluntary restriction agreement or have accepted similar arrangements. However, this does not apply to the least developed countries.

The Commission has introduced a qualitative improvement by guaranteeing, for the first time, individual quotas to each approved beneficiary country. The preferential volumes granted to each beneficiary are calculated using a formula which takes account of their level of competitiveness and their level of economic development within the textile sector and this ensures greater security with respect to the utilization of advantages.

Specific measures have been adopted for the least developed countries, for example, they are exempted from duty on exports of products covered by the GSP and they are not subject to any quantitative restrictions.

The implementation of the new GSP for textiles is part of the effort which the Community is making to improve the preferential advantages for those developing countries which are granted preferences. The considerable increase in the scope of the new system has been made possible by the conclusion of voluntary restriction agreements signed in the context of the Multifibre Agreement.

In future, a volume equal to one fifth of the exports in the textile sector sent to the Community in 1977 by the beneficiary developing countries will be imported under the preferential system.

With respect to those products which are not covered by the Multifibre Arrangement, all of the countries concerned benefit from customs exemption on a volume equal to 55% to their total exports to the Community in 1977. This volume may not, however, exceed the preferences opened in 1978 by more than 25%. This restriction is in addition to the maximum country amounts which are fixed at 30 to 50% depending on the classification of the products.

#### 4. Supplementary measures

The Community intends to continue its programme of seminars in the beneficiary countries, extending it at sectoral level. This programme is an integral part of the active information policy directed at the official authorities and business and trade circles in the beneficiary countries.

There are opportunities for further improving the use of the GSP from both the quantitative and qualitative points of view and particularly as regards non-sensitive products, which offer the developing countries wide scope for the concentration of their efforts.

Special arrangements have been made to speed up the process of drawing up and editing a practical guide to utilizing the generalized preference scheme so as to make it available to the business circles concerned as soon as possible after the beginning of the year in which the scheme comes into force.



## 5. Conclusions

Generalized preferences mark a turning-point in international trade relations, which have hitherto been governed by the most-favoured nation principle and the rule of reciprocal concession. They represent a new departure in international relations based on collaboration between developed and developing countries; and they may rightly be considered as a major contribution towards the economic development and prosperity of the poorest countries.

The generalized preferences policy falls in with one of the major objectives of the European Economic Community; the desire to achieve a more balanced distribution of the world's wealth.