

# EUROPEAN COMMUNITY

BACKGROUND INFORMATION

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street NW, Washington DC 20037 Telephone (202) 872-8350

New York Office: 277 Park Avenue, New York NY 10017 Telephone (212) 371-3804

BACKGROUND NOTE

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## THE GENERALIZED PREFERENCE PROGRAM OF THE EUROPEAN COMMUNITY

The nine nations of the European Community operate a generalized preference system for developing countries. It is the product of a program of "aid through trade" which has been growing for a decade.

As early as 1958, a report of the General Agreement on Tariffs and Trade (GATT) suggested that developed countries should cease protecting their industries against imports of manufactured goods from developing countries. In May, 1963, at a GATT ministerial meeting, ministers from the Community and countries associated with the Community suggested that a suitable way of promoting the trade and development of countries in an early stage of growth would be to give preferential treatment to their exports of manufactured and semi-manufactured goods.

GATT reticence about this proposal helped bring about UNCTAD (United Nations Conference on Trade and Development). Some headway was made with the idea at the first UNCTAD session, in 1964; at the second UNCTAD conference in New Delhi, in 1968, agreement on a system of generalized preferences was achieved. In October 1970, UNCTAD launched the program.

Since July 1, 1971, the EC has been operating generalized preference customs franchises in favor of manufactured and semi-finished goods from developing countries. Basic agricultural produce, basic industrial products, and industrial raw materials are not included in the system.

EC preferences are not reciprocal - the countries which benefit are not required to make equivalent reductions in their customs duties; nor are they discriminatory - the preferences are open to all developing countries. The preferences are called generalized because they are granted in principle by all developed countries. Preferences are not negotiated. They are the subject of an autonomous offer resulting from discussion with beneficiary countries.

#### Ceilings Raised Each Year

The Community system is based on preferential imports free of customs duty up to specified ceilings. These are calculated by reference to a basic price corresponding to the CIF (cost + insurance + freight) value of imports from the beneficiary countries in a specified reference year, plus 5 per cent of the CIF value of imports from other countries. The ceiling is thus raised each year, as trade between the Community and its industrial partners grows.

For sensitive products there is a system of tariff quotas. The "buffer," or maximum, is fixed by the beneficiary countries. Its effect is to limit the maximum amount which may be used by any individual country to a given proportion of the ceilings and quotas. Exporting countries must supply certificates of origin, so that traffic diversions can be avoided.

In 1971, the system operated only on a six-month basis. The number of processed agricultural products covered from 1971 through 1973 was 147. The system provided a selective safeguard clause which has never been used. During the first six months of 1971, generalized preference farm product imports from beneficiary countries into the then six Community states totaled 45,000,000 units of account (UA). (1 UA=\$1.20635).

Ceilings and quotas on manufactured and semi-manufactured goods amounted to UA 340 million in 1971, UA 780 million in 1972, and UA 900 million in 1973.

The number of products subject to tariff quota was 43 in the first half of 1971, 48 in 1972, and 60 in 1973. In 1971, the buffers limiting preferential imports from individual developing countries for specific products were generally not higher than 50 per cent of the ceiling fixed for the product in question. In 1972 and 1973, a number of buffers were lowered from 50 per cent to 30 per cent or from 30 per cent to 20 per cent. This was in response to special situations, notably in Yugoslavia, Hong Kong, South Korea and Brazil, and was intended to safeguard the advantages obtained by less competitive beneficiaries.

#### Beneficiary Countries Missed Opportunities

For textiles, the tariff quotas, and ceilings opened, amounted to 19,429 tons for the second half of 1971, 39,444 tons in 1972, and 42,631 tons in 1973. In 1972, beneficiary countries fell far short of using all the opportunities offered by the Community system. The number of independent beneficiary countries rose from 91 in 1971-72 to 110 in 1974. In December, 1973, the Council of Ministers of the European Community agreed to introduce a "reserve" of Community quotas, so that quotas not used up by specific countries could be made available to other countries. But a Community spokesman said in Brussels in July this year that of the 104 countries eligible for EC preferences only 54 had applied for customs certificates and only 40 had effectively benefited.

Developing country 1972 industrial exports to the Community (excluding textiles) totaled UA 319,000,000--only 42 per cent of the amount allowed under the preference system. Only Yugoslavia, Brazil, Hong Kong and Singapore surpassed the 50 per cent mark.

In 1974, all nine present members of the EC applied the system. Following directives given at the October 1972 European "Summit" conference in Paris, the Community also improved the terms.

The Community now intends to strengthen its trade relations with Commonwealth countries in Asia, taking into account the interests of other countries in the region. Alignment of customs tariffs with the external tariff of the Community, as of January 1, 1974, led to a hike in some of their rates of duty especially Britain's former "imperial preference" tariff.

On December 18, 1973, the Council of Ministers increased earlier preference margins and included additional processed agricultural products, making 187 in all. The most important of these new products were fish flour, certain varieties of shrimp, industrial coconut oil, dehydrated coconut, cocoa butter, soluble coffee, some forms of preserved pineapple and as a temporary and exceptional measure flue-cured tobacco of the Virginia type. The trade impact of the products covered has been estimated at UA 450,000,000.

The tariff quota for flue-cured tobacco meant that for the first time the Community had brought a basic product within the scope of generalized preferences.

Despite the threat of recession, the Community plans to maintain and expand its generalized preference system. Conscious of its special responsibility to developing countries, who stand to be the biggest losers from the world economic crisis, the Community wishes to secure a balanced development between the system of generalized preferences and the EC policy of "association," exemplified by current negotiations with African, Caribbean and Pacific countries and talks with Mediterranean countries.

### Improving the System

The Community's common "Declaration of Intent" is a permanent commitment in regard to Commonwealth countries in Asia. Some of these countries, especially India, are very seriously affected by the current crisis. A first stage in the implementation of generalized preferences in Asia was accomplished this year. In the forthcoming multilateral GATT negotiations, the Community will give special stress to the case of developing countries which are concerned about the "erosion" of preferences caused by the granting of further tariff reductions.

To improve the preference system in 1975, the EC Commission has proposed to the Council of Ministers that the 20 per cent margins of preference on some processed agricultural products should be increased to 40 per cent. Forty per cent margins would go to 50 per cent. The volume of trade is expected to increase to UA 650,000,000.

For industrial manufactures and semi-manufactures, the improvements proposed by the Commission are primarily concerned with raising ceilings through a change in calculation procedure. The total increase in ceilings and quotas for 1975 is around 15 per cent. The volume of trade covered will be UA 2.3 billion. The number of sensitive products subject to tariff quotas will drop to seven.

The administration of the tariff quotas under the generalized preferences program is based on a definite allocation of specific shares to member countries. This has raised the question of importers' equality of access to the Community market. The Commission regards a reserve proportion of 10 per cent of the quota as a minimum, and has proposed that the buffers for most products be kept at the 1974 percentage levels.

If a beneficiary reached the buffers in 1972 and 1973, or supplied at least 40 per cent of the imports into the Community from all beneficiary countries, a buffer of 15 per cent would be applied. The beneficiary country would still be able to benefit from the 1974 buffer figure up to 15 per cent through the progressive raising of ceilings in subsequent preference-years.

A special effort is under way on rules of origin to help countries belonging to regional economic groupings. The broadening of the rules should spur regional integration. The Commission has proposed the use of a cumulative system for exports to the Community from regional groupings. A program of seminars has been organized to help provide information to government authorities and commercial organizations.

#### Preferences for Eastern Europe

A statistical data collection system will soon be in operation. The aim is to assess the effect of preferences on economic activity in the Community and to measure the impact on trade between the Community and beneficiary countries. Statistical information regarding preferential imports will be improved, so that the advantages made available can be better administered and better adjusted. Another measure contemplated is the formation of a documentation agency for analysis and advisory work on preferences.

On June 4, 1973, the Council of Ministers decided in principle to include Romania among beneficiary countries, as of January 1, 1974. The decision took account of the development level and economic structure of Romania. Textiles, footwear and some other products, notably those subject to tariff quotas, are excluded from the concession. Any inconveniences to initial beneficiary countries through the inclusion of Romania in the system would be offset by the fact that the preferential ceilings laid down for the whole of the beneficiary group would be increased by the volume of Romanian trade with the EC.

In September, 1973, Bulgarian authorities told visiting French minister Pierre Messmer they had put in a request through the UNCTAD machinery for Bulgaria to be included among countries benefiting from Community preferences. France passed on this request to the EC the following month. An official request by Bulgaria is now awaited.

Pragmatic Approach

The Community sees generalized preferences as a turning point in international trade relations. Industrial countries, including Community members, have for the first time taken concerted practical measures to assist development in the less advanced countries.

Community generalized preference policy is based on a progressive attitude and a pragmatic approach. Advantages received by beneficiary countries are being consistently improved and extended, with protection given only to sensitive industries and products in the Community.

The Community sees generalized preferences as a main component of the development cooperation program, in line with a basic objective of EC policy -- to seek a more balanced distribution of the world's wealth.

The annual capacity of the Community of Nine for imports from developing countries is estimated at about UA 25 billion. Until now, the burden of trade preferences for developing countries has been born mainly by the Community. Canada began a similar system on July 1 this year. The US Trade Reform Bill, now before Congress, makes equivalent provisions.