

EUROPEAN COMMUNITY

BACKGROUND INFORMATION

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BACKGROUND NOTE

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MORE HELP FOR DEVELOPING NATIONS

In 1977, there will be a 39 per cent increase over 1976 in the total value of trade covered by the European Community's system of generalized tariff preferences for developing countries, if the improvements proposed by the Commission are accepted by the Council of Ministers.

The main improvements would put into effect the Community's offer on tropical products made in the Multilateral Tariff Negotiations (MTN) within the General Agreement on Tariffs and Trade (GATT). They would enlarge the import ceilings for manufactured goods other than textiles, footwear, and certain steel products, and would recast arrangements for textile imports.

Explaining the proposed improvements at a news conference in Brussels on July 2, Commission Vice President Christopher Soames said that the Community considered its system a vital and economically substantial part of its worldwide development policy, supplementing the Lomé Convention between the Community and 51 African, Caribbean, and Pacific (ACP) countries. Since the system of generalized tariff preferences went into effect, it can no longer be said that the Community concentrates aid in only a special group of developing countries.

Scope of EC Generalized Preference Offer

The Community introduced its scheme for generalized tariff preferences in July 1971. Between then and 1977, the value of the Community's concessions on processed agricultural products will have risen from UA 22 million to UA 1.2 billion while concessions on industrial goods, including textiles, will have gone from UA 478 million to more than UA 5.2 billion.

The total value of trade to be covered in the proposals for 1977 is UA 6.5 billion in contrast to UA 500 million in 1971.

The Community is the world's major trader, accounting in 1975 for 24.1 per cent of world imports and 23.4 per cent of world exports. Out of total imports of \$155 billion in 1975, ^{\$67.9} ~~\$77.3~~ billion (^{43.8} ~~49.8~~ per cent) came from the developing countries. At the same time, the developing countries represent an important market for the Community, taking \$54.6 (36.3 per cent) of the Community's \$150 billion in exports.*

What are Generalized Preferences?

They are --

- general, because they are, in principle, granted by every industrial country
- non-discriminatory, because they are granted to every developing country
- autonomous, because they are not given as a result of negotiations with the beneficiary countries
- non-reciprocal, because the developing countries do not have to make concessions in return

Generalized tariff preferences are based on the paradox that between unequal trading partners, equality oppresses and unequal treatment restores justice. The Community's system is part of its general effort to make economic dealings between industrial and developing countries more just and to help the less developed grow economically by encouraging the expansion of the domestic manufacturing capacity.

Developing countries gain by finding a ready outlet for some of their agricultural, manufactured, and semi-manufactured exports. Community importers, on the other hand, can buy goods and bring them into the Community tariff-free up to certain limits. Under the Community system, an EC importer bringing in clocks from Japan or the United States, for instance, would pay a 10 per cent duty. Buying the same product from a developing country, such as Hong Kong or Singapore, he would pay no duty for quantities imported up to a set ceiling. Assuming equal product quality, it would be to the importer's advantage to buy from a developing country. Then, too, developing countries need to import machinery in order to industrialize and manufacture for export.

How the Community System Works

Under the Community system, imports of industrial goods from developing countries enter duty free up to certain ceilings or quotas. Once this ceiling is reached, the Community can re-impose duties on additional imports. Processed agricultural products receive preferential margins through partial or total reductions of customs charges with no volume restrictions.

The ceilings are calculated on the c. i. f. (cost, insurance, and freight) value of imports from beneficiary countries for a reference year (basic amount), plus 5 per cent of the c. i. f. value of imports from other countries (additional amount).

* conversion based on UA 1 = \$1.32, average 1975 market rate of dollar

The additional amount is variable and is calculated each year on the basis of the latest figures available, allowing for an annual increase in the ceilings.

To give less advanced developing countries a chance to compete with the more developed, "buffers" are assigned to each quota limiting the amount of that quota which can be used by any one beneficiary. In general, no country may use more than 50 per cent of a quota for a specific product, with the limit reduced to 20-to-30 per cent in some cases.

For a limited number of "sensitive" products, specific quotas, divided among Community members have been set up. Sensitive products are usually those for which developing countries are already the Community's main, and highly competitive, supplier. These include leather goods, plywood, footwear, transistors, and semi-conductors.

To prevent exporters in countries ineligible for participation in the Community's preference system from taking advantage of it by transshipping through an eligible country, the Community has set strict rules of origin and requires certificates of origin for imports under the system.

To encourage the formation of regional groups of countries, the Community adopted a system for cumulative origin for imports from "common markets" like the Central American Common Market*, the Andes Group**, and the Association of Southeast Asian Nations (ASEAN)***.

Manufactured and Semimanufactured Goods

Year	Offers for Manufactured & Semimanufactured Goods		Offers for Processed Agricultural Goods		Total
	UA		UA		
	value: million UA****				
1971 (six months)	UA	478	UA	22	UA 500
1972		1.055		45	1.100
1973		1.185		65	1.250
1974		2.800		450	3.250
1975		3.080		600	3.680
1976		3.600		1.000	4.600 (+ \$5.8 million)
1977 (proposed)		5.235		1.235	6.470 (+ \$8.1 million)

For 1977, the Commission proposes to change the reference year for calculating the quota ceilings from 1971 to 1974. This translates into an overall increase of 43 per cent in the value of the Community's offer for industrial products compared to 1976. Broken down by category, it includes increases of 57 per cent for non-sensitive products, 45 per cent for semi-sensitive, 35 per cent for sensitive, and 32 per cent for petroleum products.

*Honduras, Nicaragua, Guatemala, El Salvador, Costa Rica

**Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela

***Indonesia, Malaysia, Philippine Islands, Thailand, Singapore

****conversion based on 1 UA = \$1.25, at 1974 market rate of dollar

The number of sensitive products, excluding textiles and products under the European Coal and Steel Treaty, have been reduced since 1971 and now stand at 16. For 1977, the Commission is proposing to retain this number.

Processed Agricultural Goods

Not every eligible developing country is commercially sophisticated and industrially advanced enough to take advantage of the preferences for industrial goods. In 1974, for example, EC Commission estimates show that one-third of the UA 2.8 billion industrial offer was not used. Only 10 countries accounted for 72 per cent of the preferences used for industrial products, although the eligible beneficiaries number 111.

To compensate, the Commission has incorporated the Community's April 1976 offer on tropical products, coffee and tea, made in the Multilateral Trade Negotiations, in its 1977 generalized preferences. The agricultural section includes 46 new items and 70 improvements in preferential margins. It will cover 296 agricultural products, valued at UA 1,253 million, compared with 250 products at UA 1,000 million for 1976. The main products covered in the increase are those of interest to the poorest countries: "Virginia" type tobacco, spices, processed vegetable oils, coffee, cocoa, cut flowers, and shellfish.

To encourage more eligible beneficiaries to use generalized preferences, the Community has sent advisers and has sponsored seminars in some of those countries.

Liberalization of processed agricultural imports has moved more slowly than industrial liberalization--in the Community and elsewhere--because agriculture is one of the world's most sensitive sectors and farmers, one of society's politically most vocal groups. The slow expansion of preferences for processed agricultural products allows developing countries' exports of these goods to grow without upsetting market balance within the Community for its domestic production.

Textiles

Tariff quotas and ceilings for textiles will be raised from 75,323 metric tons to 79,131 metric tons, an increase of 5 per cent from 1976.

The proposals introduce several innovations for the textile sector:

- Cotton and non-cotton textiles will be treated identically.
- Textile arrangements will be extended to all beneficiaries, except Romania, pending the establishment of a link with the Multifibers Agreement.
- A dual system for 28 sensitive textiles will be set up to limit the highly competitive Far East beneficiaries to 30 percent of the global ceiling and to create more flexible arrangements for other beneficiaries by reserving for them 70 per cent of the ceiling. Competitive beneficiaries are those with a GNP of at least \$300 per capita and suppliers of at least 6 per cent of the Community's imports per product.
- For 74 other products, ceilings and buffers will be applied non-discriminately.

Some History of Generalized Preferences

At a May 1963 GATT meeting, the European Community proposed that preferential tariff treatment be given to developing countries' exports of manufactured and semimanufactured goods, certain textiles, and processed agricultural products.

By 1968, at the second convocation of the United Nations Conference on Trade and Development (UNCTAD), in New Delhi, the idea had gained ground, and there was general agreement on the principle of creating a system of generalized preferences. It took two more years, until October 1970, for agreement on specific aspects of the system by the donor countries within the Organization for Economic Cooperation and Development.

Today, there is one system, but each donor country applies it in a different way and began to apply it on a different date: the European Community, July 1, 1971; Japan, August 1, 1971; Norway, October 1, 1971; Finland, January 1, 1972; Sweden, January 1, 1972; New Zealand, January 1, 1972; Switzerland, March 1, 1972; Austria, April 1, 1972; Canada, July 1, 1974; and finally the United States, January 1, 1976.

In October 1965, Australia put its first generalized preference system into effect and replaced it in 1974 with an expanded arrangement.

