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REVIEW OF THE EUROPEAN COMMUNITY'S GENERALIZED TARIFF PREFERENCES SCHEME

(Communication of the Commission to the Council)

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PREFERENCES SCHEME

A. Introduction

When it extended its generalized tariff preferences scheme for a second decade, from 1981 to 1990, the Community made provision for a mid-term review of its operation in 1985 in order to assess the effects of the changes introduced and to decide on any corrections which might prove necessary.

This exercise is not concerned with textiles since their treatment is linked almost entirely to the Multifibre Arrangement and will be reviewed when the latter expires after 31.7.1986, taking into account the situation which exists at that moment. The study therefore covers, in the first place, industrial products and the practical results of the principles of individualization and differentiation of the offer as well as the agricultural section, which remains essential for a great number of beneficiaries.

In parallel with its own reflections on the operation of the scheme since 1981, the Commission has taken note of remarks presented by various interested parties : beneficiary countries during Joint Committees, seminars on preferences and UNCTAD Special Committee meetings, the ACP-countries professional associations in the Community and all other interested parties.

On the basis of the different kinds of information available to it, the Commission has been able to evolve a set of conclusions regarding the parts of the scheme that can be improved and to determine adaptations which meet the essential requirements of improvement and rationalization which have been revealed.

This communication sets out the lines which, in the view of the Commission, should guide the review, respecting the principles of autonomy, duty-free entry and limitation of preferential advantages for sensitive products. The suggested provisions could be brought into operation during the next five years.

B. The GSP in context

1. The global GSP effort and "burden-sharing" between the developed countries

Although the GSP scheme is an autonomous scheme a re-examination must take into account other aspects of commercial policy as they emerge from negotiated agreements whether in the context of GATT or in the context of specific agreements such as those with South and Eastern Mediterranean countries or the countries of the Lomé Convention. The present proposals take account of these general aspects and also of the schemes of other developed countries.

At present apart from the EC, 9 other OECD member countries apply schemes of generalized tariff preferences in favour of developing countries - a total of 19 countries, while Spain and Portugal which have hitherto not offered preferences will also be expected to begin applying the EC scheme after their accession. The EC's scheme therefore has to be seen within the context of the totality of effort by the developed countries. Although the EC scheme differs in various salient features from the schemes of certain other donors, nevertheless an understanding has long existed about "burden-sharing" and equivalence of contribution, notably with the other major schemes - those of the USA and Japan (summarized at Annex 1).

2. A description of the EC scheme is to be found at Annex 2. In so far as the present review exercise is concerned, which as already indicated will concentrate on the scheme for industrial products, with some secondary recommendations in the agricultural field, the principal elements of the scheme are as follows :

Industrial products (CCT Chapters 25 - 99)

- product coverage : all otherwise dutiable manufactured and semi-manufactured products without exception *)
- tariff treatment : duty-free entry but subject in certain detailed circumstances to preferential limits on the entry of "sensitive" ie difficult products

*) P.M. : textiles have always been included in the EC scheme, unlike the policy of several other donors- and are subject to similar but stricter and less generous rules than for other manufactures.

Agricultural products (CCT Chapters 1 - 24)

- product coverage : now some 385 tariff lines
- tariff treatment : generally a tariff reduction, rather than completely duty-free entry, which available on only about a quarter of the products
- preferential limits : on only 6 products.

Least Developed Countries enjoy important additional concessions in all sectors.

To put the importance of the EC's GSP scheme into perspective in relation to the EC's total trade, it may be noted that in 1983

- while the EC's total imports from third countries amounted to 328 billion ECU ;
- imports eligible for GSP benefit i.e. of products covered by the EC scheme imported from those developing countries which used the scheme came to 23.9 billion ECU ;
- however, the value of the imports which actually received GSP benefit was 9.3 billion ECU ;

the difference between eligible and received is explained by such factors as the application of preferential limits, failure to meet the EC's rules of origin or even failure by the importer to apply for GSP benefit.

Mastering the EC's machinery of preferential limits has always been the key to successful utilization of the opportunities presented in the EC's GSP offers. In this present mid-term review exercise assessing the operating of this machinery is the central issue.

C. Evaluation of the operation of the EC's scheme since 1981

1. Positive trends since 1981

When renewing its commitment to the concept of generalized preferences for a second decade the EC introduced in its 1981 scheme for industrial products the first major changes in the machinery of preferential limits since the inauguration of the original scheme in 1971.

Throughout that first phase of operation any control of preferential entry had been by means of global preferential limits: this apparent equality of treatment without "handicapping" left the field wide open to those beneficiary countries which has established trading links with EC Member States which had more advanced marketing skills and more aggressive businessmen. The spirit of the GSP regulations, if not the letter was often broken, since less advanced developing countries which were perhaps trying to enter a market for the first time and thus might even be said to be the most in need of the GSP advantage could find themselves left behind at the starting gate and shut out from preferential benefit.

These undesirable tendencies have effectively been terminated by switching over to the present system of individualized preferential amounts which guarantee GSP access to each supplier regardless of the performance of any competitor. Moreover under this system it has also proved possible for the first time to differentiate significantly in the treatment of beneficiary countries by tailoring both the level of these guaranteed amounts and their administration much more closely to the needs and attainments of the individual exporting countries. (See Annex 3).

In consequence as is clearly brought out in an assessment ^{*)} by the Commission's Services of how the EC's scheme has been operating since 1981, there has been an encouraging shift in the distribution of benefits between developing countries - there is now a lower concentration of benefit in the top 10 supplying countries than in any other OECD donor's scheme apart from that of Finland.

2. The issue of fully competitive supplier

Analysis of these import trends - both total imports and that proportion of the imports of each product which actually obtained GSP benefit - suggests also that the technique of differentiation as currently being applied, even under the very strict control of individual country tariff quotas, appears in no way to hold back the exports of some of the most thrusting exporters, because they have exported large amounts of the same product after the reintroduction of duties.

*) A summary of this analysis both of total imports of products included in the EC scheme and of imports which actually obtained GSP benefit during the years 1979 - 83 is to be found in Annex 4.

Therefore it can no longer be held that to any degree they still look to the GSP advantage to enable them to stay in the EC market, but that they have become competitive with suppliers from the developed countries themselves.

In situations where the "sensitivity" of a product has already been attested by the necessity to impose individual country tariff quotas on the most competitive suppliers the continued granting of preferences to suppliers who do not appear to need these preferences any more becomes increasingly questionable, especially if the selective withdrawal of GSP benefit on a product/supplier basis could in fact lead to the widening of preferential opportunities for other exporters of the same product who are clearly not fully competitive, and therefore still need the full GSP advantage.

It must nevertheless be recognized that taking differentiation this stage further, even on a very limited scale, and however apparently justifiable, would be seen in many quarters - both inside and outside the EC - as marking a major turning in the evolution of the EC's scheme. Hitherto one of its strongest points has been that the EC has never "regressed" from the twin principles in the industrial sector of comprehensive product coverage and access for all eligible developing countries. *)

3. Conditions for taking "differentiation" further

Any such move must therefore be seen in a much wider context if damaging repercussions are to be avoided since

- the EC has repeatedly pledged itself to improve access to its markets for the exports of developing countries and in particular to improve GSP access ;
- as has already been mentioned is party to an understanding on burden-sharing".

*) It should be noted, however, that

- the GSP offers to both Romania and China have always been more limited
- GSP access on textile products covered by the MFA has also been subject to special conditions.

The introduction of any withdrawal of GSP benefits, however limited, could therefore only win acceptance if

- it is applied on the basis of criteria which are seen to be objective, coherent and fair, which are directly related to the competitive performance of the developing country affected but which should also take into account its overall level of economic development ;
- recognizing that its effect is bound to alter the internal balance of the EC's GSP scheme it is accompanied by complementary measures to ensure that in overall terms the real value of the EC's GSP offer is at least maintained through improvements for other beneficiary countries - both quantitative and qualitative.

Provision may also need to be made for the restoration of GSP benefit in exceptional circumstances should additional "differentiation" subsequently prove to have seriously damaging effects.

Reevaluation of the preferential limits

Since the abandonment of the mathematical formula for the yearly increase of tariff quotas and ceilings normally used during the first decade of operation of the scheme many of the preferential limits have lost any relationship to actual trade flows. A significant number of preferential limits have been held unchanged or accorded only minimal increases over the years 1981-1985. For some products this was justified because of the difficult situation of the market, but for others a substantial reevaluation seems reasonable. (See ANNEX 5).

4. Administration of the EC's GSP scheme : some present shortcomings

Some limited progress towards simplifying the administration of the EC scheme by reducing the number of different categories of sensitive products was achieved in 1981. However, given the new priority then accorded to the objectives of differentiation and the individualisation of preferential limits to take account of the great range of possible situations on both products and beneficiaries, if the present machinery is to be largely retained, further significant progress either to simplify or to standardise procedures cannot easily be imagined.

Other shortcomings in the present system, which have already been pointed out both to the Commission and to Member States, may be more easily remedied.

Taking "differentiation" further by excluding certain products from the competitive countries it should be possible to transfer some of these products to the non-sensitive list. Moreover, the adoption of quota shares should better reflect trade flows in the product concerned.

A number of middle-income countries have been able to increase substantially their exports to the Community as a result of the individualization of GSP preferential amounts which were introduced in 1981. Nevertheless the Commission believes that the potential for the expansion of GSP trade has by no means yet run its full course for all middle-ranking developing countries, and even less for those developing countries which are only just beginning to enter world export markets, especially for what are for them non-traditional items. Such suppliers are often discouraged by what they term a lack of security in the EC scheme, and an absence of transparency in its operation.

5. On the question of security it should be recalled that the procedure for re-introducing duties on Non-sensitive products was always envisaged by the Commission as one which should be invoked only in extremis, in unforeseen and unforeseeable emergency. Requests to reintroduce duties on Non-sensitive products have however arrived with much greater frequency in recent years so that the fundamental distinction from sensitive products has risked becoming blurred.

6. The publication in the Official Journal of all ceiling values/volumes, practised since 1981 has been an important theoretical step forward to improve the transparency of operation of the EC's scheme. However, what concerns above all the actual users of the EC's GSP offers is the timing or even the likelihood of the reintroduction of normal MFN duties. While in any system

of a priori preferential limits it can never be possible to predict this with absolute certainty, businessmen and other interested parties have long claimed that it ought to be possible to reduce significantly the risks in their operation by much greater openness in the day-to-day administration of the scheme, and that indeed in this respect the EC compares unfavourably with other GSP donors. Some of these expectations may be exaggerated, and it must also be noted that any practical benefits are dependent also on Member States improving substantially the speed and accuracy of the transmission of preliminary data to the Commission.

7. Rules of Origin

Users have long criticised certain articles in the present GSP Rules of Origin as unclear and not easily comprehensible, in particular in the additional derogations to allow "cumulation" of origin between Member countries of the three regional groupings - ASEAN, the Andean Pact and the Central American Common Market. Quite a lot of re-drafting will in any event be required to adapt the present rules to the new tariff nomenclature which will be applied on the introduction in 1987 of the Harmonised System.

A large number of beneficiary countries have also been pressing the EC to agree to the concept of Donor Country content i.e. that parts or elements originating from the EC should be conceded "originating" status if the final product in which they are incorporated is exported back to the EC.

D. THE LEGAL BASIS OF THE EC'S GSP SCHEME

Despite its legally autonomous nature, the GSP has to be seen as part of a well-established international framework for trade and has thus to be considered as an integral part of the Community's overall commercial policy. Each year since the first inauguration of the EC's GSP scheme in 1971 the Commission has presented its formal legislative proposals for the implementing regulations on the basis of Article 113. Although convinced that the GSP should be viewed as operating within the context of the EC's Common Commercial Policy, the Commission has not hitherto sought to override the objections of certain Member States who have insisted on substituting an unspecified reference to the Treaty. Now, however, not merely principle but the practical necessities of decision making following the latest Enlargement of the EC require that the GSP be grounded on Article 113: the annual examination of the Commission's proposals has become increasingly difficult and time-consuming and if the whole procedure is not to risk grinding to a halt, the adoption of majority voting must now be accepted.

E. PROPOSALS

1. Continuation of the present policy of differentiation

The Commission considers that in general it is still appropriate to retain the present policy of differentiation in the allocation of GSP benefits for industrial products whose economic sensitivity requires limits to be set to preferential entry.

The strict form of control of individual country tariff quotas would be applied where suppliers have shown themselves to be highly competitive by taking up a substantial proportion of these quotas in the 2 preceding years. The value/volume of each quota would be divided up among Member States on the basis of an allocation key specific to the product and based on trade flows in the same 2 preceding years.

In specific cases when there is no real concentration of imports on any Member States the Community tariff quotas should not be allocated.

All other suppliers would be subject to discretionary control under flexibly administered individual ceilings as at present, but no longer with the automatic reintroduction of duty at the request of a Member State (see 7. below - Management Committee).

2. A new stage on differentiation

However, it is now indisputable that on a small number of tariff quota products, a few suppliers have emerged, whose performance - in terms of market share, ability to continue to export long after normal duties have been reintroduced - shows that the assistance of a tariff preference no longer exercises any material influence on their exports to the EC. In such specific circumstances it has therefore now become opportune to introduce a new form of differentiation at the level of individual product/supplying country.

3. Criteria for taking "differentiation" further

Taking differentiation on to this stage will only be acceptable if it is based on criteria, which can be seen to be objective, coherent and fair.

The Commission considers that such criteria should be based on the competitive capacity/performance of the exporting country concerned in terms of its share of total imports - a 20% share of the EC's total third country imports of the product in question appears reasonable ; a strong presumption of competitive capacity would also exist in such cases where total imports of the product in question from an exporting country had on the average of the last 2 years exceeded the value of the GSP quota at least 10 times. The criteria will also take into account the exporting country's overall level of economic development as measured in terms of GNP per head. In any event while these criteria may activate an indicator suggesting the possibility of graduation, before triggering off the graduation mechanism the EC must retain the right to make a final assessment in the light of the overall situation both of the Community market and of the developing country in question. Moreover in the framework of the preparation by the Community of the arrangements for third countries for iron and steel products which will be applicable from 1986, the Commission will reexamine the GSP rules for the years 1986-1990 in relation to the orientations which we adopted in respect of these arrangements.

4. A total package

It is to be emphasised, however, that this new step in the evolution of the EC's GSP scheme has no protectionist motivation. The Commission recognises and is determined to uphold the EC's international commitments, both in relation to the developing countries beneficiaries of its GSP scheme, and to its partners among the OECD countries which are also GSP donors. This limited withdrawal of GSP benefit on a product/supplier basis is therefore to be matched by complementary measures both quantitative and qualitative aimed at liberalising the conditions of access on other products and for other suppliers who need to be encouraged to expand further their utilisation of the EC's GSP scheme and the whole to be regarded as an integral and indissoluble package.

5. Quantitative improvements

In order to ensure buoyancy and real growth possibilities to the EC's GSP scheme, it is necessary to revitalise the method of calculating preferential limits on sensitive industrial products. A much greater degree of automaticity in improving preferential treatment ought to be restored, conceivably through

a link with the growth in the EC's external trade taking in account the Community's market possibilities. Conversely, when trade trends have evolved differently the preferential amounts could be lowered. In the longer term the possibility should be explored of transforming preferential limits wherever possible from monetary values to non-monetary units i.e. volumes, quantities.

6. Qualitative improvements

(a) Greater Security

In order to reassert the fundamental distinction between sensitive and Non-sensitive products, a much more rigorous procedure needs to be instituted. Requests to reintroduce duties on products, which the GSP regulation itself formally categorises as Non-sensitive should not merely be adequately justified, but should be examined in the formal setting of a GSP Management Committee. This should be coupled with longer periods of notice of reintroduction of MFN duty rates to minimise the possible damage of abruptly preferential trade flows.

Similarly, on products which are categorised as sensitive only to the extent of being subject to ceilings, the present procedure of automatic reintroduction of duties on request is too rigid. It needs to be made more flexible by introducing consultation under the aegis of a Management Committee which would allow for the wider examination of all relevant factors.

(b) Improvement of transparency

As a first step, the information that 100% of an indicative ceiling has been reached should be made available on request to interested parties and should be published. However to ensure the credibility of these statistics, Member States for their part will need to upgrade their internal procedures both to speed up the transmission of data and to improve its accuracy.

(c) Rules of origin

Without losing sight of the fundamental objectives of rules of origin - to prevent backdoor trade diversion - the Commission feels that a thorough re-examination of the present rules is desirable. Technical modifications will be required with the introduction of the Harmonised System in 1987 and the Commission intends to undertake a review of the existing rules and ensuring a more transparent internal coherence between the different schemes. This exercise will be applied also to the Rules of Cumulation, where there may be possibilities of making these rules both more relaxed and comprehensible and easier to control by the EC authorities.

In addition the Commission is favourably disposed to the introduction of the concept of Donor Country Content, which has not merely been pressed for by many beneficiaries, but applied in properly controlled circumstances, on a sector by sector basis can be of interest and profit to sectors of EC industry.

7. Management Committee

The necessity of finally accepting Article 113 as providing the legal authority for the GSP has already been spelled out. Translated into operational terms the Commission envisages the setting up of a Management Committee consisting of Member States but under the Commission's own aegis. The Management Committee would be asked to give its opinion on all questions relating to the day-to-day management of the scheme such as the reintroduction of duties and the application of GSP regulations. Decisions would be taken according to the usual procedures in Management Committees.

F. Agricultural Sector

From 1981 to 1985 the Community has notably extended the agricultural section of its scheme. It is sufficient to recall that for more than 100 tariff lines already included the existing preferential margins have been increased and 34 new tariff lines had been added. Beside this, a treatment equivalent to that applied to the ACP countries has been granted to the Least Developed Countries.

In trade flows this has been expressed in preferential imports which had reached 1.7 billion ECUs in 1983 or some 22.5 % of agricultural imports liable to duty rates. If one also takes into account the imports of products for which the CCT already provides a zero duty rate, "erga omnes", it can be seen that 46 % of the agricultural products imported into the Community from non-associated beneficiary countries of the GSP are eligible for tariff exemption or a reduced duty rate. The corresponding amount for ACP countries is 94.5 %, but here all imports benefit from the duty exemption. The divergence of the two regimes arises essentially from the fact that a series of products particularly those from the tropical zone such as green coffee, cocoa beans and bananas, remain excluded from the scheme.

Regarding zones of origin the advantage obtained from the preference is very unequally distributed, in 1983 62.3 % of the imports under GSP came from Asia against 36.7 % from Latin America (see Annex 6).

From the beginning the donor countries agreed that the inclusion of agricultural products should be made on the basis of a case by case examination. It is well known that the Community always applied this agreement more strictly as it was constrained by Community policies in the field of agriculture and fishing or in respect to the ACP or Mediterranean countries. The Commission considers that the revision of the agricultural scheme should not lead to a departure from these basic criteria. The adaptation should therefore be carried out on a case by case basis according to certain guidelines, which would be followed during the preparation of the annual schemes. Indeed, in general the Commission considers that the Community should concentrate on an improvement of the benefits granted. It should particularly take into account the interests of the Least Developed Countries and also seek to correct the imbalanced utilization concerning Latin America.

U.S. GSP Scheme

(as renewed for 8.1/2 years with effect from 4 January 1985)

1. Tariff treatment

GSP rate is duty-free entry for all eligible products.

2. List of beneficiaries

Most countries members of Group of 77 in UNCTAD but political exclusions of those OPEC countries which participated in 1974 oil boycott i.e. the Arab/Gulf producers and Communist/communist dominated countries i.e. Cuba, Afghanistan, Vietnam, Ethiopia etc; Romania and Yugoslavia, however, eligible.

Also included several non-G77 developing countries such as Taiwan, Israel, Portugal and Turkey. Additional concessions now introduced for Least Developed Countries.

3. Product coverage

Some 3 000 categories of articles in US tariff schedule, so includes most dutiable manufactures and semimanufactures as well as selected agricultural and fishery products. Certain sectors excluded: textiles covered by MFA, footwear, most leather products, petroleum products and some chemicals.

4. Preferential limits - Competitive Need Limitations

A country will automatically lose GSP eligibility in the following year if either of the statutory competitive need limits exceeded: (1) US imports of products from that country 50 % or more of total US imports or (2) dollar value, as proportion of nominal US GNP, adjusted automatically to growth of GNP: originally US \$ 25 million; 1984 \$ 57.7 million; 50 % rule, however, tempered by de minimis provision which has now been raised to \$ 5 million. LLDCs now exempted from Competitive Need Limitations.

5. Graduation

Already existed to limited extent in previous US scheme. Now President required to complete within 2 years a general review to determine which products/countries "sufficiently competitive". Where confirmed lower Competitive Need Limits could be fixed at 25 % of total imports or \$ 25 million (indexed to growth of US GNP). Countries could also be entirely removed if GNP per head exceeds US \$ 8.500 (also indexed, two-year phasing-out period).

6. Other considerations

In all GSP determinations President required to take into account discretionary criteria such as market access for US exports, protection of US intellectual property and extension of internationally recognized workers' rights.

7. Utilisation of the GSP scheme/Performance

The GSP imports as percentage of total imports have never been below 3% :

			<u>GSP</u>			<u>Total</u>	
1979	-	3,05%	-	6.322	Mio US \$	of	207.131 Mio US \$
1980	-	3,04%	-	7.328	"	"	241.195 "
1981	-	3,21%	-	8.395	"	"	260.982 "
1982	-	3,31%	-	8.426	"	"	254.900 "
1983	-	3,97%	-	10.718	"	"	269.900 "
1984	-	3,81%	-	12.997	"	"	341.200 "

JAPAN'S GSP SCHEME

1. Tariff treatment

For agricultural products, various duty reductions, including zero-duty treatment, apply to the products covered by the scheme. For industrial products, duty-free entry is granted for all products covered by the scheme, with the exception of selected products for which tariff reductions of 50% from the MFN rates are applied.

For the Least Developed Countries, duty-free entry (with exception of two products) and without preferential restrictions (with exception of two products) is granted.

2. Country eligibility

The list of beneficiaries contains the UNCTAD group of 77 and some "non-independent countries and territories". Included are also Communist countries such as Bulgaria, Romania and China.

The GSP benefits are also granted to Israel, Portugal, Spain, Turkey and Taiwan.

3. Product eligibility

For agricultural products, preferences are granted for products in 75 four-digit-CCCN headings.

For industrial products, preferences are granted for all dutiable products. Excluded are products in 20 four-digit-CCCN headings, as some textiles, footwear, leather goods, petroleum and plywood. For 201 product groups, the preferential imports can be made up to a ceiling set for each of these groups and calculated for each fiscal year (April to March). These ceilings are open for use by all beneficiaries on an equal basis but with a maximum amount of 50% of any one group for any one country. The LLDCs are exempted from the application of preferential ceilings except for 4 groups of textile products. The right to suspend preferential treatment under certain circumstances is assured by a safeguard clause.

4. Utilisation of the GSP scheme/Performance

The GSP imports as percentage of total imports have never been below 3% :

			<u>GSP</u>			<u>Total</u>	
1979/80	-	3,62%	-	4,324 Mio US \$	of	119,456 Mio US \$	
1980/81	-	3,50%	-	4,985	"	142,484	"
1981/82	-	3,83%	-	5,437	"	141,828	"
1982/83	-	4,14%	-	5,263	"	127,141	"

Background Note on the European Communities' Scheme of
Generalized Preferences (GSP)

1. For those developing countries not directly associated with the Community through preferential agreements, such as Lomé or the various Mediterranean agreements - in practice the developing countries in Asia and Latin America, together with Romania - the EC's scheme of generalized tariff preferences constitutes the only form of preferential trade access to the EC market.
2. In 1971 the EC^{*)} became the first among the developed countries to put into operation a GSP scheme, which fully reflected the objectives agreed unanimously between all participating countries in Resolution 21 (II) of the second UNCTAD Conference (New Delhi, 1968):

"... of the generalized, non-reciprocal, non-discriminatory system of preferences in favour of the developing countries, including special measures in favour of the least developed among them should be:

 - a) to increase their export earnings
 - b) to promote their industrialization
 - c) to accelerate their rates of economic growth...."
3. The EC's lead was followed by all the developed countries members of OECD - by Japan, the EFTA countries, Australia, New Zealand, Canada and finally in 1976 by the USA. All these countries have now renewed their GSP schemes for a second period - usually a decade but 8.1/2 years for US scheme.
4. The main elements of the EC's GSP scheme are as follows:
 - 4.1 Industrial products: (CCT Chapters 25-99)
 - comprehensive product coverage: right from the start the EC included all otherwise dutiable manufactured and semi-manufactured ^{**)} industrial products, even such difficult areas as textiles, footwear, steel products, glass etc.;

^{*)} at that time - the original 6 Member States; applied by Denmark, Ireland and the UK from 1974 and by Greece from 1981.

^{**)} the EC being relatively poor in natural resources, many primary products - particularly minerals, fuels, logs, hides etc. in any event duty-free on a Most-Favoured-Nation basis.

- the machinery of preferential limits for "sensitive" industrial products was radically overhauled in 1981 when EC scheme launched into its second decade: the original system of controlling all beneficiary countries globally on an identical basis, which resulted in a free-for-all/weakest to the wall was replaced by a new system which identified on a product by product basis the highly competitive suppliers, who can now be restrained by strictly applied individual country tariff quotas, while access for all other suppliers is controlled by the regime of flexible/indicative individual country ceilings;
- in the textile sector (CCT chapters 50 - 63) a more restrictive GSP regime has always operated: since 1980 eligibility to benefit on products covered by the quantitative arrangements of the Multifibre Agreement has been conditional upon the exporting country having concluded a self-restraint agreement with the EC or given a similar undertaking; individualized volumes are awarded to eligible beneficiary countries on the basis of a weighted formula which combines general level of economic development with import penetration/share of world trade. No precondition for GSP benefit on Non-MFA products, but same machinery of preferential limits.

4.2 For agricultural products (CCT Chapters 1 - 24)

- product coverage remains selective: original concept was only to offer preferences on processed agricultural products but under stimulus of First Enlargement/EC's Joint Declaration of Intent in favour of Commonwealth countries in Asia and major effort on Tropical Products during the last GATT Multilateral Trade Negotiations, has been transformed out of all recognition so that present list of 385 tariff lines now includes many fresh fruits and vegetables of tropical origin, herbs and spices, vegetable oils as well as fish and shell-fish; however excludes products covered by market arrangements under the CAP and protected by levies or similar devices; obligations to ACP and Mediterranean preferential countries also limit coverage;
- tariff treatment is usually a reduction (20% to 50%) on MFN rate, duty free entry on about one fifth of items;
- preferential limits - 5 global Tariff Quotas, 1 Tariff ceiling; all other items subject to nominal safeguard clause based on GATT Article XIX, which has however never been put into operation.

4.3 Origin Rules: based on change of tariff heading concept as test of substantial transformation (exception lists A and B) supplementary concession of partial cumulation for regional groupings - ASEAN, Andean Pact, Central American Common Market.

4.4 List of Beneficiaries: "self selection" - developing countries have been equated with members of the Group of 77 in UNCTAD; applications from non G77 countries have been considered "on their merits" - Romania and China were accepted, but made subject to special regimes, Bulgaria rejected; preferences are also extended to dependent territories i.e. colonies etc. of Member States and third countries. Current List: 128 independent countries and 22 dependent territories^{*)}. Unlike the USA the EEC has never used political criteria either to include or to withdraw countries from its list of beneficiaries.

4.5 Since 1977 a series of supplementary measures have almost totally liberalized GSP access for Least Developed Countries (the EC recognizes the UN list currently 38 countries, of which, however, all but 9 are ACP):

- on industrial products, including textiles, not merely duty-free entry but complete exemption from application of preferential limits; "self restraint" agreement not required for MFA textiles;
- on agricultural products duty-free entry on all products, plus supplementary list of some 370 products - in total, nearly all agricultural/fishery products in CCT Chapters 1-24 not protected by levy or similar device thus putting them very nearly on a par with the ACP; one Quota, one ceiling limit still applicable;
- since 1 January 1984 possibility to apply for waiver from strict application of individual Rules of Origin, but to date no application of this kind has been received in spite of widespread publicity.

^{*)} However ACP, Mediterranean Associates are expected to use trade provisions of their own preferential agreements and not to take up GSP possibilities.

DEVELOPMENT OF QUOTAS BY COMPETITIVE COUNTRIES FROM 1981 TO 1985
(industrial products excluding ECSC products)

BENEFICIARY COUNTRIES	1981	1982	1983	1984	1985
Argentina	2	2	2	2	2
Brazil	9	10	14	16	17
Chile	2	2	1	1	-
China	7	13	16	16	17
South Korea	27	27	28	29	30
Hong Kong	24	24	24	24	26
India	1	1	1	1	1
Indonesia	1	1	1	1	1
Kuweit	-	-	-	1	-
Libya	2	2	2	3	3
Macao	-	-	-	1	-
Malaysia	2	2	2	2	2
Mexico	-	-	1	2	1
Pakistan	1	1	1	1	1
Philippines	1	1	1	1	1
Romania	6	15	16	12	9
Singapore	3	3	5	6	6
Thailand	-	-	-	1	1
Uruguay	1	1	1	1	1
Venezuela	2	1	2	1	1

IMPORTS FROM GSP BENEFICIARIES IN PERSPECTIVE

Tables :

1. Total imports of the EC
2. EC imports from GSP beneficiaries
3. Top 10 GSP beneficiaries
- 3a. LLDC's total GSP trade
4. Comparative evolution of EEC trade with certain selected developing countries

TOTAL IMPORTS OF THE EC
(in Mio ECU)

ORIGIN	1979	1980	1981	1982	1983
Extra-EC	219.343	272.899	303.802	321.467	328.488
Class 1	114.424	133.798	149.916	163.646	175.537
EFTA	41.099	49.348	53.894	58.520	66.505
USA	34.197	44.601	49.585	53.831	53.482
Japan	10.349	13.306	16.204	17.951	20.576
Class 2	89.744	116.691	129.093	128.763	121.672
ACP	14.877	19.028	16.368	17.763	19.545
GSP-beneficiaries	66.291	87.067	99.675	96.636	87.404
- already duty free	n.a.	59.853	72.099	65.698	55.917
(1) - eligible for GSP	13.985	19.183	21.471	23.508	23.868
- received GSP	5.100	6.709	8.063	8.864	9.323

(1) all imports of products included in the GSP regardless of preferential limitations

Sources: EUROSTAT - monthly external trade bulletin; special number 1958-1982

- " - - Nimexe 1983

- " - - Listings SPG 1440

EC imports from GSP beneficiaries (in Mio ECU)

	1980	1981	1982	1983
<u>Agricultural products</u> (CCT chapt. 1-24)				
Total				
- eligible for GSP (1)	2.362	2.632	2.991	3.241
- received GSP	1.350	1.467	1.630	1.784
Subject to preferential limits				
- eligible for GSP (1)	635	595	751	859
- received GSP	367	281	297	296
<u>Industrial products</u>				
Total				
- eligible for GSP (1)	11.795	13.358	11.186	11.092
- received GSP	4.567	5.802	3.773	3.837
Subject to preferential limits				
- eligible for GSP (1)	6.286	7.368	5.329	5.221
- received GSP	2.405	3.149	1.298	1.428
<u>Petroleum</u>				
Total				
- eligible for GSP (1)	(3.509	3.617
- received GSP	(included in the		2.588	2.681
Subject to preferential limits	(figures of			
- eligible for GSP (1)	("industrial products"		2.884	3.362
- received GSP	(2.312	2.496
<u>Textiles</u>				
Total				
- eligible for GSP (1)	5.027	5.481	5.823	5.918
- received GSP	792	794	873	1.021
Subject to preferential limits				
- eligible for GSP (1)	4.868	5.362	5.696	5.773
- received GSP	686	709	775	904
<u>Total all products</u>				
Total				
- eligible for GSP (1)	19.183	21.471	23.508	23.868
- received GSP	6.709	8.063	8.864	9.323
Subject to preferential limits				
- eligible for GSP (1)	11.789	13.325	14.660	15.215
- received GSP	3.459	4.139	4.682	5.124

(1) all imports of products included in the GSP regardless of preferential limits

Sources : EUROSTAT listings SPG 1440

		1979		1980		1981		1982		1983	
1.	a.	Yugoslavia	1.502	Hong Kong	3.189	Romania	1.478	Brazil	2.156	Brazil	2.110
	b.	(1)	564		707		797		961		932
2.	a.	Hong Kong	1.563	South Kor.	1.908	Brazil	1.687	Romania	1.248	Romania	1.328
	b.		557		614		740		685		879
3.	a.	Brazil	1.224	Brazil	1.392	Venezuela	731	Venezuela	756	Koweit	862
	b.		541		593		610		648		321
4.	a.	South Kor.	1.630	India	1.297	Hong Kong	3.702	Hong Kong	3.788	India	1.502
	b.		460		587		590		635		687
5.	a.	India	1.216	Yugoslavia	1.621	China	1.257	South Kor.	2.349	Hong Kong	3.889
	b.		439	(1)	467		589		624		664
6.	a.	Malaysia	957	Venezuela	597	India	1.374	India	1.476	South Kor.	2.801
	b.		346		416		582		621		620
7.	a.	Philippines	532	Romania	960	South Kor.	2.299	China	1.395	China	1.602
	b.		215		387		563		555		602
8.	a.	Romania	501	China	977	Saudi Arab.	869	Koweit	477	Malaysia	954
	b.		212		311		383		398		447
9.	a.	Singapore	807	Malaysia	957	Malaysia	833	Malaysia	866	Venezuela	819
	b.		169		297		371		372		375
10.	a.	Venezuela	356	Singapore	1.013	Philippines	665	Philippines	661	Thailand	700
	b.		164		281		350		351		370
Total 10 a.			10.288		13.911		14.895		15.172		16.567
b.			3.667		4.660		5.575		5.852		6.397
% of total a.			73.6		72.5		69.4		64.5		69.4
GSP trade b.			71.9		69.5		69.1		66.0		65.1

LLDC'S TOTAL GSP TRADE

in 1000 ECU

	1 9 7 9	1 9 8 0	1 9 8 1	1 9 8 2	1 9 8 3
LLDC's (2) total GSP trade					
- eligible a.	104.254	203.369	213.514	430.217	337.060
- received b.	54.459	131.606	134.880	316.457	205.999

a. - imports eligible for GSP - all imports of products included in the GSP regardless of preferential limits

b. - imports which received GSP treatment

(1) Yugoslavia does no longer appear under the top 10 beneficiaries by reason of its own preferential agreement with the EC

(2) North Yemen, South Yemen, Afghanistan, Bangladesh, Maldives, Nepal, Bhutan, Laos, Haiti

COMPARATIVE EVOLUTION OF EEC TRADE WITH CERTAIN SELECTED DEVELOPING COUNTRIES

a) total imports b) eligible for GSP c) received GSP d) of which sensitive industrial products - excluding refined petroleum products
e) on total imports part "en exemption dans le TDC"

		in 1000 ECUS								
		1980	1981	1982	1983	1980	1981	1982	1983	
South Korea	a)	1.972.000	2.338.150	2.401.681	2.852.560	b in % of a	96	98	97	98
	b)	1.908.272	2.299.337	2.348.673	2.801.172	c in % of a	31	24	26	21
	c)	624.285	563.021	624.732	619.656	d in % of a	12	6	6	6
	d)	243.684	141.605	165.705	175.981	c in % of b	32	24	26	22
	e)	28.771	23.586	52.142						
Hong Kong	a)	3.602.000	3.867.731	4.007.557	4.553.388	b in % of a	86	95	94	85
	b)	3.118.990	3.701.782	3.787.953	3.888.860	c in % of a	19	15	15	14
	c)	707.040	589.820	634.744	664.104	d in % of a	6	4	4	4
	d)	226.698	166.699	192.073	189.351	c in % of b	22	15	16	17
	e)	337.581	267.015	306.594						
Brazil	a)	4.134.000	5.223.859	6.119.399	6.789.493	b in % of a	33	32	35	31
	b)	1.392.501	1.687.393	2.155.866	2.109.565	c in % of a	14	14	15	13
	c)	592.979	740.272	961.484	931.826	d in % of a	2	1	1	2
	d)	104.718	100.469	113.587	183.384	c in % of b	42	43	44	44
	e)	1.837.149	2.538.196	2.546.627						
Mexico	a)	1.063.000	1.973.850	2.502.533	2.808.606	b in % of a	25	17	11	12
	b)	275.583	340.129	297.952	342.268	c in % of a	15	10	6	6
	c)	167.655	201.576	154.839	181.251	d in % of a	1	(0.7)	(0.3)	2
	d)	13.759	15.223	9.301	59.473	c in % of b	60	59	51	52
	e)	687.382	1.562.277	2.131.199						

COMPARATIVE EVOLUTION OF EEC TRADE WITH CERTAIN SELECTED DEVELOPING COUNTRIES

a) total imports b) eligible for GSP c) received GSP d) of which sensitive industrial products - excluding refined petroleum products
e) on total imports part "en exemption dans le TDC"

		in 1000 ECUS								
		1980	1981	1982	1983		1980	1981	1982	1983
Singapore	a)	1.859.000	1.307.578	1.381.868	1.770.076	b in % of a	54	81	81	73
	b)	1.012.536	1.070.053	1.130.361	1.295.673	c in % of a	15	22	23	19
	c)	280.570	296.935	321.020	345.823	d in % of a	6	11	10	7
	d)	113.065	150.685	151.726	140.436	c in % of b	27	27	28	26
	e)	323.370	252.329	200.247						
Philippines	a)	820.000	958.752	998.024	1.091.791	b in % of a	70	69	66	63
	b)	577.987	665.467	660.715	697.127	c in % of a	30	36	35	32
	c)	251.951	350.036	350.894	358.869	d in % of a	7	8	8	9
	d)	61.846	75.661	89.670	100.495	c in % of b	43	52	53	51
	e)	284.547	262.593	292.281						
Thailand	a)	1.237.000	1.474.226	1.740.208	1.569.627	b in % of a	37	36	36	44
	b)	461.418	536.190	641.787	700.238	c in % of a	15	18	18	23
	c)	193.784	267.247	330.050	370.188	d in % of a	3	4	4	4
	d)	38.513	68.051	76.756	66.033	c in % of b	41	49	51	52
	e)	275.650	264.433	207.912						
Sri Lanka	a)	205.000	222.485	251.144	283.791	b in % of a	38	46	47	58
	b)	79.088	102.775	118.755	164.856	c in % of a	16	14	16	21
	c)	33.568	32.973	42.298	61.119	d in % of a	(0.6)	1	1	2
	d)	1.232	2.446	4.284	7.676	c in % of b	42	32	35	37
	e)	117.124	116.971	139.790						

COMPARATIVE EVOLUTION OF EEC TRADE WITH CERTAIN SELECTED DEVELOPING COUNTRIES

a) total imports b) eligible for GSP c) received GSP d) of which sensitive industrial products - excluding refined petroleum products
e) on total imports part "en exemption dans le TDC"

		in 1000 ECUS								
		1980	1981	1982	1983		1980	1981	1982	1983
India	a)	1.799.000	1.880.013	2.571.749	2.196.424	b in % of a	72	73	57	68
	b)	1.297.754	1.373.935	1.475.719	1.501.705	c in % of a	32	30	24	31
	c)	587.222	582.317	620.537	687.216	d in % of a	3	4	3	2
	d)	69.998	76.917	78.599	62.064	c in % of b	45	42	42	45
	e)	572.428	598.751	1.178.549						
Pakistan	a)	441.000	488.433	540.598	584.517	b in % of a	73	73	74	71
	b)	325.809	359.980	401.621	418.103	c in % of a	43	42	44	42
	c)	193.431	207.977	240.072	250.954	d in % of a	5	5	5	7
	d)	23.474	26.630	29.788	45.208	c in % of b	59	57	59	60
	e)	57.175	63.957	80.308						
China	a)	1.889.000	2.283.726	2.334.198	2.668.672	b in % of a	51	55	59	60
	b)	976.872	1.256.731	1.395.092	1.602.274	c in % of a	16	25	23	22
	c)	310.555	589.178	554.696	601.568	d in % of a	2	4	4	4
	d)	40.592	110.909	101.882	128.997	c in % of b	31	46	39	37
	e)	483.176	579.077	497.589						
Romania	a)	1.716.000	1.829.401	1.769.502	1.892.655	b in % of a	55	80	70	70
	b)	960.423	1.478.459	1.247.690	1.328.048	c in % of a	22	43	38	46
	c)	387.224	797.188	685.491	878.954	d in % of a	(0,7)	(0,7)	1	1
	d)	12.156	13.485	25.585	32.401	c in % of b	40	53	54	66
	e)	81.099	283.410	145.848						

COMPARATIVE EVOLUTION OF EEC TRADE WITH CERTAIN SELECTED DEVELOPING COUNTRIES

a) total imports b) eligible for GSP c) received GSP d) of which sensitive industrial products - excluding refined petroleum products
e) on total imports part "en exemption dans le GSP"

		in 1000 ECUS								
		1980	1981	1982	1983		1980	1981	1982	83
Argentina	a)	1.777.000	1.814.244	1.863.566	2.039.695	b in % of a	25	28	27	20
	b)	456.566	513.221	508.427	421.030	c in % of a	9	13	11	9
	c)	166.262	248.997	206.546	192.257	d in % of a	(0.8)	1	1	(0.6)
	d)	15.861	20.421	30.723	14.175	c in % of b	36	48	40	45
	e)	711.569	714.267	743.226						
Colombia	a)	1.060.000	1.087.689	1.213.005	1.304.884	b in % of a	16	27	20	18
	b)	179.300	294.491	244.116	239.160	c in % of a	9	21	15	15
	c)	99.966	231.976	187.670	199.262	d in % of a	(0.2)	(0.4)	(0.5)	(0.3)
	d)	3.144	5.088	6.275	3.955	c in % of b	55	78	76	83
	e)	23.178	29.844	20.227						
Malaysia	a)	1.788.000	1.755.214	1.765.060	2.061.817	b in % of a	53	47	49	46
	b)	956.602	833.115	866.023	953.931	c in % of a	16	21	21	21
	c)	296.557	371.014	371.933	447.056	d in % of a	2	3	4	4
	d)	52.226	63.014	74.719	99.234	c in % of b	31	44	42	46
	e)	1.052.440	892.159	849.912						

Increases between 1981 and 1985 in value of preferential
limits on sensitive industrial products (1)
(excluding petroleum & ECSC products)

Increase	number of products concerned
0 %	27 %
5 %	16 %
10 %	9 %
15 %	8 %
20 %	12 %
25 %	10 %
30 %	5 %
+ than 30 %	13 %
	100 %

(1) Method : the products considered are those sensitive
from 1981 up to 1985

THE PRINCIPAL ACHIEVEMENTS IN THE GSP FOR AGRICULTURAL PRODUCTS

- a. During the period 1981-1985 34 new tariff lines were introduced and the preference for some 110 tariff lines were improved. The LLDCs got a tariff treatment equivalent to that of the ACP.
- b. Agricultural imports rose from 1.357 million ECU in 1979 to 1.668 million ECU in 1983: in other words in 1983 about 22.5% of the imports liable to pay duty benefitted from preferences.
- c. The principal beneficiary countries (or country groups) were the following in 1983:

ASEAN	44.6%
Indian subcontinent	10.7%
other Asian countries	7.0%
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Total Asia	62.3%
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Andean group	2.5%
Central American Group	1.0%
Brazil	12.9%
other Latin American countries	10.3%
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Total Latin America	36.7%
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Other countries (Romania, Yugoslavia)	1.0%
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TOTAL	100.0%
=====	

- d. The principal products imported under GSP in 1983 were: (1000 ECU)

- Vegetable oil sector	485.000
- Fish sector including fishmeal	438.000
- Tropical fruits and preparations	157.000
- Tea, coffee and cocoa sectors	153.400
- Tobacco and tobacco products	150.500
- Live plants, flowers, vegetable and preparations	104.000
- Honey	60.000
- Spices	52.000
- Game and similar products	37.000
- Bakery items and miscellaneous edible preparations (Chapter 19 and 21)	21.400
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TOTAL	1.659.000
=====	=====