

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

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**THE EUROPEAN COMMUNITY'S
GENERALIZED SCHEME OF PREFERENCES
IN RELATION TO AGRICULTURAL PRODUCTS**

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SCOPE AND SIGNIFICANCE OF THE COMMUNITY'S GENERALIZED
SCHEME OF PREFERENCES FOR AGRICULTURAL PRODUCTS FROM
THE DEVELOPING COUNTRIES AS A WHOLE

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A. General reasons for setting up a generalized scheme of preferences (GSP)

The Western international trade system, built up after the second world war, is based primarily on the prohibition of quantitative restrictions and unrestricted most-favoured-nation treatment i.e., non-discrimination in import duties. Perusal of the GATT, the "bible" of rights and duties in international trade, shows clearly that the concept of non-discrimination is the predominant one. Certainly this represents progress over those periods of history in which trade was largely an instrument of foreign policy and economic discrimination prevailed. Underlying the present world trade system is the view that the world represents an economic whole, in which the most efficient can and should succeed.

It is certainly indisputable that this step towards depoliticizing international trade has brought great advantages for all those concerned, and has increased world trade to a previously undreamt-of degree. But it should not be forgotten that this is true only for the most efficient producers, which meant and still means primarily the industrialized countries. At the beginning of the sixties it gradually became more obvious that this approach worked against those who were not or were not yet competitive, i.e. the developing countries. This is why discussion began at that time on means to improve the conditions under which the economically weaker nations took part in world trade.

This is not surprising since no economic policy maker, even in the industrialized countries, will today argue that the market mechanism alone is sufficient to solve the problem of the economically weaker parties.

One example is the Community's common agricultural policy, in that it restricts competition from without by an appropriate protection system at the border and limits it at home by offering farmers guaranteed prices. There are many other examples, such as social security for employees. In other words the industrialized countries also accept that the free play of market forces is not sufficient for society to progress. They therefore adopt in their economic policy the principle of a social market, not purely a market economy.

At world level the industrialized countries face the same set of problems, and they now realize that they must do something for the economically weaker countries, i.e. the developing world. After long negotiations at the first and second UNCTAD conferences in 1964 and 1968, they agreed to depart from the principle of most-favoured-nation treatment and grant tariff preferences to the developing countries as a whole.

From the outset the Community's attitude vis-à-vis the developing countries was a positive one. Indeed the Community was and still is the advocate of building and developing a generalized scheme of preferences for developing countries. Thus the Community was the first to introduce such a scheme, on 1 July 1971, an example not followed by the USA until 1 January 1976.

B. Agricultural policy and generalized preferences

While in the industrial sphere all the countries concerned agreed to set up such a system for industrial products and in principle to suspend tariffs completely, in agriculture they decided on the case-by-case method. This is obviously due to the fact that in all or almost all industrialized nations agriculture is faced with the problems of ensuring a fair income for farmers and consequently most of them for social reasons, effect a transfer of income to agriculture from the rest of the national economy.

It is therefore not surprising that all the industrialized countries had reservations about the idea of preferences for agricultural products. They feared that the granting of preferences for agricultural imports would increase the cost of the system of supporting agriculture through prices or subsidies. For this reason it was only under pressure from the developing countries at the second UNCTAD conference in 1968 that the industrialized countries agreed to include agricultural products in the scheme of preferences. The fact that many developing countries export little or nothing other than agricultural products was certainly a determining factor.

C. The development of EEC's generalized scheme of preferences (GSP) for agricultural products

Since the Community guarantees farm incomes via prices, which in the case of many products are secured by levies on produce from non-member countries, in order not to jeopardize the price guarantees none of these products could be included in the lists of preferences.

In its GSP the EEC only included products to which it applies tariffs at the external frontiers, and to prevent common agricultural policy costs from rising it had to be very careful about products for which an intervention system existed under the CAP. Indeed, with certain products, very small quantities can have a lasting impact on the market price with all the ensuing consequences for the Community intervention system.

Finally, when creating and extending the Community GSP, consideration had to be given to the fact that the Community had concluded association agreements, based on a free trade area, with a number of African states and that it therefore had to take the interests of African agriculture into account when deciding upon GSP.

It is obvious that the preferential position of African farmers on the Community market would be adversely affected if the Community were to lower the import duties on sensitive agricultural products for all developing countries. The fact that the Lomé Convention is no longer based on the principle of a free trade area with reciprocal preferences does not change this. Finally, when creating and building up this scheme it was not possible to overlook the Community's series of preferential agreements with Mediterranean countries, which cover agricultural products also supplied to the Community by other developing countries.

It is therefore not surprising that the first list of agricultural products to benefit from the Community's GSP, which came into force

on 1 July 1971, was a modest one. It included some 100 tariff headings from Chapters 1 - 24 of the common external tariff and covered trade value of about U.A. 40 million. The preferential margins allowed were also small, generally not exceeding a 20 % reduction in the external tariff. However, unlike industrial products, for which the Community grants zero rates, there is no ceiling on preferential imports of agricultural products. Instead of the ceiling applied to industrial products there is for agricultural products a protective clause enabling the Community, in the case of market disturbances due to preferential imports, to suspend the preference wholly or in part vis-à-vis those countries which are responsible for the market disturbance. To date the Community has not been forced to apply this protective clause, the reason perhaps being that the GSP has not led to more imports, but rather to an import shift towards developing countries, to the extent that these are able to deliver.

In 1972 and 1973, the Community made further improvements in its scheme; however, it remained relatively modest if one compares preferential import possibilities with total imports of agricultural produce from developing countries. This situation changed on the accession of the three new Member States, because of:

1. Protocol No 22 to the Act of Accession, which provided for an alignment of the GSP of the Six and that of the three new Member States on 1 January 1974;
2. The joint declaration of intent (JDI) on the Commonwealth developing countries in South-East Asia contained in the Act of Accession. In the declaration the Community undertook to use generalized preferences to solve problems arising for these countries from the abolition of Commonwealth preferences in the UK.

It should be remembered that all these countries enjoyed zero rates on all agricultural products, which they lost on Britain's accession to the EEC. To avoid discrimination between South-East Asian countries, non-members of the Commonwealth such as Thailand, Indonesia and the Philippines were also covered by the JDI.

It is not surprising that the Commonwealth developing countries in Asia, which unlike those in Africa and the Caribbean were offered no form of association in the Accession Treaty, have followed and are following the Community policy on generalized preferences with particular interest: they measure this system against the advantages which they used to enjoy on the British market.

Another result of this situation was that the conference of Heads of Government, the forerunner of the present European Council, examined these issues and in various pronouncements expressed support for the extension of the GSP, in particular for agricultural products; another result was that the UK also included such issues in the renegotiation package.

For all these reasons the GSP was considerably extended in 1974 and in subsequent years. In 1974 about 100 new tariff headings were included, the preferential margins were widened, and the volume of preferential imports from non-associated developing

countries increased from about UA 150 million to 450 million.

In 1975 and 1976 there were further improvements, in particular with the entry into force of the trade section of the Lomé Convention, which definitively granted a group of Commonwealth developing countries in Africa and the Caribbean exemption from tariff duties not only in the UK but in all Community Member States - while, as outlined above, the South-East Asian Commonwealth countries lost their preferences on the British market. The 1976 list of generalized preferences for agriculture included 250 tariff headings and covered imports worth UA 1 000 million from non-associated developing countries.

A further important step in the development of this scheme comes into force on 1 January 1977. This is the result of the Tokyo round of multilateral GATT negotiations, in which the negotiating parties have agreed to attach special importance to the improvement of trade with the developing countries.

In the Tokyo Declaration, which is the point of departure for these negotiations, the participants expressed their support for special priority measures for the developing countries and indicated in this context the significance of the extension of the GSP for trade with developing countries. Thus, within the multilateral GATT negotiations a special negotiating group for tropical products was set up, in which the developing countries were able to outline their special problems. It was agreed in this group that concrete results in extending trade in tropical products could be achieved by a procedure in which the developing countries presented request lists and the industrialized countries put forward offer lists. The negotiations have not yet been fully completed, but in March/April 1976 or thereafter all industrialized countries made offers which, to take account of the priority granted, have to be put into effect on 1 January 1977, or as near as possible to that date.

In these negotiations the Community, like certain other industrialized countries, has argued that the GSP is the most suitable instrument for helping the developing countries, as regards products which are also supplied by industrialized countries, in that under such a system developing countries benefit from special measures i.e. preferences.

For those tropical products which are supplied solely by developing countries, the Community has made offers of tariff reductions on the basis of most-favoured-nation treatment. The Community's total offer for tropical products covers trade worth UA 1 800 million on the basis of 1974 imports from non-associated developing countries, and of this figure UA 1 200 million benefit from tariff concessions on the basis of most-favoured-nation treatment. Consequently the preferential part of the offer covers UA 600 million.

The Community's proposed improvement in its preferences include 46 new agricultural products on the agricultural offer lists and the improvement of the preferential margins for 70 tariff headings.

As the Council has decided, on a proposal from the Commission, that these improvements should come into force on 1 January 1977, the

1977 GSP for agricultural products will cover 300 tariff headings and trade worth about UA 1 250 million from non-associated developing countries.

To gain an idea of the significance and scope of this system, it must be looked at in relation to total agricultural imports from the countries in question. In 1975 the Community imported, from non-associated developing countries, agricultural products falling within Chapters 1 - 24 of the Common Customs Tariff amounting to about UA 5 500 million. Of this, imports to the value of UA 1 200 million were of products subject to levy; furthermore, it should not be forgotten that the Community levies no customs duties on many agricultural products (oil seeds, oil cakes, etc.). These represent about 30 % of total imports, or about UA 1 600 million. Thus imports to a value of UA 2 700 million are still subject to import duties. Of this, the Community grants tariff preferences on imports of UA 1 250 million. It has also offered tariff reductions on imports worth about UA 1 200 million of traditional tropical products, on the basis of most-favoured-nation treatment.

The above figures clearly demonstrate that the Community grants substantial preferences on those agricultural products also supplied by industrialized countries. Indeed the Community imports preferentially treated agricultural products from industrialized countries to the tune of about UA 1 500 million.

Thus, through the preferences accorded, the developing countries, insofar as they are able to deliver, have the possibility of considerably expanding their present exports of UA 1 250 million, at the expense of the industrialized countries.

To give the developing countries more help in this, the Community has recently concluded a series of Commercial Cooperation Agreements. At present such agreements exist with India, Pakistan, Bangla Desh, Sri Lanka, Mexico and also ASEAN*. The agreements with Argentina, Uruguay and Brasil also contain trade cooperation elements.

In other words the Community does not only offer the developing countries preferences to enable them to expand their trade with the Community, but it also gives them assistance and support with trade promotion schemes.

It is to be hoped that these measures as a whole will help to increase exports to the Community by these countries, and in the final analysis this is a precondition for the Community to expand sales of its products to them, for it is there that the doubling of the world's population in the next score or more years will take place.

* This is a regional association of the following countries:
Thailand, Malaysia, Indonesia, Philippines, Singapore.