



41/81

THE GENERALISED SYSTEM OF PREFERENCES OF THE EUROPEAN COMMUNITY

The new plan for 1981/1990

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1. Introduction

The initial arrangement for the Generalised System of Preferences which the Community was the first to implement in favour of the developing countries expired on the 31st of December, 1980.

In December 1980, the Council of Ministers of the Community decided to extend the arrangement but to modify it for the next ten year period between 1981 and 1990.

During the 80's, the GSP will be governed by two new objectives. Simplification of the system and differentiation between the beneficiary countries. These changes are based on the policy which the Commission had outlined to the Council in their paper dated the 7th March 1975.

So far, above all in the industrial field, the countries which are more economically advanced and enjoy more developed commercial networks have been found to use the preferential advantages more rapidly to the detriment of the weaker developing countries. Furthermore, in recent years some of the beneficiary developing countries have been seen to develop more rapidly and that in certain fields their exports are liable to cause difficulties in certain sectors of the Community production.

It is essentially a question of extending the benefits of the preferences in favour of the developing countries, above all those which are the least advanced, and to limit for certain products, the preferences which the countries that are already regarded as highly competitive, have enjoyed.

The plans for 1978, 1979 and 1980 were especially committed to this policy.

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2. History

The Community has been applying its system of generalized preferences since the 1st of July 1971 (1). Each year it has been progressively improved and extended in scope. The system, itself, consists of complete exemption from duty for all industrial products, and, generally speaking, partial exemption for certain processed agricultural products.

The implementation of the European Community's Generalised System of Preferences (GSP) forms part of the efforts made to progressively redistribute the economic relationships between the industrialized countries and those in the throes of development making them more equitable and closer to the needs of the modern world.

Towards the middle of the 60's, the developing countries asked for preferential access for their products to the markets of the industrialised countries. In its resolution dated the 26th of March 1968, UNCTAD (2) "recognised that there was unanimous agreement that, in the near future, a mutually acceptable and generalised system of preferences should be introduced".

In June 1971, the contracting parties to the GATT (3) agreed to waive for a period of ten years the most favoured nation clause in order to pave the way for the application of the Generalised System of Preferences (GSP).

Following the conclusion of the "Tokyo Round" on the 17th December 1979, the "qualification" clause introduced a legal basis for preferences under the GATT which had not hitherto existed; it therefore abolished the need to resort to waivers in order to grant preferential treatment to developing countries.

Depending on the countries which have answered UNCTAD's appeal, there is a Generalised System of Preferences which is applied in different ways.

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- (1) The European Community (Belgium, Denmark, Federal German Republic, France, Ireland, Italy, Luxemburg, Netherlands, United Kingdom) has about 270,000,000 inhabitants.
- (2) UNCTAD = United Nations Conference on Trade and Development
- (3) GATT = General Agreement on Tariffs and Trade.

These systems were implemented on the following dates:

- European Community	1st July 1971, pop: 270,000,000
- Japan	1st Aug. 1971, pop: 112,800,000
- Norway	1st Oct. 1971, pop: 4,000,000
- Finland	1st Jan. 1972, pop: 4,700,000
- Sweden	1st Jan. 1971, pop: 8,200,000
- New Zealand	1st Jan. 1972, pop: 3,100,000
- Switzerland	1st March 1972, pop: 6,400,000
- Austria	1st April 1972, pop: 7,500,000
- Canada	1st July 1974, pop: 23,800,000
- United States of America	1st Jan. 1976, pop: 215,100,000

Special mention should be made of Australia which, since July 1963, has implemented a special system of preferences which was replaced by a new scheme on the 1st of January 1974. This is very much broader and very much more in line with the Generalised System of Preferences adopted by the other countries that have granted preferences. Certain State trading countries in East Europe also apply generalised systems of preferences. They do not, however, absorb more than 3% of the exports of manufactured products from the developing countries whereas the percentage for the industrialised countries with a free economy is in the region of 75%.

With the development of the economic crisis, competition from the developing countries has caused serious problems but, taken as a whole, the industrialisation of the third world can help to build a better balance in international trade. Between now and the year 2000, it is expected that the third world's share in worldwide industry will increase from 8% to 15 or 20%, but this is still below the target set at the UNCTAD Conference in Lima in 1975. Thus the North-South trade will grow and the exports from the rich countries to the developing countries will amount to about ten times the total for 1972.

Consider from the point of view of commercial policy, the GSP expresses the Community's desire to contribute to a better balance in international trade.

On the other hand, the Generalised Preferences represent a tool for cooperation in development forming part of the other Community policies (including financial aid to stabilise export revenue, financial and technical cooperation, special tariff concessions).

3. The beneficiaries of the G.S.P.

The European Community has extended the benefit of the generalised

preferences to all the member countries of the "Group of 77", or in other words to all the countries which are defined as developing in the sphere of the United Nations Organizations, together with the dependant territories.

At the present moment, the list of beneficiaries covers 123 countries (following the independence of what was Rhodesia and is now known as Zimbabwe) and 24 other dependant countries or territories. After an individual study in each case, the Community extends the benefits of its scheme to certain other countries which have applied: Rumania since 1974 and the People's Republic of China since 1980. These two countries are subject to a special regime involving certain exceptions. Apart from Yugoslavia, the first to utilise the preferences, Rumania and Kuwait which have arrived respectively in eighth and seventeenth position, the countries that derive the greatest benefit from the GSP are those in Asia and Latin America: Hong Kong, Brazil, South Korea, India, Malaysia, the Philippines, Singapore, Venezuela, Thailand, Mexico, Pakistan, Iran, Indonesia and Argentina.

4. The basis of the system.

The tariff preferences are:

- generalised: in principle they are granted by the majority of the industrialised countries;
- non-discriminatory: they are granted without distinction to all the developing countries;
- autonomous: they do not derive from any negotiations with the beneficiary countries.

The preferences are not reciprocal: the beneficiary countries, for their part, are not bound to grant any exemption from duties.

Under the Generalised System of Preferences, imports into the European Community are exempted from customs duties up to certain amounts (ceilings or quotas). Once the latter have been reached, the charge of customs duties set out in the Common Customs Tariff of the European Community can be reapplied.

Prior to 1980, the amount of these ceilings or quotas was calculated according to a formula combining a basic quantity corresponding to the value of the imports from the beneficiary countries during a reference period (one year), to which an additional amount of 5% was added each year representing the value of the imports coming from other countries.

The ceilings were reserved for almost sensitive and non-sensitive hybrid products (1) with the discretionary reintroduction of customs duties.

The particularly sensitive products for which the Community industry is in a difficult situation were subject to a regime of tariff quotas with the automatic reintroduction of customs duties once the national limits had been reached, the total of the preferential imports being distributed in shares among the member States.

In order to prevent those which are most advanced and most competitive among the developing countries that benefit from the Community G.S.P. using up all the preferential possibilities in their own interests, certain "buffers" or maximum amounts were stipulated for each beneficiary country.

They restrict to a certain percentage (normally 50%, or in some cases 20 or 30%, the maximum share that each country is entitled to use in the framework of ceilings and quotas.

The buffers are normally only applied to semi-sensitive hybrid products and to those which are subject to quotas.

In order to benefit from exemption from duties within the framework of the G.S.P., the exporting countries should comply with certain rules in respect of the origin of the goods and above all supply certificates of origin. These formalities are designed to avoid any deviation of traffic. In actual fact, certain non-beneficiary third world countries not covered by the Community preference scheme could try to escape the collection of customs duties under the European Community's Customs Tariff by exporting their products through a developing country which does benefit from this system. The certificate of origin stipulates that the product in question has in fact been processed in the country of origin in accordance with the Community regulations, especially when the exporting country has been obliged to include certain pieces or parts imported from a third country.

Turning to the rules of origin, a special effort has been made with a view to aiding the member countries of the regional economic groups. The extension of these rules of origin is designed

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(1) Certain products are termed hybrid when the management is shared between the Commission of the European Community and the member states.

to encourage regional integration and the Community has adopted a cumulative system for exports to the European Community coming from common markets such as ANASE (1), the Central American Common Market (2), or the Andine Group (3).

5. Balance of the first ten years of application of the G.S.P.

The Community is the largest importer and exporter in the world. In 1979, the total imports from the third world amounted to 218,121 million ECU (4) (298,825 million US \$), out of which 24,540 went on foodstuffs, beverages and tobacco, 62,094 million ECU on energy products, 27,275 million ECU on raw materials and 92,243 million ECU on industrial products. The overall exports from the nine member countries of the Community to the third world amounted to 194,163 million ECU (266,002 million US\$) of which 13,192 million ECU went on foodstuffs, beverages and tobacco, 10,349 million ECU on energy products, 4,664 million ECU on raw materials and 161,291 million ECU on industrial products.

In 1979, the value of the imports into the European Community from the developing countries amounted to about 88,240 million ECU (120,888 million US \$). (5).

Following their first introduction in 1971, the Community has constantly increased the profit margin represented by the G.S.P. in the industrial sector: it rose from 478 million ECU in the second half of 1971 to 6,900 million ECU in 1980. There is no doubt that, each year, the European Community has improved its offer in spite of the adverse economic situation. The number of sensitive products other than textiles has considerably decreased above all since 1971. The total dropped from 53 in 1971 to 15 in 1980.

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- (1) Association of South East Asiatic Nations:
Indonesia, Malaysia, Philipines, Thailand and Singapore
- (2) Honduras, Nicaragua, Guatemala, El Salvador and Costa Rica.
- (3) Bolivia, Colombia, Ecuador, Peru and Venezuela.
- (4) ECU = European Unit of Account
1 ECU = 1.37 US \$ in 1979
1.39 US\$ in 1980
- (5) Source: Monthly Bulletin on Foreign Trade (Special edition 1958 - 1979 at supplement to N° 5/80).

The biggest improvements have been achieved in the sector of processed agricultural products. The number of agricultural products covered by the G.S.P. has increased from 147 in 1971 to 312 in 1980 and the offer has increased from 90 million ECU in 1971 to 1,300 million ECU in 1980,

In textile products, the offer of the Community rose from 19,429 tons in 1971 (July-December) to 68,205 tons in 1974, and to 88,000 tons in 1979, reaching 115,000 tons in 1980.

The first period for the application of the scheme for the Generalised System of Preferences ended on the 31st of December 1980. As long ago as March 1975, a resolution approved by the Council of Ministers of the Community indicated their intention to extend this scheme beyond the initial ten year period and stressed that the generalised preferences represented a fundamental tool for cooperation in development.

An analysis of the Community's ten years' experience of the G.S.P. has shown that, inspite of the undeniable imperfections, it has not been fundamentally changed. It enabled the Community to allow in a relatively balanced fashion, for the interests of the developing countries and the Community producers within an economic context which has continued to grow worse. Nevertheless, the Community G.S.P. requires to be revised in order to afford a broader use of the products and to afford greater possibilities for the benefit of the more backward developing countries.

6. The new G.S.P. system.

The decision adopted by the Council on the 16th of December 1980 to continue the generalised system of preferences for a further period of ten years coincides with the development strategy adopted within the scope of the United Nations for the next ten years between 1981 and 1990.

As was the case in 1971 with the first scheme, the Community is the first to implement the new system.

Whilst suitably adapted to the new economic conditions that exist in international relations and allowing for the imperatives of industrial and commercial policies in the Community, the G.S.P. for the years following 1980 aims at ensuring a better balanced use of the preferential benefits. The extent of use

of the preferences has remained relatively modest. The products which have come in free of duty account for only 55 to 60% of those which could be imported under the conditions of the scheme. This is due to the fact that a restricted number of beneficiary countries whose economy is already more developed or more diversified have attained a highly competitive position. 13 countries accounted for 70% of the preferential imports.

The conditions of the new Community system aim both at ensuring a wider distribution of the use in respect of the products and achieving a broader preferential access which would be as liberal as possible in favour of the beneficiaries who need it most.

To this end easier conditions for application have been introduced especially in the management of the preferential restrictions. The changes introduced into the G.S.P. have enabled it to adapt to the economic evolution which has changed from a situation of continuous growth to one of steep inflation going hand in hand with unemployment. This adjustment has been made at the expense of increasing complexity which, to a certain extent, has prevented the developing countries from reaping the full benefits.

a) Adjustments in the operation of the system:

The method for calculating the ceilings or quotas has been changed. The original theoretical formula based on the basic quantity plus an additional amount has been subject to more and more exceptions, because the overall statistical figures do not contain any features which reflect the degree of sensitivity regarding the sector in question. For 1981, plans have been based on the offer recorded in 1980, which is increased whenever such is economically justifiable.

The Community has decided to abolish overall quotas and ceilings thus paving the way for a differentiation between the beneficiary countries. In future the preferential quantities will be established on an individual basis: the suppression of the overall ceiling also guarantees that each beneficiary has the chance of using the open ceiling. In the same way, the reintroduction of duties, if this occurs following imports over and above the preferential totals, will only be applied to the single beneficiary country whose exports have reached this ceiling.

Now only that part of the offer represented by the individual quota can be quoted in actual figures, The potential use by the beneficiary of the supply for products subject to ceilings can only be an estimate as was always the case for agricultural products. The supply of uncontrolled products can be theoretically assessed in relation to the overall Community imports from beneficiary countries.

The basic principles governing the origin of the goods in force in 1980 will be extended into 1981 subject to certain technical adaptations which have become necessary on account of the innovations that have taken place.

Efforts towards simplification and harmonization of the rules of origin will be continued.

b) Modulation of the preferential advantages in the light of the competitiveness of the beneficiary countries.

The subdivision of the industrial products other than textiles into four categories: sensitive products (15 Customs headings), hybrid products (28 Customs headings), semi-sensitive products (81 Customs headings) and non-sensitive products (about 1,700 Customs headings) is deleted. As from 1981, in order to simplify the management of the G.S.P., the Community has adopted two categories of products (strictly controlled sensitive products and non-sensitive products).

There are 128 sensitive products, out of which 64 industrial products justify a strict control in the form of quotas for certain origins on account of the difficulties faced by the Community industry.

Preferential exports from the most competitive beneficiary countries are subject to a system of Community quotas, which henceforth are individualised for each beneficiary country but always distributed into national shares for each of the member countries of the Community. As soon as their quota share is reached, the Member State should reintroduce the customs duties applicable to the exporting country.

The most competitive countries are identified on the basis of economic criteria.

No national quota has been established for exports coming from other countries. The European Commission can introduce customs

duties for the whole of the Community once the individual ceiling has been reached.

The non-sensitive products are subject only to statistical supervision. Customs duties can be reintroduced if the increase in imports exceeds a reference figure corresponding to the theoretical buffers established in 1980 for each beneficiary country plus 2% on account of the accession of Greece.

Since 1977, the Community has introduced a whole series of measures in favour of the most backward developing countries (36 countries). They enjoy complete exemption from duties for all industrial products (including textiles) without any limitations.

They further enjoy full exemption for all agricultural products covered by the G.S.P., even those which are subject to ceilings or quotas. Nevertheless, for tobacco and tinned pineapple, exemption is granted in the framework of the ceilings or quotas opened for these products, whereas the other beneficiaries only receive a reduction in duties. Apart from that the most backward developing countries have special benefits under the G.S.P. for four products (fish flour, dried raisins, nondecaffeinated coffee, clover seeds) which represent a cutback in duties for the former and full exemption for the three others.

c) Cover for the products

The basis for calculating the quotas or ceilings opened for all industrial, agricultural and textile products has been increased by 2% in order to allow for the entry of Greece into the Community.

Agricultural products

The preferential margin has been increased in favour of the 36 products already covered.

Two new products: thyme and laurel have been introduced into the scheme to say nothing of fish flour, for the sole benefit of the most backward developing countries.

China has been included among the beneficiaries in respect of tropical fruit juice and cocoa butter, from which she had been excluded in 1980.

In 1981, the list of products covered by the G.S.P. covers some 317 processed agricultural products.

Textile products

The regime introduced on the 1st of January 1980, has been extended for a further twelve months with an increase of 25% on account of Greece's entry into the Community. The classification of the products is harmonized with that outlined in the bilateral agreements on textiles signed between the Community and its main suppliers in the context of the Multifibre Agreement (M.F.A.)

Benefits from the preferences are restricted to developing countries that have signed an auto-limitation agreement or have accepted a similar arrangement, except in the case of the most backward developing countries.

Turning to jute products, all customs duties continue to be waived in respect of the main suppliers in the non-member countries who have signed auto-limitation agreements with the Community concerning the export of certain jute products (India, Bangladesh) or which have undertaken where necessary to sign such agreements (Thailand). In 1981, this was extended to Nepal and other more backward developing countries.

Exemption from duty is still applicable to cocoa products for the benefit of India and Sri Lanka and is also extended to the more backward developing countries.

7. Additional measures

The qualitative and quantitative improvement of the G.S.P. depends to a very large extent on the exactitude of the information supplied to the users both in the developing countries and in the Community itself.

By continuing to work at the sectorial level, the Community will continue with its program of seminars organized in the beneficiary countries as an integral part of the active information policy aimed at official bodies and economic and commercial circles in the beneficiary countries.

Special steps have been taken to continue the publication of the practical guide for the use of the scheme for the Generalized System of Preferences so that this is available to business circles to which it is of interest.

8. Conclusions

In its new form, the G.S.P. scheme complies with the commitments accepted by the Community and the other donor countries during the ninth session of the UNCTAD Special Committee on Preferences.

The whole concept of a generalised system of preferences fits into the framework of an overall community policy for cooperation with the developing countries. It is based, first and foremost, on the recognition of the economic and political interdependence which exists between the industrialised countries and those in the throes of development.

The Generalized System of Preferences represents one of the means of achieving one of the main objectives of the European Economic Community : to try and correct the imbalance between North and South by ensuring a better balance in the distribution of wealth throughout the world.