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PRESS RELEASE

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**EUROPEAN COMMON MARKET FIRST TO EXTEND GENERALIZED
PREFERENCES TO DEVELOPING NATIONS**

WASHINGTON, D.C., June 23 -- The European Common Market's Council of Ministers has formally agreed to give "generalized preferences" to developing countries starting July 1, 1971.

The decision, made on June 22 in Luxembourg, provides for a system of preferences that would cover manufactured and semi-manufactured products, as well as some processed farm products. The one-way preferences would be extended initially to 91 developing countries which are members of the "Group of 77" of the UN Conference on Trade and Development (UNCTAD).

Franco Maria Malfatti, President of the European Communities Commission, said that the Council's decision, culminating eight years of work, was the most important international step that the Community had taken since the conclusion of the Kennedy Round. He pointed out that the Community would be the first industrialized power to carry out its offers of generalized preferences. He said that the action was but the beginning of a more active policy for dealing with the problems of development in the world.

The list of Generalized Preferences conforms to the conclusions adopted by the Council of Ministers March 30, 1971 on the basis of proposals recommended by the Commission and approved by the European Parliament.

The Community's Offer

The Common Market's offer has been designed to give the maximum advantage possible to the benefiting countries while still safeguarding the interests of industry in the Community and its associated states.

The Community makes a distinction between agricultural products and semi-manufactured and manufactured goods.

(a) Processed agricultural goods (Chapters 1 to 24 of the Brussels Nomenclature). Tariff benefits are granted on about 150 processed agricultural products imported from developing countries, valued at about 30 million dollars. The preferences will consist of partial reduction in customs duties or levies, and imports will be admitted without volume limits.

A safeguard clause, based on Article XIX of the General Agreement on Tariffs and Trade, is included allowing partial or complete reimposition of the duty or levy when the quantity or price of the imports risk causing grave harm to Community production of similar or directly competitive goods. The safeguard clause will apply only to the country or countries causing the harm, thus protecting non-offending recipient countries.

(b) Industrial products (Chapters 25 to 99 of the Brussels Nomenclature). Basic industrial products are not covered by the Community's offer, but almost all imported industrial raw materials already come into the Community duty-free; only 0.6 per cent of such goods imported from developing countries (\$44 million of a total \$700 million) are still dutiable. Of this 0.6 per cent, the Community opens tariff quotas with nil or reduced duties on certain non-ferrous metals.

Ceilings, Exemptions, and No Exclusion

The Community's offer, as it applies to semi-manufactured and manufactured goods, has three features: a ceiling system, duty-exemption, and no excluded products.

The ceiling system limiting the volume of preferential imports is counter-balanced by duty-exemption and by the fact that no goods are shut out and that there is no safeguard clause.

A ceiling is fixed each calendar year for each product. In general, the ceiling is calculated according to the following formula: the basic amount (level of imports, cif EC, from recipient countries in 1968) plus an additional amount (5 per cent of the value of imports, cif EC, from non-recipient countries, i.e. industrialized countries, in the last year for which statistics are available). This method results in a raising of the ceiling every year, as the "additional amount" will grow as Community trade with industrialized countries increases.

Preferential exemption from duty is to be granted by the Community on all manufactured and semi-manufactured products.

No products are to be shut out. The Community's offer, as distinct from others, makes no exceptions.

(c) The recipient countries. The Community has decided to apply its offer, in the first stage, to developing countries which are members of the "Group of 77" of the UN Conference on Trade and Development (which are now actually 91 countries) and to dependent territories of non-member states (including Hong Kong). The Community, in consultation with other industrialized countries, is studying the possibility of including among recipient countries those who are not members of the "77" Group but who desire to benefit.

The Community's offer is not particularly bold as far as processed agricultural products are concerned; mainly because the idea of generalized preferences is accepted by all for industrial products but has not yet received universal support for processed agricultural products.

The Community is also limited because its organization of agricultural markets seriously narrows the possibilities of reducing duties or levies.

The Community's offer for industrial products is of undoubted advantage to the recipient countries. Of all the donor countries, the Community is practically the only one to grant tariff preferences to textiles, which are regarded as a particularly sensitive area by all industrialized countries. The link set up between the period of validity of the International Long-Term Cotton Textile Agreement and the calculation of ceilings has been worked out in such a way as to give the recipient countries additional export receipts while avoiding undue market expansion which might hurt Community industries. Thus, for sensitive textile products, ceilings opened for the first year are only about \$115 million on imports of approximately \$110 million.

In the case of other less sensitive products, the situation is much the same. Developing countries are already the main suppliers of the Community for these goods and are very competitive. The first annual ceilings opened for sensitive products (numbering about 40) amount to about \$195 million on approximately \$150 million of imports from recipient countries. Ceiling for the slightly less sensitive products (also numbering about 40) are in the region of \$35 million on \$20 million of imports.

For the majority of other products, classes as non-sensitive, the first annual ceilings are about \$660 million on imports of approximately \$170 million.

As a whole the first annual ceilings opened by the Community are more than double the value of imports from the Third World in 1968, i.e. more than a billion dollars (total ceilings) as against \$450 million (basic amounts) for dutiable products covered by preferences. This jump of \$550 million over imports shows the size of the "additional amounts" (5 per cent of the value of imports from non-benefiting countries). The Community is using the "additional amount" to establish a link between the growth of its trade with industrialized countries and the increase in the level of its trade with the Third World. The more imports into the Community from developed countries increase, the greater will be the value of the additional amount in the following year, pushing up the ceilings for preferential imports.

The sensitive and slightly less sensitive products mentioned are in practice items which industrialized non-member countries supply in very small quantity to the Community. Thus the ceilings opened will not be much above the level of imports from developing countries and the additional amount will be very small. For the remaining, non-sensitive products already being exported (\$170 million) and products which developing countries are not yet exporting to the Community, the working of the additional amount will be an encouragement to production and export and a spur to industrialization.

All manufactured and semi-manufactured industrial goods covered by the Community's offer are subject to a ceiling; that is the de jure situation. In actual practice, ceilings will not be strictly applied except to sensitive and slightly less sensitive products.

In the case of sensitive products, it is the Community tariff quota which constitutes the ceiling, and the management of it includes a previous sharing-out between the member states of the Community. There is no previous sharing-out of a ceiling between the member states in the case of the slightly less sensitive products: a simple system will arrange for a shut-down, if necessary, for preferential imports when the ceiling is reached. In cases where the ceiling system is strictly applied, imports from the benefiting countries can still continue to enter the Community, but they will pay customs duties; and the preferential arrangements will be started again at the beginning of the following calendar year.

For all other products classed as non-sensitive -- the vast majority -- there will be neither tariff quotas nor special safeguard machinery, and in practice, preferential imports will be allowed to exceed the ceilings.

The Community decided it would rather have a ceilings system than safeguarding clauses for industrial products wherever possible.

Industrial producers in the Community, with the ceilings system, will be in a better position to gauge in advance the effects of preferential competition. For the benefiting developing countries the system gives a measure of assurance of regular outlets in the markets offering preferences.

The ceilings system also offers a fairer sharing among the recipient countries, putting a limit on the most competitive of them in preferential markets for sensitive products. The Community's offer lays down, in fact, that no recipient country may, as a general rule, get more than 50 per cent of the ceiling for each product (30 per cent -- 20 per cent in certain cases). This is the so-called "buffer-clause", framed to give a chance to the less advanced benefiting countries and keep down the pressure from the more competitive suppliers.

Generalized preferences will not provide all the benefiting countries with tangible advantages and the same measure of benefits, nor will they work the miracle of providing a solution to all development problems in the Third World. In the immediate future only a limited number of the more advanced developing countries, like Yugoslavia, Iran, India, Pakistan, Brazil, Venezuela, Mexico, Argentina, and the United Arab Republic, will be able to derive substantial advantages from the privileged opening of Community markets.

Even so, generalized preferences will open up additional export chances for all developing countries, which they should utilize for the advancement of their interests.

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