

18/79

THE EUROPEAN COMMUNITIES SCHEME OF GENERALIZED PREFERENCES

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The EEC's generalized preferences scheme came into force on 1 July 1971.¹ From year to year the scheme has been progressively improved and its scope widened. *The scheme involves full exemption from customs duties for all industrial goods and partial exemption for certain processed agricultural products.*

The implementation of the generalized system of preferences (GSP) forms part of the Community's attempt to achieve a progressive reorganization of economic relations between industrialized and developing countries along lines at once more equitable and more in keeping with the needs of the modern world. *In other words, generalized preferences are an instrument of development cooperation which forms an integral part of the European Community's other economic policies.*

1. Background

It was in 1968, at the second UNCTAD² session in New Delhi, that the idea put forward by the European Community in May 1963 at a GATT³ meeting in Geneva gained ground and led to an agreement in principle to set up a generalized preferences system. It took UNCTAD two more years to reach agreement on the main features of such a system (1970).

There thus exists a single generalized preferences system with a number of different schemes for its implementation by the various countries which responded to the UNCTAD appeal.

The dates on which these schemes were brought into operation are as follows:

— European Community	1 July 1971,	population	260 000 000
— Japan	1 August 1971,	population	112 800 000
— Norway	1 October 1971,	population	4 000 000
— Finland	1 January 1972,	population	4 700 000
— Sweden	1 January 1972,	population	8 200 000
— New Zealand	1 January 1972,	population	3 100 000
— Switzerland	1 March 1972,	population	6 400 000
— Austria	1 April 1972,	population	7 500 000
— Canada	1 July 1974,	population	23 800 000
— United States of America	1 January 1976,	population	215 100 000

Individual mention should be made of Australia, which brought a special system of preferences into operation as early as July 1963, replacing it on 1 January 1974 by a new and much wider scheme more closely akin to the generalized preferences system adopted by the other donor countries. Certain Eastern European State-trading countries also operate generalized preferences schemes.

2. The main features of the system

The tariff preferences are:

- (i) *generalized*: they are normally granted by the majority of industrialized countries;
- (ii) *non-discriminatory*: they are accorded to all developing countries without distinction;
- (iii) *unilateral*: they are not the outcome of negotiations with the beneficiary countries.

Scheme for industrial products

These preferences are *not reciprocal*: the beneficiary countries are not required to grant corresponding duty exemption in return.

Goods imported under the generalized preferences system enter the European Community duty-free, within the limits of certain quantities (ceilings or quotas). Once the limit is reached, the customs duties laid down in the Community's Common Customs Tariff may again be applied.

The volumes of the *ceilings* or quotas are calculated according to a formula combining a basic amount corresponding to the value of imports from beneficiary countries in a given reference year to which is added an additional amount representing 5% of the value of imports from all other countries.

¹ The population of the European Community (Belgium, Denmark, Federal Republic of Germany, France, Ireland, Italy, Luxembourg, Netherlands and the United Kingdom) is approaching 260 million.

² UNCTAD = United Nations Conference on Trade and Development.

³ GATT = General Agreement on Tariffs and Trade.

For the 1979 scheme, the reference year for the calculation of the basic amount is again 1974, but the calculation of the additional amount has been based on 1976.

The ceilings are reserved for semi-sensitive or non-sensitive products, the reintroduction of customs duties on these products being discretionary.

A system of tariff *quotas* is applied to particularly sensitive products, i.e. products in respect of which the Community industry concerned is in a difficult position; once the limits are reached, customs duties are automatically reintroduced. In the case of these products the volume of preferential imports is allocated among the EEC Member States in the form of quotas.

To prevent the more advanced or more competitive of the GSP beneficiary (i.e. developing) countries using up the preferences offered by the Community to the exclusion of other beneficiaries, maximum country amounts ('butoirs') are fixed for each beneficiary. They lay down a specific maximum percentage of the quotas or ceilings (normally 50%, in some cases 20% or 30%) which may be used by any single beneficiary.

In practice the maximum country amounts are normally applied only in respect of semi-sensitive and quota products. For a number of products there is a specific maximum country amount for specified countries.

In order to qualify for duty exemption under the GSP, exporting countries must comply with certain rules regarding the origin of the goods, in particular by providing *certificates of origin*. These formalities are intended to prevent any deflection of trade. For example, countries which are not covered by the Community preferences scheme might attempt to avoid Community customs duties by routing their exports through *beneficiary* developing countries. The certificate of origin contains a certified declaration that the product in question has undergone, in the country of origin, the processing required under Community rules, in particular when the exporting country has had to include some parts or elements imported from a third country. Although this system may appear somewhat complex, it *safeguards the interests of the countries covered by the Community's GSP*.

Particular care has been taken with the *rules of origin* to accommodate the member countries of regional economic groups. The extension of the rules of origin is aimed at encouraging regional integration, and the Community has adopted a cumulative system for exports entering the EEC from common markets such as ASEAN,¹ the Central American Common Market² and the Andean Group.³

3. Scope of the European Community's scheme

The European Community is the world's biggest importer and exporter.

In 1977 its imports from non-member countries were worth 171 230 million EUA⁴ (USD 195 394 million), comprising 24 021 million EUA for food, beverages and tobacco, 49 187 million EUA for energy products, 22 934 million EUA for raw materials and 75 088 million EUA for industrial products. Exports from the nine Community countries amounted to 164 140 million EUA (USD 187 303 million), comprising 10 360 million EUA for food, beverages and tobacco, 6 996 million EUA for energy products, 3 828 million EUA for raw materials and 142 956 EUA for industrial products.

Total imports into the European Community from the developing countries in 1976, 1977 and 1978 amounted to 54 976 million EUA (USD 68 213 million), 70 021 million EUA (USD 78 287 million) and 75 137 million EUA (USD 85 740 million) respectively.

(a) Industrial products

It is essentially this category of goods which the Community's generalized preferences scheme tries to encourage by allowing duty exemption on imports.

¹ Singapore and Thailand, Indonesia, Malaysia, Philippines.

² Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

³ Bolivia, Colombia, Ecuador, Peru and Venezuela.

⁴ EUA = European unit of account - 1 EUA = USD 1.24 in 1975; USD 1.12 in 1976; USD 1.14 in 1977

Since 1971 the volume of the offer on duty-free imports in the industrial sector — including textile products — has been considerably increased:

	478 million u.a. (first half of 1971)
	1 055 million u.a. in 1972
	1 185 million u.a. in 1973
	2 800 million u.a. in 1974
	3 080 million u.a. in 1975
	3 589 million u.a. in 1976
	4 992 million u.a. in 1977
	5 500 million u.a. in 1978
at least	6 150 million u.a. in 1979

For certain sectors however, such as steel and footwear, where the European Community industry is going through serious difficulties, it has not been possible to apply any increase in 1979 while in the case of other products, the full effect of the normal method of calculation has not been carried out.

The increase in the quota for plywood, for example, has been limited to 5% in order to safeguard the interests of the ACP countries ¹ whereas the normal method of calculation would have resulted in an increase of 13.3%.

On the other hand, there has been a minimum across-the-board increase in the ceilings for non-sensitive products of 15%.

Since 1975 there has been a considerable reduction in the number of *sensitive products*, other than textiles and ECSC ² products, in respect of which tariff quotas are provided for under the Community's GSP:

53	in 1971
58	in 1972
50	in 1973
51	in 1974
13	in 1975 and in subsequent years.

In 1978 the 28 least-developed countries were exempt from reintroduction of customs duties provided for in the ceiling system. In 1977 these countries already enjoyed the same kind of exemption in connection with the maximum country amounts.

In 1979 this exemption has now been extended to all industrial products apart from the textile sector but including quota items.

(b) Processed agricultural products

From 1971 to 1973 there were 147 processed agricultural products which came under the European Community's generalized preferences scheme. The initial annual value of the preferences granted in respect of agricultural products did not exceed 90 million u.a. In 1974, the first year in which the GSP was applied by the enlarged Community, the number of processed agricultural products covered by the GSP was raised to 187 and the value of the offer worked out at 450 million u.a.

The main products concerned are fish meal, certain varieties of shrimps and prawns, coconut oil for industrial use, desiccated coconut, cocoa butter, soluble coffee, certain categories of preserved pineapples and, on a temporary basis, Virginia flue-cured tobacco.

This steady improvement over the years has been aimed at implementing the Declaration of Intent whereby the nine Member States undertook to find solutions to the trade problems resulting from enlargement for the Commonwealth developing countries of Asia. In this context, such products have been introduced into the GSP as canned pineapples, palm oil, Virginia tobacco, wrapper tobacco and cut flowers, and many shell-fish items and certain vegetable specialities of the Indian subcontinent.

¹ African, Caribbean and Pacific countries which are participants in the Convention signed on 28 February 1975 in Lomé (the capital of Togo).

² ECSC = European Coal and Steel Community.

In 1979, three new products have been brought into the GSP bringing the total to 310 with an estimated value of 1 300 million EUA and preferential rates of duty have been further reduced on 11 products already included in the GSP.

For the 28 least-developed countries there is an important improvement in that they will now be exempted from duty on all agricultural products included in the GSP.

(c) Textiles

The tariff quotas and ceilings have been as follows:

19 429 tonnes in 1971 (July-December)
39 444 tonnes in 1972
42 631 tonnes in 1973
68 205 tonnes in 1974
75 323 tonnes in 1975
79 131 tonnes in 1976
84 000 tonnes in 1977
84 000 tonnes in 1978
44 000 tonnes for the first half of 1979.

Up to the end of 1977 (the GSP for textiles being considered to be a transitional scheme), there was scarcely any potential for improvement in the volume covered by the preferential arrangements since the machinery for controlling quantities was not equal to the task of ensuring the orderly growth of textile imports.

The Commission had proposed to introduce in 1979 a new preferences scheme for textiles, aligned on the system established in early 1978 in the context of the renewal of the Multifibre Arrangement (MFA).

Because of technical difficulties it was not however possible for the new scheme to come into operation on 1 January 1979 and the present arrangements have been extended for six months while the Commission's proposals are being examined in detail by the Member States.

4. Supplementary measures

The Community intends to continue its programme of *seminars* in the beneficiary countries, extending it at the sectoral level. This programme is an integral part of the active information policy directed at the official authorities and business and trade circles in the beneficiary countries.

There are opportunities for further improving the use of the GSP from the angle of both quantity and quality, and notably as regards non-sensitive products, which offer the developing countries wide scope for the concentration of their efforts.

A practical guide to facilitate use of the GSP has been compiled and is now available to users of the system.

5. Conclusion

Generalized preferences mark a turning-point in international trade relations, which have hitherto been governed by the most-favoured-nation principle and the rule of reciprocal concession. They represent a *new departure in international relations*, based on collaboration between developed and developing countries; and they may rightly be considered as a major contribution towards the economic development and prosperity of the poorest countries.

The generalized preferences policy falls in with one of the major objectives of the European Economic Community: the desire to achieve a more balanced distribution of the world's wealth.

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The European Community's 1979 scheme of generalized preferences reflects both a concern for fair treatment and a sense of responsibility: a sense of responsibility towards the developing countries and fair treatment of the economic interests of workers in the Community.

Priority has been given to measures to help the least-developed countries.

The improvement of the GSP in 1979 will make a significant contribution to the outcome of the GATT multilateral negotiations.

The Community has led the way among donors in undertaking to continue granting generalized preferences beyond the end of the first decade.

In a climate of growing industrial protectionism the Community's maintenance of the GSP is of particular importance. However, the situation in a number of major industries is such that a prudent approach must be adopted.

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