

# INFORMATION

EXTERNAL RELATIONS

THE EEC GENERALISED PREFERENCES

82/75

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1. The early history :

As early as 1958 a GATT report suggested that developed countries should give up protecting their industries against imports of manufactured goods from developing countries.

In May 1963, in a GATT ministerial meeting, the EEC ministers, and those of the countries associated with the Community, suggested that a suitable way of promoting the trade and development of the countries in an early stage of growth would be to give preferential treatment to their exports of manufactured goods and semi-manufactures.

The fact that GATT was reticent about this helped towards the formation of UNCTAD (United Nations Conference on Trade and Development), which was at that time in the process of gestation.

In 1964, at the first UNCTAD session, the idea put forward by the EEC and its Associates made further headway.

In 1968, at the second UNCTAD conference in New Delhi, agreement was reached on setting up a system of generalised preferences; and in October 1970, an agreement was reached in UNCTAD for bringing this system into being.

Since July 1, 1971 the EEC has been operating a system of customs franchise known as "generalised preferences", in favour of manufactured and semi-finished goods coming from developing countries. Basic agricultural produce, basic industrial products and industrial raw materials are not included in this preference system.

The preferences are not : reciprocal - the countries which enjoy them are not required to make equivalent reductions in their customs duties;  
discriminatory - the preferences are given to all developing countries.

The preferences are : generalised - the preferences are granted in principle by all developed countries.

The preferences are not negotiated. They are the subject of an autonomous offer resulting from discussion with the countries which are to enjoy them.

2. How the system works

The Community system is based on preferential imports free of customs duty up to specified ceilings. The latter are calculated by reference to a fixed basic amount corresponding to the c.i.f. value of imports from the beneficiary countries in a specified reference year, plus 5 % of the c.i.f. value of imports from other countries (additional amount). The ceiling is thus raised each year, the additional amount being the indicator of the acceleration of trade between the Community and its industrial partners.

- For sensitive products there is a system of tariff quotas.
- The "buffers", or maximum amounts, are fixed for each beneficiary country. Their effect is to limit to a given proportion of the ceilings and quotas the maximum amount which may be used by any individual country.

In the dynamic of the operation the buffer mechanism cannot fail to secure additional opportunities for the less advanced and less competitive countries, and it will be up to them to take advantage of these.

- The exporting countries are required to supply certificates of origin, so that traffic diversions can be avoided.

3. The Community offers 1971 - 1972 - 1973 :

In 1971, the system could only operate for 6 months.

The number of processed agricultural products covered by the Community scheme was 147. It remained the same through 1971-73. The system provides a selective safeguard clause which has never been used.

The initial annual value of the preferences for the products covered was U.A. 45 million (1) of imports into the Six from beneficiary countries which are not associated with the Community.

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(1) U.A. = Unit of Account = c. BF. 50 = US \$ 1 before the Smithsonian devaluation of 1972.

Manufactures and semi-manufactures :

The ceilings and quotas opened amounted to :

U.A. 340 million in 1971  
U.A. 780 million in 1972  
U.A. 900 million in 1973.

In 1971 the year 1968 was the reference year chosen for all calculations.

- The ceilings opened for 1972 showed an overall increase of 15 %. This resulted from the choice of 1969 as the reference year for calculation of the additional amount (5 % of the imports from countries not included in arriving at the basic amount). The year 1968 remained the reference year for determining the basic amount.

For 1973, the year of reference for the additional amount was 1970, but the basic amount was still calculated from 1968 figures. The increase has been estimated at about 15 %.

- The number of products subject to tariff quota was :

53 in the first half of 1971  
58 in 1972  
60 in 1973

- In 1971, the buffers limiting the preferential imports from individual developing countries for specific products, were in general not higher than 50 % of the ceiling fixed for the product in question.

In 1972 and 1973, a number of the buffers were lowered from 50 % to 30 %, or from 30 % to 20 %. This was for the purpose of dealing with special situations (especially in Yugoslavia, Hong Kong, South Korea and Brazil) and was aimed to safeguard the advantages accruing to the less competitive beneficiaries.

For textiles :

The tariff quotas and ceilings opened amounted to :

19,429 tonnes for the second half of 1971  
39,444 tonnes in 1972  
and 42,631 tonnes in 1973.

In 1972, the beneficiary countries fell far short of using all the opportunities offered by the Community scheme. The number of independent beneficiary countries rose from 91 in 1971-72 to 102 in 1973.

In December 1973, the Council agreed to the principle of introducing a reserve proportion into the Community quotas, making it possible for available quotas not used by specific countries to be transferred into the reserve and made available for use by other countries.

4. Three essential features in the 1974 scheme

The first feature of the 1974 scheme is that it is applied by the enlarged Community. By protocol 23 annexed to the Accession Treaty, the three member countries had been "authorised to postpone until January 1, 1974 the application of the Community system of generalised tariff preferences".

Secondly, in virtue of the Summit directives given in Paris (October 1972) in which the heads of State or government expressed their desire to promote a policy of development cooperation on the world scale, the Community improved its offer of generalised preferences.

Thirdly, the arrangements made by the Commission for 1974 link the application of the system of preferences with the giving of effect to the common Declaration of Intent adopted after the negotiations with Great Britain and annexed to the Accession Treaty.

It is the intention of the Community to strengthen its trade relations with Commonwealth countries in Asia, taking into account the interests of other countries in the same region. The alignment upon the external tariff of the Community, as from January 1, 1974 of the customs tariffs of the new member countries, and more especially that of Great Britain, implies a raising of the rates of duty charged under the imperial preference scheme.

In regard to processed agricultural products the 1974 scheme adopted by the Council of Ministers on December 18, 1973 increases the previous preference margins and includes a number of additional products making 187 in all.

The most important of these are fish flour, certain varieties of shrimp, coconut oil for industrial use, dehydrated coconut, cocoa butter, soluble coffee, certain forms of preserved pineapple and, as a temporary and exceptional measure, Virginia flue-cured tobacco. The trade impact of the products covered is estimated at U.A. 450 million.

In regard to cocoa butter, soluble coffee and preserved pineapple, the Community has for the first time introduced a tariff quota into the agricultural sector of its generalised preferences scheme. Hitherto there had been no ceilings for the advantages given in respect of agricultural produce which were, however, subject to a safeguard clause.

Moreover the tariff quota opened for tobacco of the Virginia flue-cured type is the first practical application of the common Declaration of Intent; and it is the first time the Community has brought a basic product within the scope of its generalised preferences scheme.

For all industrial products other than textiles, the year 1971 was chosen as reference year for calculating both the basic amount and the additional amount.

- This has materially increased the ceilings, the total amount of which is higher to some U.A. 2,000 million. This is equivalent to a 40 % rise over the figures which would have resulted in 1973 by the Nine applying the system as applied in the same year by the Six.
- The number of sensitive products subject to quota is reduced to 51.
- In regard to the buffers, there are practically no restrictions compared with 1972 and 1973.
- Manufactures of jute and coco are given the benefit of a 40 % tariff cut.
- The 1974 scheme envisaged a suitable procedure to secure fuller utilisation by beneficiary countries of the preferential advantages made available to them.
- For textile goods covered by chapters 50 to 63 of the Common Customs tariff, the quotas and ceilings have been calculated to provide a 50 % increase compared with those in force in 1973 for the Community of Six. The import potential is thus 68,205 tonnes, or about U.A. 500 million.

##### 5. The 1975 scheme

Despite the threat of recession, the Community not only maintained its system of generalised preferences but improved on it.

It has gone out of its way to acknowledge its special responsibility to developing countries, who stand to be the biggest losers from the world crisis.

The Community wishes to secure a balanced development between the system of generalised preferences and the policy of association. The latter comprises the Association agreements, including the current negotiations with the African, Caribbean and Pacific countries and those connected with a unified approach to the Mediterranean countries.

The common Declaration of Intent amounts to a permanent commitment in regard to Commonwealth countries in Asia. Some of these countries, especially India, are very seriously affected by the current crisis. A first stage in the implementation of this Declaration was accomplished as from January 1, 1974, largely by the operation of the G.S.P. (1).

In the Community's general plans for the forthcoming multilateral negotiations in GATT, it pays particular attention to the case of developing countries which may be concerned about the "erosion" of the preferences they have enjoyed, by the granting of further tariff reductions.

It is the intention of the Community to continue improving its own system of preferences, the independent character of which has been emphasised in the foregoing.

The 1975 scheme includes a number of improvements and readjustments, as well as simple renewals and additional measures.

Improvements :

For processed agricultural products covered by chapters 1 to 24 of the Common Customs tariff, the 20 % margins of preference are increased to 40 % for a number of products.

The 40 % margins of preference are raised to 50 % and G.S.P. duties lower than 5 % are eliminated. The volume of trade covered is stated to have been increased to U.A. 600 million.

For industrial manufactures and semi-manufactures, the improvements in force are

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(1) Generalised System of Preferences.

primarily concerned with :

- raising the ceilings through the change in calculation procedure.

The basic amount remains unchanged, using the 1971 figures as the year of reference. The additional amount is calculated from the 1972 figures.

The total increase in ceilings and quotas opened in 1975 is around 15 %.  
The volume of trade covered will be U.A. 2,300 million.

- the number of sensitive products subject to tariff quotas is reduced to 13 for industrial products other than textiles.

The Community is applying the lessons learnt from the G.S.P. experience since 1971. Beneficiary countries have complained of the complexity of the quotas, and the rigid system of managing them. In the past none of the tariff quotas opened has been fully utilised.

- introduction of the reserve proportion for a few products into the tariff quotas. This is a method of helping beneficiary countries to make the best use of the advantages provided for them. Because of technical difficulties this system was not introduced in 1974.

The administration of the tariff quotas under the generalised preferences scheme is based on a definite allocation of specific shares to the member countries. This has raised the question of importers' equality of access to the Community market.

- Manufactures of jute and coco are given a tariff reduction of 60 %.

#### Readjustments :

When it is established that any beneficiary has reached the buffers in 1972 and in 1973, or supplied at least 40 % of the imports into the Community from all beneficiary countries, a buffer of 15 % will be applied to the beneficiary in question.

It will still be able to have the benefit of the amount of the 1974 buffer until the amount of the 15% stop exceeds it through the normal effect of progressive raising of the ceilings in subsequent preference-years.

Continuations :

The multifibre agreement was signed in Geneva on March 25, 1974, but the bilateral negotiations under it are not yet completed. Therefore a transitional solution for preferences for textiles in 1975 has been put into operation. The G.S.P. system for 1974 for the textiles sector as a whole is being continued into 1975, with a uniform flat-rate increase of 5 % in the ceilings and tariff quotas.

Additional measures :

In regard to the rules of origin, a special effort has been made to help countries which are members of economic groups. The broadening of the rules tends to help regional integration; and the Community has adopted the use of a cumulative system of the EFTA type for exports to the Community from (for example) ASEAN (1) or from the Andine Group (2).

- Programmes of seminars are taking place as part of an active continuation of the policy of providing information for government authorities and those commercially concerned.
- A system for collection of statistical data will shortly be in operation. The aim is to assess the effect of the preferences on economic activity in the Community and to measure the impact on the trade between the Community and the beneficiary countries.
- It has been decided to improve the statistical information regarding the preferential imports, so that the advantages made available can be better administered and better adjusted. Another measure contemplated is the formation of a documentation agency for analysis and advisory work on the generalised preferences.

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6. Conclusions

The generalised preferences are a turning point in international trade relations. At present there are 104 countries which benefit from them.

The industrial countries, including the Community and its members, have for the first time taken concerted action with the less advanced countries in

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(1) Indonesia, Malaysia, Philippines, Thailand and Singapore.

(2) Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela.

the form of practical measures to assist development.

The Community policy relating to generalised preferences is based on a progressive attitude and a pragmatic approach.

- The advantages received by the beneficiary countries are being consistently improved and extended.
- At the same time a balance has to be kept between the need for promoting exports of manufactured goods and processed agricultural products from developing countries, and the protection of sensitive industries and products in the Community.

The capacity of the Community of Nine for imports from developing countries is about U.A. 25,000 million annually.

Up to 1974 the burden of the action for developing countries was borne principally by the Community.

The Canadian government has brought into operation its own system of generalised preferences as from July 1, 1974.

The United States plan is contained in the 1973 Trade Reform Bill, which has recently been approved by Congress.

Most of the countries granting these preferences improved their system in 1974. At the last meeting of the UNCTAD Special Committee on Preferences in May 1974 they stated their intention of continuing their action to the same effect.

The generalised preferences are a main component of the development co-operation policy.

The policy of generalised preferences is in line with one of the ultimate objectives of the European Economic Community. This is the desire to seek a more balanced distribution of the world's wealth.