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Proposal for a
COUNCIL REGULATION (EEC)
applying generalized tariff preferences for 1989 in respect of certain
industrial products originating in developing countries

Proposal for a
COUNCIL REGULATION (EEC)
applying generalized tariff preferences for 1989 to textile products
originating in developing countries

Proposal for a
COUNCIL REGULATION (EEC)
applying generalized tariff preferences for 1989 in respect of certain
agricultural products originating in developing countries

Draft
DECISION
OF THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES OF THE
EUROPEAN COAL AND STEEL COMMUNITY, MEETING WITHIN THE COUNCIL

applying for 1989 the generalized tariff preferences for certain steel
products originating in developing countries

Only the explanatory memorandum is reproduced. The detailed proposals are
published in OJ C302/88, 11 November 1988.

(submitted by the Commission)

EXPLANATORY MEMORANDUM

These proposals from the Commission to the Council - three draft EEC Regulations and one draft ECSC Decision - are intended to provide the legislative basis for the operation of the European Community's scheme of Generalised Tariff Preferences for the calendar year 1989.

1. GSP and its role in the present economic context

In the annual drawing up of the GSP scheme, the Community has to reconcile three requirements :

- . to improve the access to its market for developing countries whose exports can be encouraged by the reduction of duties,
- . to ensure that the competition created does not lead to excessive pressure on certain sensitive economic sectors,
- . to take into account the preferences granted by the Lomé and Mediterranean agreements.

In this balancing exercise, it is essential to place the GSP correctly. That is, having taken into account the progressive reduction of import tariffs, the benefit ensured by the GSP has occasionally lost its impact. Furthermore, the GSP can not resolve the trade problems confronted by developing countries on its own. If it is a tool for these countries, it is in no way the key for the development of their exports.

It can only play this role to the full if, on one hand the producers and exporters have sufficient freedom to adapt to the market's requirement - that is to say if an adequate administrative and economic framework exists in the developing countries themselves - and if, on the other hand, all the other elements of the production/trade chain are present.

This second condition is plainly essential for the diversification and growth of exports from developing countries, in particular in the case of new products or markets. Furthermore, this is why the Community follows an active policy of at the same time, promotion of trade and industrial cooperation in favour of these countries. This policy aims at promoting investment there, improving the quality of exportable products and easing their marketing - a policy that the Community intends to further intensify in the coming years.

On the other hand, certain developing countries have arrived, at such an advanced stage of production, in several sectors, that the GSP has finally become a negligible element in their export strategy. The Community has therefore gradually adapted its GSP offer to the real needs of developing countries at the same time taking into account their level of development and the general economic context.

Whereas, if the economic context is characterised in certain developing countries - particularly in Asia - by, at the same time, a very clear revival of economic activity plus large achievements in exports, it is still marked, in most cases, by increased economic difficulties, which are rendered more worrying by the drop in primary product prices and by the weight of the debt.

As for the Community, its situation and economic perspectives are hardly satisfying, inspite of keeping inflation rates at very low levels. Indeed, the GDP at constant prices, only rose from 2-2,5% in 1988 to settle at + 2% in 1989. Furthermore, the trade surplus of the Community decreased in 1988 and will almost disappear completely in 1989. Growth will therefore not be enough to allow a significant reduction in unemployment which will remain at its present level, which is 11.5% of the active population.

In these conditions, the Commission does not envisage fundamental and substantial changes in its GSP for 1989, when also the revision of the GSP should start soon for the decade 1991-2000. However, some important improvements have been proposed by the Commission within the framework of the following objectives.

2. General objectives of the Commission

On presenting these propositions, the Commission therefore intended, at the same time :

- . to improve market access, thereby encouraging exports from developing countries, within the limits imposed by the economic situation of the Community, its agreements with ACP and Mediterranean countries, as well as restructuring its agricultural policy, which will moreover benefit developing countries,
- . to take into account the fact that these industrial and agricultural GSP schemes have been practically rerun in 1988 due to the technical exercise of transposing the harmonised system and as a consequence further increasing its GSP offer in 1989,
- . to follow its policy of differentiation in the industrial scheme according to the principal and criteria decided by the Council in 1986/87,
- . to complete the implementation of the new textile scheme agreed in 1987 for the MFA products - the first phase of which has been applied in 1988 - and to adapt the scheme for non-MFA products in the same way,
- . to carry out a more Community management of its GSP by not allocating the industrial tariff quotas - in the form of fixed duty free amount - and by the introduction of a substantial reserve in the case of agricultural and textile tariff quotas. These changes will take place equally in the perspective of the internal market of 1992, from which the developing countries will, without doubt, benefit greatly.

3. The scheme for industrial products :

3.1. Sensitive industrial products :

3.1.1. Differentiation :

The exclusion of products which have become fully competitive, originating from the more advanced developing countries, was carried out according to the principles established in 1986, in the cases where these suppliers :

- . are subject to a strict tariff limit (allocated quotas or fixed duty-free amounts) set at the previous year minimum when the proposition is made,
- . supply at least 20% of the total Community imports of the product in question during the same year,
- . having intended that these criteria apply in two stages : reduction by 50% of the tariff limitations concerned during the first year or when the criteria are met and exclusion the following year.

The application of these criteria - on the basis of 1987 import statistics in 1988 leads to :

- . the exclusion of 6 products originating from South Korea, Hong Kong and Libya, of which the preferential limits were already reduced by 50% in 1988,
- . a 50% reduction of preferential limits for 7 products originating from Saudi Arabia (cf. List in Annex 1).

A reduction of 50%, without exclusion, of the preferential amounts is also carried out for products originating from the most advanced countries when these suppliers :

- . are subject to a strict tariff limit (tariff quotas or fixed duty-free amounts) established at least for 2 years preceding the one when the proposal is made,
- . export at least 10 times the preferential amount of the product in question - taking an average of those 2 years.

The application of these criteria - based on 1986-87 import statistics - has led to a reduction for 1989 of 50% of the preferential amounts in the case of 5 products originating from South Korea (cf. List in Annex 1).

3.1.2. Sensitivity of the products :

The Commission has continued with the revision of the list of sensitive industrial products. Taking into account the lower sensitivity of some of these products or as a consequence of the exclusion of certain dominant countries/products, the Commission proposes to transfer to the non-sensitive list 13 products which are at present on the list of sensitive products. Although for 2 of them, reference base should be 2% and not 6% (cf. list in Annex 2).

On the other hand, because of economic difficulties in certain industrial sectors, the Commission proposes to transfer to the list of sensitive products, 2 products at present listed as non-sensitive. (cf. list in Annex 2).

3.1.3. Management by tariff ceilings or by fixed duty free amounts :

Following the revision of the management system of imports of sensitive products, the Commission proposes the conversion of 5 quotas to tariff ceilings (cf. Annex 2).

Conversely, taking account of the persistent problems in the Community industry and of the increasing competition from certain developing countries, the Commission proposes the conversion of 9 tariff ceilings to duty free amounts (cf. Annex 2).

3.1.4. Adaptation of Preferential Amounts :

The Commission proposes redistribution to other exporters of the part of the preferential amounts excluded or reduced in the framework of differentiation regarding fully competitive suppliers. Due to this, the differentiation is of a positive nature which can be seen by the notable improvements of the preferential offer in favour of the other developing countries.

The Commission's proposals for 1989 consist furthermore, of a revision and re-evaluation of the preferential amounts - based on the 1987 trade or consumption statistics - in accordance with the double formula used since 1985 and following which these limits are, in general, equal to :

- . either 1% of the Community consumption, shared between the real suppliers in the chemical sector,
- . or 1-5% of total Community imports in the other sectors, depending on the products.

Calculations made on this basis lead to an increase in most of the preference amounts, all the more important since the levels have not been revised in 1987 because of the transposition of the harmonised system.

However, in the sectors with major difficulties, such as iron and steel and electronics, no re-evaluation is proposed, whereas a reduction has been made for certain automobiles.

Finally, the Commission is anxious to stress that the appreciation of the ECU compared with the currency of many beneficiary countries - which is bound directly or indirectly to the US dollar - will also lead to increased export possibilities from these suppliers, including even the case when the preferential amounts have not been re-evaluated.

3.2. Non-sensitive industrial products

The Commission proposes that the reference base to take into consideration, in the case of an eventual re-establishment of customs duties, be raised from 5 to 6% of the value of total Community imports in 1987 for the product in question.

It proposes, furthermore, that the reference base for the products which are in exception to this rule be raised from 1 to 2% of the same value.

3.3. Management :

3.3.1. Sensitive industrial products :

In 1986 and 1987, the Commission proposed that all the tariff quotas should not be allocated amongst Member States, because this allocation leads to an under-utilisation of the amounts and to a transgression from the fundamental principle of uniform application of a Common customs tariff.

Not having been supported with this proposal, the Commission has submitted an appeal before the Court of Justice against the Council's decision regarding the 1987 GSP scheme.

The Council has however accepted that 23 quotas in the chemical sector be managed without allocation amongst Member States, in the form of fixed duty free amounts. Experience has shown, over 2 years of use, that this Community management is possible and that it does not create any particular difficulty. This is why, conforming to the opinion that it has defended for a long time, the Commission once again proposes the suppression of allocation of quotas. It therefore earnestly invites the Council to accept generalised formula of fixed duty free amounts, which correspond moreover, to the objective of achieving the internal market.

3.3.2. Non-sensitive industrial products:

As for the management of non-sensitive products, the Commission must draw the attention of the Council to the increase in demands for re-establishment of customs duties, although the analysis of the situation they provide is not always exhaustive. In the Commission's opinion, this evolution is dangerous since it invalidates the true idea of the "non-sensitive" product and it increases a constant uncertainty on trade.

Moreover, the consultation procedure introduced in 1981 is respected more in word than in spirit. This is why the Commission will ask for a thorough consultation each time it believes necessary.

3.4. ECSC Products :

Taking into account the persistent difficulties in iron and steel, the status quo is proposed for ECSC products.

4. The scheme for textile products

4.1. MFA Products of Annex I

In 1987, the Council adopted a new scheme for MFA textile products, essentially characterised by a differentiation with regard to the fully competitive products/countries and by a re-evaluation of preferential amounts for other products/countries suppliers.

In the framework of this re-evaluation, it has been decided that the preferential amounts would be equivalent, for each product/country to :

- . 0.2 % of total 1985 Community imports as regards the dominant textile suppliers or the state trading countries,
- . 1 % of these imports in the case of other suppliers,
- . a higher percentage as regards the products whose specificity has been recognised in the MFA concerning the country for which they represent an essential part of exports.

As for the differentiation, it has been decided to proceed with the exclusion of products/countries, in accordance with the following principles and criteria :

- . regarding the most competitive textile producers when they represent at least 5% of the total imports of MFA products to the Community,
- . when these countries supply at least 10% of the total Community imports of the product in question based on the average level between 1983-85,
- . with the exception of China and Macao for the textile groups II and III where the exclusion criteria is 15%, taking into account China's level of development and Macao's partial dominance. However, as regards Group II, a reduction of 50% of the preferential amounts, without exclusion, has been applied equally when each of these 2 countries reaches 10-15% of total imports of the Community of the products concerned.

The Council had moreover, decided to apply this new scheme in 2 stages, the first having been implemented in 1988. The Commission therefore proposes the implementation of the second stage in 1989, the realisation of which will lead to both the exclusion of 71 very competitive products/countries (cf. list in Annex 3) and the full application of the criteria as for the preferential amounts, which are thus substantially increased for other products/countries suppliers.

4.2. Other textile products (Annex II)

A first check of the other textile products regime was done in 1987, which led, in the 1988 scheme, to new preferential amounts fixed at 1 or 5% of the total 1985 imports to the Community depending on the products.

As asked to, the Commission carried out a thorough evaluation of this scheme and it believes that its suggested modification is necessary in the sense of a greater differentiation regarding products/countries which have become fully competitive.

This is why, the Commission proposes for 1989 :

- . the exclusion of products/countries covered by quotas when they reach at least 20% of the Community's total imports, based on the 1983-85 average,
- . this exclusion will take place over two years, with a reduction of 50% of the preferential amounts concerned in 1989.

The application of these criteria will lead to the reduction by 50% of the tariff quotas for 5 products originating in Brazil and China (cf. list in Annex 3).

4.3. Management

The considerations related to the need for a more Community management of the industrial tariff quotas also fully concern the scheme for textile products. The Commission is however aware of at the same time, the extreme sensitivity persisting in the sector and the novelty of the scheme for MFA products.

For 1989 the Commission therefore proposes the introduction of a Community reserve of 30% for all the tariff quotas of the MFA scheme, matched by an identical procedure to that applied until now to the industrial tariff quotas, with respect to the right of withdrawal.

As for other textile projects (Annex II) the Commission proposes the non-allocation for all tariff quotas, in the form of fixed duty free amounts, following the example of that already existing in the industrial scheme - and the generalisation of which has furthermore been proposed.

5. The scheme for agricultural products :

5.1. Preferential margins :

The GSP scheme for agricultural products must of course, at the same time respect :

- . the principles of the Common Agricultural Policy and the Common Fishery Policy, and thus the different agreements established under their framework,
- . the Community agreements regarding ACP and Mediterranean countries.

Furthermore, the Community having indicated its intention to improve its relations with the Latin American continent, the Commission proposes to reduce preferential rates for certain tobacco products (cf. list in Annex 4). For the latter sector, the reduction of duty proposed for cigars aims, furthermore, to restore the GSP preferential margin which prevailed before the negotiations under the title of Article XXIV(6) of the GATT.

It proposes, furthermore, the increase of the preferential margin for 4 specific products presenting a particular interest for certain suppliers.

5.2. Least developed countries (LLDC) :

In the logic of the propositions it has made since 1983, the Commission proposes once more for LLDCs an identical regime to the Lomé Convention for 4 products (cf. List in Annex 4) that is to say access with zero duty.

5.3. Management :

On the question of management, the Commission believes that, as for the industrial products (V. paragraph 3.3.1 above), the allocation amongst Member States of the 5 quotas as seen in Annex I of the Proposal of Regulation, which has been until now preferred by the Council, is no longer justified. The same reasons that the Commission has presented before the Court of Justice in its paper on the subject of GSP 1987 concerning industrial products, calls for the suppression of the said allocation and for the proposal of a Community Management of these quotas.

6. System applying to South Korea :

The system which would normally apply to South Korea in 1989 appears in each of the GSP schemes. However, the Commission proposes to maintain the suspension of preferences as long as Korea continues to discriminate against the Community in the field of intellectual property and which lead to the rule no. 3912 of December 18, 1987 on the subject.

7. Publications of regulations and decisions :

During past years, the regulations and the decision on GSP have been decided and published only a few days before their implementation. As has been seen, such a delay does not allow the customs authorities to adapt their operations quickly enough nor economic operators to be informed early enough of the modifications introduced. These operators, to whom above all GSP is destined, need clearness and certainty in their activities.

In these conditions, it is indispensable that the new regulations should be published by October 14 at the latest, which implies their adoption by the Council at the session, September 26-27, 1988.

8. Rules of origin :

The Commission has completed the thorough analysis of the consequence of introduction of the notion of "donor country content" in the GSP rules of origin. This question is at present the object of discussions within the Origin Committee.

9. Other measures :

In the course of past years, the Commission has organised a number of information seminars on its GSP schemes within the beneficiary countries of Latin America and Asia. It therefore does not intend to hold general seminars once more, except in the framework of certain UNCTAD actions, in particular in favour of countries where a large spread of information could still be necessary.

On the other hand, the Commission intends to organise workshops with the economic operators and the administrations concerned in the beneficiary countries on specific sectors or subjects and particularly to analyse the causes of under-utilisation of the preferences by certain partners.

Finally, the Commission intends to publish a new edition of the "Practical guide for the use of the GSP scheme of the Community" in 1989, based on the harmonised system and the TARIC.

Annex 1

GSP Scheme for Industrial Products

Products/Countries excluded in 1989 (second year of application of the 20% criteria)

1.	10.0120	29.05	Methanol	Libya
2.	10.0260	29.22	Glutamine acid	South Korea
3.	10.0870	73.12	Other iron/steel wires	South Korea
4.	10.1180	91.05	Other clocks	Hong Kong
5.	10.1200	91.11	Watch cases	Hong Kong
6.	10.1210	92.01	Upright pianos	South Korea

Amounts reduced by 50% (1st year of application of the 20% criteria)

1.	10.0110	29.02	Styrene	Saudi Arabia
2.	10.0120	29.05	Methanol	"
3.	10.0140	29.05	Ethylene glycol (ethanediol)	"
4.	10.0160	29.09	Oxydiethanol (diethylene-glycol digol)	"
5.	10.0320	29.33	Melamin	"
6.	10.0453	39.01	Linear polyethylene	"
7.	10.0455	39.01	Polyethylene having a specific gravity of 0.94 or more	"

Amounts reduced by 50% (application of the criteria of 10 x the quota)

1.	10.0800	71.16	Imitation jewellery	South Korea
2.	10.1052	85.21	Video tape recorders	"
3.	10.1094	85.40	Colour TV tubes	"
4.	10.1010	84.71	Automatic data processing machines + units thereof	"
5.	10.1053	85.23	Prepared unrecorded media for sound recording	"

GSP Scheme for Industrial Products

1. Sensitivity of products :

Transfers of non-sensitive products to the list of sensitive products

1.	30.0619	29.03	Hexachlorocyclohexane
2.	30.0796	29.22	Lysin

Transfers of sensitive products to the list of non-sensitive products

1.	10.0454	39.01	Non linear polyethylene with low specific gravity
2.	10.0500	40.11	New pneumatic tyres + inner tubes
3.	10.0810	72.07	Iron or steel bars
4.	10.0830	72.11	Flat-rolled products of iron or non-alloy steel (2L)
5.	10.0870	73.12	Iron cables, cords
6.	10.0880	73.17	Tacks and nails
7.	10.0920	74.07	Copper bars
8.	10.1030	85.01	Electric motors + generators (2L)
9.	10.1200	91.11	Watch cases
10.	10.1205	91.13	Watch straps
11.	10.1210	92.01	Upright pianos
12.	10.1260	94.03	Other furniture
13.	10.1268	94.06	Prefabricated buildings of wood

2. Management of tariff limitations :

New fixed duty free amounts

1.	10.0040	28.14	Ammoniac	Qatar
2.	10.0045	28.19	Chromium oxides	China
3.	10.0400	31.02	Urea	United Arab Emirates
4.	10.0400	31.02	Urea	Venezuela
5.	10.0400	31.02	Urea	Mexico
6.	10.0458	39.04	Polymers vinyl	Libya
7.	10.0465	39.02	Other plates, sheets of polyester	South Korea
8.	10.0600	43.02	Other tanned + dressed furskins	China
9.	10.1096	85.40	Monochrome television tubes	South Korea

Tariff quotas converted to tariff ceilings

1.	10.0070	28.27	Barium chloride	China
2.	10.0380	29.41	Chloramphenicol	"
3.	10.0391	30.01	Heparine	"
4.	10.0480	39.23	Polysthylene bags + sacks	Singapore
5.	10.1265	94.05	Electrical equipment parts	Hong Kong

ANNEX 3

GSP Scheme for textile products

1. Products/Countries excluded in 1989, MFA textiles (Annex I)

Hong-Kong : cat. 3; 4; 5; 6; 7; 8; 10; 13; 16; 18; 21; 24; 26; 27; 28;
29; 31; 32; 61; 68; 72; 74; 77; 78; 83; 85; 86; 87; 88; 109.

South Korea : cat. 5; 8; 12; 14; 15; 21; 22; 35; 37; 62; 69; 77; 78; 86;
91; 97.

China : cat. 2; 16; 19; 23; 33; 37; 39; 60; 67; 87; 93; 110; 111; 113.

Rumania : cat. 15; 16; 55; 69; 70.

Macao : cat. 18; 19; 74; 75.

2. Amounts reduced by 50% (First year of application of the 20% criteria)

Other textiles (Annex II)

Brazil : cat. 115
cat. 127A
cat. 146A
cat. 146B

China : cat. 136

GSP Scheme for Agricultural Products

1. Reduced preferential rates :

		<u>GSP rate 1988</u>	<u>Proposed rate 1989</u>
	<u>Tobacco products</u>		
2402.10-00	Cigars and cigarillos containing tobacco	38 %	34 %
2402.20-00	Cigarettes containing tobacco	82 %	65 %
2403.10-00	Smoking tobacco	100 %	85 %
	<u>Specific Products</u>		
ex.0712.30-00	Mushrooms, excluding cultivated mushrooms	8.0 %	4.0 %
ex.0712.90-90	Okra	11.0 %	7.0 %
ex.2001.90-90	Papaw Chutney	14.0 %	9.0 %
2009.30-59	Lime juice (not containing added sugar)	not included	13.0 %

2. New Products of the LLDCs with zero duty :

0804.30-00	Fresh pineapples
0804.20-90	Dried figs
0806.20..	Dried grapes
0811.10..	Frozen strawberries

Financial Implications

As has been indicated in previous years, the financial effect of the Generalised Tariff Preferences granted to developing countries is difficult to measure precisely, on one hand, because of the flexibility of the rules of eligibility and, on the other hand, because it consists of an offer that the following elements do not always allow to satisfy :

- . re-establishment of the customs duties on the imports of certain products during the year,
- . rules of origin which do not always allow beneficiary countries to use the advantages offered,
- . the under-utilisation of these advantages following a lack of information or the fact that the MFN duties are sometimes already weak.

There is therefore a gap between the global offer made on January 1 and the real duty-free or reduced exports made up until December 31.

The 1988 GSP offer has been evaluated at 23 thousand million ECU. Taking into account the proposed modifications, the 1989 GSP offer could reach 25 thousand million ECU, at an increase of approximately 9%.

The weighted average of the customs duties of imports is presently situated between 5.5 and 6% and the average rate of GSP utilisation being 70%, the loss of customs receipts because of the application of the Community GSP scheme in 1989 could therefore be in the order of 960 million to 1 thousand million ECU.

"For comparison by applying the same hypotheses of the average utilisation rate (70 %) and the weighted average customs duties (5.5 to 6 %) to the two previous schemes one arrives at an estimated potential loss of customs duties of between 820 and 895 MECU in 1987 and 885 to 966 MECU in 1988".

COMPETITIVENESS AND EMPLOYMENT IMPACT STATEMENT

- I. What is the main reason for introducing the measure ?
EC has committed itself to offer tariff preferences until at least end 1990 (Council Decision of December 1980).
- II. Features of the businesses in question. In particular :
(a) Are there many SMEs ?
not possible to calculate
(b) Are they concentrated in regions which are :
i. eligible for regional aid in the Member States ?
or
ii. eligible under the ERDF ?
Not possible to identify. These regulations apply in the whole Community and not specifically in certain areas.
- III. What direct obligations does this measure impose on businesses ?
No direct obligations. It does not involve any additional cost. On the contrary, it should reduce costs of the trading activities since more flexibility is proposed in the management field.
- IV. What indirect obligations are local authorities likely to impose on businesses ?
Only the national customs administrations are involved in the implementation of the EC' GSP schemes.
- V. Are there any special measures in respect of SMEs ? Please specify.
No. However, either trading firms or companies using imported components/ items in their own production could be stimulated by the proposal.
- VI. What is the likely effect on :
(a) the competitiveness of businesses ?
Difficult to identify since a wideranging of sectors and activities are covered. Giving preferences may increase external competition slightly but can certainly encourage creation of both new import firms and joint ventures with foreign partners.
(b) employment ?
For the same reasons, impossible to identify.
- VII. Have both sides of industry been consulted ?
Please indicate their opinions.
As the GSP Scheme is a long-established EC policy- since 1 July 1971 - normal sectoral consultations by DGs III and VI in preparation of these proposals have taken place with the relevant industrial organizations. In addition, the Commission uses to consult the Economic and Social Committee, after its proposals being adopted, without having any formal obligation to do so.