

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(74) 950 final
Brussels, 19 June 1974

PROPOSALS AND COMMUNICATIONS

concerning the grant of generalized tariff preferences
for 1975 on semi-manufactured products falling within
Chapters 1 – 24 of the CCT and manufactured and
semi-manufactured products falling within Chapter 25 – 99
originating in developing countries

Editor's note: Only the Explanatory memorandum is included. The proposed legislation was published in *Official Journal C 110/74*, 21.9.1974

FINANCIAL EFFECTS OF THE COMMISSION'S PROPOSALS

1. Loss of customs revenue

The European Parliament has insisted on various occasions that the estimated loss of customs revenue be made known (see in particular the Resolution of the Parliament in December 1973 on the proposals made at that time for the 1974 scheme). However, in the absence of accurate statistics on the actual use of the advantages granted it is not yet possible this year to draw up such calculations. The Commission has indeed provided for the completion of an elaborate system of collecting and processing data on the GSP which, inter alia, will enable these calculations to be carried out. Because various requirements could not be met in time, this system is not at present in operation and also because some Member States did not send the necessary statistical data.

The absence of precise data on the use of the GSP (closely compared with imports from all sources) is a major gap. It prevents, in large measure, useful improvements being made to the Community scheme and at the same time risks allowing pointless changes to be made. Moreover, it gives rise to repeated criticism from non-member countries, developed and beneficiary, who are close to believing that statistics are being deliberately withheld to cover up restrictive aspects of the Community scheme.

The Commission's attention is drawn to the growing acuteness of this problem. The necessary priority must be urgently granted for the installation and completion of the elaborate system of collecting statistical information on the use of the GSP.

2. Cost of the supplementary measures

a. Contribution to the costs of organizing a UNDP/UNCTAD seminar in Brussels	50.000 u.a.
b. Publication, in several languages, of a UNDP/UNCTAD pamphlet on the Community GSP	20.000 u.a.
c. Organization of seminars in the beneficiary countries, in particular the least advanced and those which are "the most seriously affected" by the present economic crisis	55.000 u.a.
	<hr/> 125.000 u.a.

COMMUNITY'S SCHEME OF GENERALISED PREFERENCES FOR 1975
SUMMARY OF PROPOSALS

Background

1. Each year the Commission submits proposals to the Council for the implementation of the Community's scheme of generalised preferences for the following year. These tariff preferences, which are granted to the developing countries in the framework of UNCTAD, constitute a fundamental element in the Community's policy of development cooperation towards the Third World.
2. The background against which the Commission now makes proposals for the Community's scheme for 1975 is a sombre one. The world economic situation poses grave difficulties for the developing countries. The problems which they are facing, particularly those most seriously affected by the present crisis, are much more serious than those of the industrialised countries. The Commission believes that in this situation it is all the more important that the Community should maintain and improve its scheme of generalised preferences, which can provide a vital element of assistance to the developing countries.
3. In its proposals, the Commission takes account of the Community's policy of Association, in respect of which important negotiations are now in progress with the African, Caribbean and Pacific countries. It must also take account of the Joint Declaration of Intent concerning the development of trade relations with the developing independent Commonwealth countries in Asia; the generalised preference scheme continues to play an important part in the implementation of this Declaration. Nor can it ignore the important question of the developing countries in the forthcoming Multilateral Trade Negotiations in GATT.
4. The Community, which was the first to introduce a scheme of generalised preferences, has always insisted on the need for a proper sharing of the burdens of the preferences among the industrialised countries. In this context, the Commission is pleased to note that Canada intends to introduce a scheme shortly and that the United States administration has begun the process of legislation. Another factor for consideration is the increasing concern of a majority of the developing countries for a more equitable sharing of the benefits of the preferences among the recipient countries.
5. Taking account of the lessons to be learned from application of the scheme so far, of the experience and observations of member states, and also of the opinions delivered by the Parliament, the Commission therefore makes the following proposals.

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Proposals for 1975

6. The Commission proposes the following improvements in the scheme:

(a) For processed agricultural products (Chapters 1-24) of the Common Customs Tariff):

- An increase in the margins of preference for most products already covered by the Community scheme.
- The conversion of the tariff quota for Virginia flue-cured tobacco from a value basis to a tonnage basis.
- The inclusion of additional products: honey, orchids, anchovies and certain tapioca.
- The inclusion also of: palm oil, palm kernel oil, coconut oil for food use, and pepper. The Commission is aware that the inclusion of these products in the scheme would reduce the preferential advantages of the Associated states. However, the new Association now being negotiated between the Community and the African, Caribbean and Pacific countries should offer important benefits in which the mechanism for guaranteeing export earnings proposed by the Commission will play a key role. In the interests of a balanced solution the Commission therefore proposes the inclusion of these products in the generalised preference scheme, on the understanding that their inclusion will enter into force simultaneously with the new Association agreement.
- The enlargement of the tariff quota for canned pineapple, on the terms already agreed by the Council.

These proposals would increase the coverage of the Community's scheme in the sector of processed agricultural products by 166 million u.a., in addition to the improvements in this sector which were proposed by the Commission in April 1974, and which are subsumed in the proposals for 1975.

(b) For semi-finished and manufactured industrial products other than textiles (Chapters 25-99 of the CCT):

- An increase in the level of the "ceilings" (plafonds) which limit imports into the Community under the scheme; this increase of about 15% results from the recalculation of the ceilings on the basis of the latest trade statistics.
- A reduction in the number of sensitive products whose import into member states under the scheme is subject to quotas; the number of products subject to these tariff quotas would be reduced from 51 to 7.
- The introduction of a Community reserve in the context of the remaining tariff quotas; this is a point to which the Commission and the Parliament

have always attached particular importance, and on which the Council agreed in principle in 1973.

- An increase in the level of "cut-offs" (butoirs), which limit the exports of individual beneficiary countries under the scheme.
- An increase in the margins of preference granted for jute and coir products, in conformity with the provisions of the EEC/India and EEC/Bangladesh Agreements.

(c) On rules of origin the Commission proposes that, in view of the progress of a number of developing countries towards regional integration (for example the Central American Common Market, the Andean Pact, the Association of South East Asian Nations), a cumulative system of rules of origin of the EFTA type be introduced for their exports to the Community under the scheme.

(d) The Commission proposes no change in the list of beneficiary countries for 1975. However, the list of products covered should be modified to include shoes from Hong Kong and a few additional manufactured goods from Rumania, with appropriate arrangements for tariff quotas in both cases.

7. At the same time the Commission proposes the following modifications in the scheme, in order to promote a more equitable sharing of benefits among the recipient countries:

- For certain of the 44 products, which will now cease to be subject to tariff quotas, the "cut-offs" (butoirs) for certain beneficiary countries will be reduced to 15%.
- The products and countries in question are determined according to objective criteria set out in the Commission's proposals.
- But no beneficiary country will suffer from any reduction in the benefits already acquired under the Community's scheme.

8. Finally the Commission proposes a continuation of the current arrangements for:

- Cocoa butter and soluble coffee.
- Textiles, where bilateral negotiations in the context of the Multifibres Agreement have not yet been completed.

Complementary measures

9. The improvements of the Community's scheme for 1975 will increase the practical value of the generalised preferences to the developing countries; but its purpose cannot be fully realised without an intensification of complementary measures. The Commission insists on the need for a better understanding and utilisation of the generalised preferences both by the beneficiary countries, and by those concerned within the Community. For this purpose:

- a system for gathering statistical information on the utilisation of the scheme will shortly become effective;
- the creation of a separate agency for documentation, research and advice on the generalised preference scheme should be studied;
- a programme of seminars and other information activities for the assistance of the beneficiary countries will be actively pursued by the Commission.

Conclusion

10. The Commission believes that its proposals for the application of the Community's scheme of generalised preferences for 1975 represent a balanced development of the Community's policies towards the developing countries as a whole, within the practical limits imposed by the present economic situation. The enlargement of the range of products covered, the reduction in the number of tariff quotas, the introduction of the Community reserve, and the measures for a better sharing of benefits, represent a logical development and substantial improvement of the Community's scheme. It is against this background of progressivity and of pragmatism that the Commission wishes its proposals for 1975 to be appreciated. It underlines that the generalised preferences constitute a fundamental act of development cooperation, and a major contribution by the Community towards helping the developing countries in face of the current world situation.

S U M M A R Y

	<u>Pages</u>
I. Purpose and general scope of proposals	1
II. General context of the Commission's proposals	2
1. The problem of deadlines	2
2. The economic situation	2
3. Sharing responsibilities among the donor countries	3
4. The special responsibilities of the Community towards the developing countries	5
- The policy of association	5
- The Joint Declaration on Intent annexed to the Treaty of Accession	5
- The multilateral trade negotiations under GATT	6
5. Fair sharing of preferential advantages among beneficiary countries	6
III. Characteristics of the 1975 scheme	9
1. Improvements	9
(a) Processed agricultural products	9
(b) Semifinished products and industrial manufactured goods other than textiles	13
- Raising the level of the ceilings	13
- Reduction of the number of products subject to tariff quotas	14
- Introduction of the reserve in the GSP tariff quotas	14
- Raising of the individual maximum shares	17
- Jute and coir products	17
(c) Rules of origin	17
(d) Beneficiary countries	18
2. The re-adjustments	19
3. Extensions	21
IV. Presentation of the Draft Regulations and of the Draft Decision	22
V. Supplementary measures	23
1. Collection and use of statistical data	23
2. Research into the creation of a documentation, study and advisory agency on generalized preferences	24
3. Assistance given to beneficiary countries to improve the use made of the preferences	25
Conclusions	25

EXPLANATORY MEMORANDUM

I. Purpose and general scope of proposals

These proposals from the Commission to the Council concern the legal provisions necessary for the grant of generalized tariff preferences for 1975 on manufactured and semi-manufactured products originating in developing countries.

The proposals for regulations submitted to the Council fall within the scope of the Community's offer of generalized tariff preferences made to UNCTAD in 1969. They contain the detailed rules for application of tariff preferences to a certain number of processed agricultural products of Chapters 1 to 24 of the CCT, and to all manufactured industrial products of Chapters 25 to 99 of the CCT, with the exception of textile products, which will be dealt with in separate proposals at a later stage according to the development of the current negotiations under the multifibres Agreement. Iron and steel products covered by the ECSC Treaty are dealt with in a special draft decision opening tariff preferences in accordance with the same rules as adopted for other industrial products, without prejudice to the administrative details applying to ECSC products.

II. General context of the Commission's proposals

1. The problem of deadlines

The Commission wishes to underline that in submitting its proposals for the 1975 scheme sufficiently early to the Council it hopes

- that the European Parliament, when consulted, will have sufficient time available to express its opinion;
- that the Associated States can be informed and will be able to make their views felt in the time available;
- that the Council will be able to take all the necessary decisions in October 1974 at the latest in order to allow the new scheme to be applied under normal conditions as from 1 January 1975.

The question of deadlines is of particular importance in the light of the fact that the way the 1974 scheme was put into effect in the different Member States was somewhat unsatisfactory. In this respect the Commission would recall the wish expressed by the heads of the Member States' customs authorities that the regulations for applying the 1975 generalized preferences should be published at the latest by the beginning of November 1974.

2. The economic situation

In drafting these proposals the Commission has taken into account the general economic situation in the world as a whole and in the Community in particular. International economic relations are at present going through an uncertain phase, the effects of which are still very difficult to assess but which may be considered as unfavourable for economic expansion in various countries.

The way this situation is developing raises questions and problems, especially as regards the trade balance of countries importing raw materials. In any event, this crisis may check the economic expansion of the Community - whose economy, based on processing, has up to now constituted the best stimulus for increasing the developing countries' external trade - and render the fight against inflation even more difficult. The present import capacity of the Community (approx. 25.000 millions u.a. per year from the developing countries) is in danger of being reduced - with

the exception of certain essential raw materials - to the disadvantage of the developing countries; this would certainly weigh even more heavily on the economies of the "countries most seriously affected" by the present crisis. The import sectors likely to be affected are probably those explicitly covered by generalized preferences, i.e. manufactured articles and semi-processed products.

The Commission considers, however, that the problems which the Community and its Member States are having to face in the present economic situation are not comparable with those confronting the developing countries. At the recent session of the UNCTAD Special Committee on Preferences the "countries most seriously affected" by the crisis even tried, before thinking of aid for their industrialisation, to launch an appeal for "ensuring their survival", in the words of Ambassador PATHMARAJAH (Sri Lanka). That forum is of course not the appropriate place for tackling this exceptionally serious problem. It is rather in the framework of the Special Programme for emergency measures recently adopted by the General Assembly of the United Nations that solutions might be found quickly. Having said this, the Commission is convinced that the generalized preferences will be able to help reduce the difficulties the developing countries are facing because of the present crisis. The Commission therefore considers that, despite the present economic situation, it is essential for the Community to maintain and even improve its preference scheme in so far as ^{it} is compatible with the development of the international situation, its own difficulties and its contractual obligations.

3. Sharing responsibilities among the donor countries

The Community has always stressed to its industrialized partners that, in order to share the burdens and responsibilities agreed upon at UNCTAD and OECD, they should institute as quickly as possible their own preferences schemes in favour of all developing countries. These schemes should, at least in their effect, be comparable with the Community scheme.

The Commission is therefore pleased with the recent decisions taken regarding this matter in Canada, where on 18 April 1973 Parliament passed a bill authorizing the Government to set up a generalized preferences scheme.

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The Government has taken the necessary measures to enforce this scheme as from 1 July 1974. The Commission warmly welcomes these decisions.

The scheme which the United States intends to apply is contained in the "Trade Reform Bill" of 1973 which is at present passing through the different stages of the US legislative procedure. The process is not yet finished and furthermore the administrative procedure which will follow the adoption of the bill is also rather complicated and it is difficult to predict the exact date when the tariff preferences granted by the United States will enter into force. The Commission is nevertheless pleased with the process under way in the United States, which should make it possible for a US scheme to be set up.

The Commission notes with satisfaction that the other schemes already in force, like the Community scheme, have all been improved in 1974 and that, at the last session of the UNCTAD Special Committee on Preferences, most of the donor countries announced that they intended to make every possible further improvement.

The Commission wishes to stress that, if sharing the burdens and responsibilities makes it possible to spread the weight of generalized preferences on to imports into every donor country, it implies additional sacrifices being made on the external markets open to generalized preferences by exporters in the industrialized countries. This factor, rarely mentioned so far, is worth pointing out in connection with the measures agreed upon by the Community, especially in a situation where there is a danger that a prolonged disequilibrium of its trade balance would have unfavourable effects on the level of economic activity and would even lead to disturbances in certain sensitive sectors.

4. The special responsibilities of the Community towards the developing countries

The Community has continually expressed its concern for the developing countries and recalled that it intends to assume wider responsibilities towards them.

This attitude has come into particular prominence since the first Conference of the Heads of State and Government of the enlarged Community.

In the whole series of policies and measures involved in this approach, there are several areas where there is a close link with the policy followed in the field of generalized tariff preferences.

The Policy of association

First of all, we are concerned with what the Community has achieved - and is likely to achieve - regarding association policy. The existing associations, the current negotiations with the African, Caribbean and Pacific countries, and the negotiations regarding the overall approach to the Mediterranean area, touch upon, in the trade sector, very sensitive fields which are also covered by generalized preferences. It is therefore advisable to ensure to the utmost that there is a balanced development of these two policies by taking care that the measures adopted in one field do not call into question the basic objectives pursued in the other.

The Joint Declaration of Intent annexed to the Treaty of Accession

Secondly, we are concerned with the "Joint Declaration of Intent on the development of trade relations with Ceylon, India, Malaysia, Pakistan and Singapore".

The Commission recalls that it was on the basis of its Communication of last year (COM(73)1801 final) that a first stage in implementing the Joint Declaration of Intent has been achieved since January 1, 1974, notably by applying the GSP (generalized system of preferences) but also by taking measures in favour of handicraft products. The Commission intends in future to follow the approach adopted in this Communication, especially as it is convinced that the present economic crisis seriously affects most of the countries for which the Declaration was intended, without forgetting those situated in the same geographical region (and, moreover, those of Latin America and Africa).

That is why in 1975 the GSP will continue to be the essential means for the Community to guarantee the orderly development of its trade relations with these countries and to indicate its economic solidarity with them.

The multilateral trade negotiations under GATT

Thirdly, the Community's overall approach to the forthcoming multilateral trade negotiations under GATT must be mentioned. GATT places great stress on the problems of the developing countries and on generalized preferences, the autonomous nature of which has been underlined. Among the problems raised (preferential margin, exceptions to the general formula for reducing tariffs, etc.), that of improving the GSP in connection with the multilateral trade negotiations is a matter of concern for a number of developing countries. The less advanced countries in particular are becoming more and more afraid that the industrialized countries will slow down the pace of improving the GSP in order to hold over possible concessions for future negotiations the scope, date and concrete results of which they are not yet able to anticipate with any accuracy. It is only proper, therefore, to set these fears at rest by proceeding as far as possible with developing and improving the GSP.

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In the overall context of the Community's special responsibilities, the Commission would like to stress that the continuation and improvement of the Community's preference scheme constitute one of the fundamental aspects of its overall development cooperation policy with regard to the third world as a whole, in line with the approach adopted by the first Conference of Heads of State and ^{of} Government and by the resolutions adopted by the Council of Ministers for Development Cooperation (30 April 1974).

5. Fair sharing of preferential advantages among beneficiary countries

The lessons drawn from the operation of the various schemes up until now indicate that a small number of beneficiaries have received most of the advantages offered. This is particularly true for the way in which the Community's GSP has been used since 1 July 1971.

A large number of beneficiaries (Pakistan, members of the ASEAN (1), African countries) therefore tried in their statements during the recent session of the Special Committee on Preferences to have the idea of fair sharing of preferential advantages among beneficiaries accepted.

The Community's representative at this session of the Special Committee thought it appropriate to explain publicly the Community's views on this problem, which are very close to the wishes of a large majority of the beneficiaries, and to indicate that solutions are being examined within the framework of the Community scheme.

This whole approach naturally gave rise to concern among several beneficiary countries like Yugoslavia, Brazil, Argentina, etc. These countries fear the introduction of arbitrary elements into the GSP which might lead to discrimination and even divisions among the members of the Groupe of 77.

On the basis of experience gained from the operation of the Community scheme since 1971, the Commission considers that it would be advisable to seek pragmatic solutions meeting the wishes of the majority of beneficiaries, but which do not alter the basic features of the Community scheme and at the same time take account of the concerns of other beneficiaries.

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The Commission took all these considerations into account when drawing up the 1975 scheme, an outline of which is set out below.

The Commission emphasizes that in drafting its proposals it has examined attentively the views expressed by the European Parliament in December 1973 (Resolution of Parliament on the proposals of the Commission

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(1) Association of South-East Asian Nations.

of the European Communities to the Council concerning regulations on the application in 1974 of generalized tariff preferences in favour of developing countries - Rapporteur Mr Maurice DEWULF) and the comments made during its debates, as well as the various observations made by the Member States in the Council both at the time of and subsequent to the Regulations on the application of the GSP in 1974 being adopted.

The Commission points out that it has also taken into account in so far as possible other wishes expressed by the various beneficiaries concerned, either through the existing mechanisms for talks, in the framework of existing Joint Commissions administering the agreements in force, in the course of direct contacts (countries of Latin America, the ASEAN group, the Indian sub-continent, etc.) or at seminars organized by the Commission and UNCTAD meetings.

Furthermore, the Commission stresses that among the economic factors which it has examined, it has also taken account of the additional burden for the far-off beneficiary countries of the big increases in freight charges.

Finally, it is the wish of the Commission that its proposals be assessed on the basis of the two ideas which are at the very root of the conception of the Community scheme, its development and its administration, namely pragmatism and progressiveness. The evolutionary nature of the Community scheme is one of the best guarantees for the future of the effectiveness of the advantages granted.

A quick glance back in time would serve to illustrate these two principles : firstly, in the balance established between the different imperatives and contingencies, in the choice of processed agricultural products to be included, and in the administration of the ceilings and butoirs, and secondly, in respect of raising the ceilings, reducing the number of products subject to the tariff quota system and widening both the range of processed agricultural products covered and their preferential margins.

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III. Characteristics of the 1975 scheme

The 1975 scheme contains improvements, readjustments and extensions pure and simple, which the Commission is putting forward for approval by the Council.

1. Improvements

(a) Processed agricultural products of Chapters 1 - 24 of the CCT
The Commission refers first of all to the Resolution ⁽¹⁾ in which the Parliament, inter alia, stresses the importance, particularly for the most underprivileged of the developing countries, of exports of processed agricultural products and calls on the European Commission and the Council to examine under what conditions further benefits could be granted in the framework of the operation of "Generalized Preferences" and calls on the European Commission to continue its efforts to improve the proposals by the Community by extending them to other products whose export is important to developing countries and for which the Community has not yet conceded preferences and by increasing the margin of preference for other products, taking into consideration, nevertheless, the interests of the African, Malagasy and Mauritian Associated Countries, which are among the most underprivileged of all developing countries.

As far as processed agricultural products are concerned under GSP, the Commission emphasizes first of all that it has never in the past had to apply the safeguard clause. This is the reason why the Commission considers that new improvements are possible in the enlargement of the preferential margins for these products. The methods of improvement chosen by the Commission are the following:

- the present preferential margins of 20 % should be raised to 40 % for a certain number of products (except in some instances of sensitive products where the widening of the preference should be limited to 10 % or the present rate of duty in the GSP should be retained);

- the present 40 % preference margins should be raised to 50 %;

- GSP duties below 5 % should be abolished (including the GSP duty on tea extracts and preparations with a basis of those extracts (CCT 21.02 B) which stands at 6 %);

Secondly, for unmanufactured "Virginia flue cured" tobacco (CCT ex 24.01 B), the Commission is of the opinion that the difficulties in which those beneficiary countries "most seriously affected" by the present economic crisis find themselves in, particularly India, should be taken into account.

(1) See Resolution of the European Parliament mentioned on pages 7 and 8.

Furthermore, the Community decided in the context of the negotiations with the ACP countries to offer them duty-free entry, which cannot fail to be of special advantage to the future associates who are already in a better position than their Asian competitors. This is why the Commission is proposing to the Council to extend into 1975 the temporary measure taken in 1974, with a modification intended to protect to some extent the advantages offered to the GSP beneficiaries for this product. The Commission is therefore proposing to transform the tariff quota value, which was 30 million u.a. for 1974, into a tariff quota of 22.000 tons for 1975. This volume of tonnage corresponds to the 30 million u.a. tariff quota for 1974. Such a change could allow the beneficiaries to be sure of regularly supplying this product under GSP without the exported quantities being modified by possible changes in world market prices.

Thirdly, the Commission is proposing to extend the coverage of the products in Chapters 1 - 24 of the CCT. This applies particularly to natural honey (CCT 04.06), fresh and cut orchids (CCT ex 06.03 A I and II), preserved anchovies (CCT ex 16.04) and tapioca and sago substitutes obtained from potato or other starches. (CCT 19.04)

Finally, the Commission is putting the following proposal to the Council, with certain conditions attached for inserting in the preferences scheme :

- palm oil and palm kernel oil, both for industrial use and for human consumption, as well as coconut oil for human consumption (CCT 15.07 D I a 1, CCT 15.07 D II a 1, CCT 15.07 D I ex 3 and CCT 15.07 D II ex b 1 and 2), and pepper (CCT 09.04 A I b).

Most other donor countries (Japan, Sweden, Austria, Australia, New Zealand, Switzerland) have already included one or other of these products, and in several cases all of these products, in their schemes.

These products, which represent an important part of the external trade of several developing countries, particularly of those referred to in the Joint Declaration of Intent, are also exported by certain of the countries with which the Community is at present negotiating a new association agreement. Their inclusion in the Community's scheme would have the effect of reducing the preferential margin from which these latter countries at present benefit or could benefit in the future. It ought to be possible to overcome this difficulty

in the framework of the current negotiations. The conclusion of an association Agreement with the ACP countries will in effect have to provide an overall balance within which the mechanism proposed by the Commission for guaranteeing export earnings will play a key role. This balance would enable tariff reductions to be made under GSP in favour of non-associated developing countries. It would however, be as well, to make sure that these do not come into force before the ACP countries can effectively benefit from the advantages which will result from the new agreement.

The Commission stresses that the key factor in its proposals for these products lies in this link to be established between the application of the GSP reductions and the entry into force of the new agreement.

The concessions which the Commission is planning to make for the products in question are listed in Annex 1 and consist in particular of :

- a 20 % reduction in the duties provided under the CCT for pepper;
- a reduction of the protection relating to palm oil, palm kernel oil and coconut oil; this, however, is to be achieved by changing, under the GSP, the ad valorem duty provided under the CCT to a specific duty.

The introduction of the specific duty at an appropriate level makes it possible to continue to provide :

- effective protection of the interests of Community and ACP producers, should world market prices fall to levels incapable of guaranteeing them a fair income;
- an appreciable reduction in the percentage of protection when prices are high levels as at present.

A solution of this kind is also planned for castor oil in order to keep the concessions contemplated for the vegetable oil sector all on the same basis.

These concessions should be adopted by the Council, it being understood that they will not be applied until the association agreement with the ACP countries has come into force.

As far as canned pineapples are concerned, it must be pointed out, that the Commission proposal takes account of the extending of the advantages which were agreed by the Council in 1973. The proposal provides for an increase of 10.000 tons in the tariff quota for canned pineapples other than sliced and the opening of a tariff quota of 28.000 tons at a GSP duty of 15 % for canned pineapple slices. Following what has been agreed, this improvement remains conditional upon the entry into force of the Regulation on the organization of the canned fruit market which is at the moment under discussion within the Council and which provides for support being given to the production of pineapples in overseas territories. Should this organization of the market not come into force by January 1, 1975, the Regulation on canned pineapples other than sliced should be extended for 1975 on the same conditions as in 1974.

The effect of including new products (natural honey, palm and palm kernel oils for all uses, coconut oil for human consumption, pepper, orchids, canned sliced pineapples) is estimated at imports to the value of 156 million u.a. (1972 values) from beneficiary countries, which are not associated with the Community, of which 128 million is subject to inclusion on conditions.

The Commission states that in its proposal for the 1975 GSP it has included products which were the subject of its proposal for further improvement of 30 April (COM (74) 537 final) with the exception of some products which already benefit from "erga omnes" suspensions. The rates of the GSP duties included were not modified, except that for castor oil, which the Commission is proposing to reduce to the level which has already been widely agreed upon in the Council (4 %). The Commission points out that following its proposals for the 1975 GSP year, this ad valorem GSP duty should be applied until the specific GSP duty comes into force under the conditional GSP reductions set out on pages 10 and 11.

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The Commission also calls to mind the case of the typical and specific products of the Indian sub-continent, of which it was presented with a list. A solution to this problem is being sought. However,

the Commission would here like to summarize the difficulties encountered so far, which are of a technical nature (identification of products and establishment of "ex" sub-headings) or difficulties in principle (a solution limited exclusively to the products of one or two suppliers within the framework of a scheme for universal application). The Commission hopes nevertheless that a satisfactory solution will be possible ^{outside the framework of GSP} and reserves the right to make appropriate proposals to the Council in due course.

(b) Semifinished products and industrial manufactured goods other than textiles of Chapters 25-99 of the CCT

Raising the level of the ceilings

The improvements put forward by the Commission concern first of all raising the level of the ceilings by normal application of the factors used in the calculation. The basic amount will remain unchanged with the figures of the 1971 reference year. On the other hand, the calculation of the additional amount will be carried out using the figures for 1972. The Commission does not have available for the Nine Member States all the statistics necessary for working out exactly the effect of increasing the additional amount. However, the initial overall assessments permit an overall increase to be forecast in the ceilings and tariff quotas opened for 1975 for industrial products other than textiles, of the order of 15 % (8 % for products at present under tariff quotas, 12 % for the products at present under "special observation" and 20 % for the other products.) Preferential imports for 1975 may be tentatively estimated at about 2,300 million u.a.

In these proposals the Commission is submitting to the Council provisional figures for the tariff quotas and reserves the right to transmit exact figures later during the Council's deliberations.

Plywood and laminated wood products (CCT 44.15) will continue to be treated in a similar way to that provided for in the 1974 scheme. The normal part of the Community quota (the amount increased by a fixed 10 %, rising from 23 million u.a. to 25,3 million u.a. is divided up along the lines of the special arrangement of 1974 and the United Kingdom share is, as for the previous year, increased by 22 million u.a.

Reduction of the number of products subject to tariff quotas

The second aspect of improvement proposed by the Commission concerns the maximum possible reduction of the list of industrial products other than textiles subject to tariff quotas. In 1974 this list consists of 51 products. For 1975 it will be reduced to 7 according to the Commission's proposal.

In drawing up this proposal, the Commission has taken into account what it has learnt in its experience of GSP since 1971 and is convinced that a favourable response to the repeated wishes of practically all the beneficiary countries will make each of the two sides realize what its responsibilities are. The beneficiary countries have noted that in the past none of the tariff quotas opened has been exhausted and they explain this under-utilization by the complexity and rigidity of the method of distributing and administering these quotas. If in 1975 the 44 tariff quotas changed into ceilings under special observation continue to be under-utilized, then the explanation will have to be sought elsewhere, for instance the way in which beneficiary countries see and make use of the advantages granted to them.

Introduction of the reserve in the GSP tariff quotas

The third aspect of improvement concerns the introduction of the reserve in the tariff quotas.

Since the initial application of generalized tariff preferences in the second half of 1971, the Commission has been emphasizing that the method of administering the tariff quotas opened in this framework and based on the distribution by shares specifically allocated to the Member States calls into question the oneness of the tariff and the principle of equal access for importers into the Community.

The Commission especially drew the Council's attention to the urgent need to create a reserve in the administration of the Community's tariff quotas as far back as its letter of 1 June 1971. Since then, supported by the European Parliament, its position has not altered: it has denounced the absence of a reserve as contrary to the tariff union. It has not ceased to stress that in the event the reserve is even more justified, since experience has shown

that the administration by allocating specific shares in many cases effectively neutralizes a proportion of the quota, to the detriment of the beneficiary countries. The Commission has also always stressed the fact that the operation of most Community tariff quotas outside the scope of generalized preferences contains a reserve, whereas for ^{the e}the initial shares were distributed on the basis of adequate objective criteria (in particular past imports); since then the establishment of a reserve has become more indispensable than ever since it is in the circumstances a question of administering tariff quotas distributed according to a fixed key based on general economic data.

As is seen in the preamble to the regulations on this matter, the Council for its part, has never denied that this argument is well-founded but has wanted to arrange a certain running-in period for the Member States. The Commission, in drawing up its proposals on the subject of generalized tariff preferences for 1974, strongly emphasized that in its opinion the running-in period, which at that time has already lasted two and a half years, should be brought to an end.

When it first examined the above-mentioned Commission proposals for 1974, the Council, realizing that to continue purely and simply with the administrative methods applied for "the running-in period" would have called into question the tariff union at the same time as neutralizing the improved advantages offered, adopted at its 260 th session of 6 November 1973 (see document R/2906/73 of 27.11.73) the following Resolution:

"Introduction of a reserve for Community tariff quotas"

The Council agreed to the introduction of a reserve as from 1975 at the latest, on the understanding that this principle would be implemented gradually.

During 1974 practical measures would be examined for setting up this reserve, which could, for example, initially be limited to a number of products and be combined with measures which would obviate difficulties in particularly sensitive situations; in this connection, the texts of the Regulations for 1974 would provide for the possibility of creating this reserve in the course of the Year."

Consequently, as the text of the regulations in question moreover specifies, it would already have been possible to establish reserve shares for the financial year 1974. This was not done because of the difficulties inherent in the existing technique of administration: in practice a reserve share could not have been created unless none of the Member States had exhausted

its share, which made the exercise pointless. For the 1975 preference year, the Commission considers that the rate of progression mentioned in the Regulation referred to above must take account of the fact that the running-in period has in fact lasted three and a half years, and that moreover a first increase, forecast for 1974, could not be carried out.

In these conditions, the Commission considers that as a minimum requirement, a reserve equal to 10 % of the full quota amount should be set up and that Member States' drawing rights or obligations should be fixed at 10 % and 5 % of their original shares. In proposing these figures it stresses that normally the percentages are 20 %, 15 % and 7,5 % respectively.

Because these proposed figures are the strict minimum, the Commission stresses that it does not feel that it would be acceptable to reduce their effect by for example limiting the drawing rights or obligations of Member States since such a step would produce the same result as the one that has previously been criticized, even perhaps aggravating the risks of nullifying the quota amount to the detriment of the beneficiaries.

For later preferential periods, the Commission reserves the right to propose an increase in the above-mentioned percentages in the light of experience. It considers nevertheless that two further stages would ensure a reasonable rate of progression in standardising the system, it being understood that the reduction in the number of products subject to tariff quotas and more information about specific imports should also make it possible to change over from a method of fixed allocation of shares to the usual method which is based in particular on the previous imports of each of the products concerned.

Furthermore, a certain number of tariff quotas such as those relating to cocoa butter and soluble coffee, preserved pineapples and unmanufactured "Virginia flue cured" type tobacco were not created until the 1974 preference year to meet very particular situations and some of these are even of a temporary nature. In these circumstances, the Commission considers that it can again propose that for the second preference period, a reserve should not be set up for these products. It would be a different matter if these quotas were to assume the same character as those opened for industrial manufactured products, and particularly when precise, complete and sufficiently representative data is available.

Raising of the individual maximum shares ("butoirs")

The fourth point of improvement refers to the raising of the individual maximum shares. Following a detailed examination of the situation product by product and taking into account the measures proposed below aimed at ensuring the fairest distribution of the preferential benefits between the beneficiary countries, the Commission considers that the individual maximum shares for the 44 products transferred from the present tariff quota-system to the system of ceilings under special observation could, with the exception of a single product, be raised to 50 % in the framework of the measures provided for in paragraph 2 below. As far as the individual maximum shares for all the other products are concerned, it is the Commission's view that there are good grounds for leaving them at the 1974 percentage level.

Jute and coir products

The fifth point of improvement was already achieved in 1974. It concerns the enlargement of the preferential margins for jute and coir which under the agreements with India and Bangladesh have been raised from 40 % to 60 % for 1975. The related question of the alignment of the duties of the United Kingdom and of Denmark on the GSP rates should nevertheless be studied in the light of the fact that the decision taken to maintain duty-free entry in 1974 did not result in any distortion of trade. In examining this question account could also be taken of the particularly difficult situation in which the beneficiary exporting countries, hardest hit by the economic crisis, find themselves.

(c) Rules of origin

The concept of originating products will, as in the past, be determined in accordance with the procedure laid down in Article 14 of Regulation EEC N° 802/68.

In this context and in reply to the requests repeatedly put forward by the beneficiary developing countries, the Commission has in mind to broaden the concept of originating products in favour of certain regional groupings which have been set up in these countries.

As was announced last year in its communication to the Council on generalized preferences (doc. COM(73) 1800 final), the Commission has carried out some investigations within the countries of the Central American Common Market (CACM), those of the Andean Pact and also of the Association of South East Asian Nations (ASEAN). These investigations demonstrated the interest shown by these countries in the broadening of the concept of origin as a factor likely to encourage their own regional integration. They also showed that these groupings possess a sufficiently integrated structure to ensure that there will be the necessary administrative cooperation with the Community for the proper functioning of the proposed system.

As a result the Commission proposes that the Council approve the setting up

a system of cumulative origin of the EFTA type in favour of these regional groupings, on the understanding that an adequate administrative cooperation with the Community must be established. The detailed rules for implementing this system will be adopted by the Committee of Origin.

The Commission is putting this proposal to the Council to underline all the political interest and economic support that the Community is bringing to the developing countries' efforts towards regional integration.

(d) Beneficiary Countries

The list of beneficiary countries for 1975 will stay unchanged as regards both numbers and classification. However, the Commission considers that it is desirable to introduce some improvements for the dependent territories and Romania, as regards the products covered.

As far as the dependent territories are concerned, the Commission proposes to the Council to extend the preferential treatment to include footwear (CCT Chapter 64). The Commission is well aware of the economic, social and political difficulties which footwear production in the Community has been facing for some time. The Commission is on the other hand equally conscious of the serious and growing difficulties being encountered by the footwear industries of Hong Kong as the result in particular of the inclusion in the GSP of the Colony's direct competitors in these products. The Commission therefore is moving towards a solution for this delicate problem which it considers fair and which is on the following lines:

- the three tariff quotas for these products (CCT 64.01, 64.02 A and 64.02 B) are to be maintained for 1975;

- the tariff quotas are calculated on the basis of the import figures for these products (in 1971 values) from the present beneficiaries under GSP for the basic amount and a percentage of the 1971 value of the imports from other countries and from dependent territories for the additional amount;

- each of these tariff quotas is increased by a second fixed amount, which corresponds to the individual maximum share in force for 1975.

The restriction of calculation to the present beneficiaries for the basic amount and maintenance of the system of tariff quotas is intended to lessen the pressure of preferences on this particularly sensitive sector in the Community.

The allocation of a second additional amount allows fairer treatment to be granted to the dependent territories without thereby damaging the present beneficiaries.

This solution proposed by the Commission will be reinforced by approaches to the other donor countries. In this connection the Commission recalls that the donor countries have in the past followed the example of the Community by making an exception of footwear exported by the dependent territories. If the Community were now prepared to correct this situation of distortion, these countries could probably follow suit again. In any case the Commission undertakes to make bilateral contacts with them and if necessary to ask for a special meeting of the O.E.C.D. to settle this problem from the point of view of sharing the costs and the responsibilities between the donor countries.

As for Romania, the Commission recalls that for the 1974 GSP year it did not propose the exceptions, apart from textiles, footwear and ECSC products, which were decided by the Council (for products subject to ceilings and for processed agricultural products). The Commission considers the time has come to reconsider these exceptions in the light of economic realities. Following an appropriate examination of the situation, and in particular of the effective and potential utilization of the ceilings, the Commission proposes to the Council that these exceptions, which it did not provide for in 1974, should not be retained for Romania in the 1975 GSP year. It further proposes that for Romania the Council extend the advantages of the 1975 GSP to the following two products which were subject to tariff quotas in 1974:

- radio and television receivers (CCT 85.15 A III and C III);
- other furniture and parts thereof (CCT 94.03). The tariff quota for CCT 85.15 A III and C III and the ceiling for CCT 94.03 will be worked out on the model of the three tariff quotas for shoes. In addition, Romania will be subject to the 15 % individual maximum share set out in paragraph 2 below.

The Commission considers that on the basis of the information available to it, it is politically opportune and economically tolerable to include these two products for Romania.

2. The re-adjustments

The experience that the beneficiary countries have drawn from the use made of GSP since 1971 establishes certain facts which justify the request made by the majority of the beneficiary countries for an "equitable benefit sharing among preference receiving countries. "

The Commission considers that the Community, as practically the only body to have set up within its scheme a mechanism designed to protect

the least advanced countries (the "butoir" mechanism) should give a favourable answer to this request. To ensure as balanced an allocation of preferential advantages between beneficiaries as possible, it is proposed that the Council approve the following solution worked out by the Commission, which has the advantage of avoiding all recourse to arbitrary and discriminatory measures.

(a) For the 44 products subject to tariff quotas in 1974, which in 1975 will be subject to the system of ceilings under special observation the individual maximum shares are to be reduced to 15 % subject to the following conditions.

(b) When it is established, for any given product included in the list of 44 ceilings mentioned above, that a beneficiary has either reached in 1972 and 1973 the maximum shares in force during those GSP years, or attained a share of at least 40 % of the imports of that product into the Community from the beneficiary countries taken as a whole (on the basis of the most recent available S.O.E.C. statistics), an individual maximum share of 15 % will be applied to that country. Nevertheless, to avoid reducing any preferential advantage already gained by that country, it is intended that such a beneficiary will be able to continue to benefit from the amount of the maximum share in force in 1974, until the amount derived from the 15 % maximum share is greater than the 1974 amount as a result of the normal operation of the progressive raising of ceilings during subsequent GSP years.

(c) Nevertheless, a beneficiary that has been singled out in this way could be exempted from the application of the 15 % maximum share if either:

- its per capita GNP does not exceed 275 \$, on the basis of the most recent data made available by the IBRD, or
- the product in question represents 10 % or more of the C.I.F. value of the total annual imports into the Community of industrial products under the GSP from the same beneficiary country (on the basis of the most recent available S.O.E.C. statistics.)

(d) The maximum amounts derived from the 15 % individual maximum share (see also paragraph (b) above), will be applied rigorously, and in so far as possible any excess amount will be excluded, following the improved internal procedures of the "special observation" type.

(e) For each of the 44 ceilings mentioned above, all the beneficiary countries save that or those subject to the 15 % maximum share, will be subject to the normal level of 50 % (except in the case of wickerwork products under CCT 46, 3 for which the individual maximum share is 40 % because several GSP supplies are involved.)

(f) The solution proposed by the Commission will be applied in subsequent years in the following way:

- in order to identify further instances where the 15 % level is to be applied, the first criterion relating to the use made of the maximum shares will be applied on the basis of the two GSP years preceding the one in which the Commission is preparing its proposals for the following year;

- the normal individual maximum share will be reapplied to any beneficiary subject to the 15 % level for a given product if, for two consecutive years, the imports into the Community from that same beneficiary country of that product suffer a decrease of 20 % or more.

3. Extensions

For cocoa butter and soluble coffee, no change is made in the current arrangements as approved by the Council last year.

As for textiles, the negotiations (in the context of the Arrangement concerning international trade in textiles (the Multifibres Agreement) have not yet been concluded. However, the results of those negotiations will constitute one of the key elements governing the setting up of an effective Community policy for the textiles sector, including the part covered by GSP. For this reason the Commission is not able at the present time to submit to the Council appropriate proposals concerning those textiles covered by GSP. It reserves the right to do so as soon as it possesses enough information to evaluate the overall situation in this sector. Should the negotiations in the framework of the multifibres agreement not be concluded in ^{the} next few months, a transitional solution could be foreseen for 1975. This would consist in extending the current GSP arrangements throughout 1975 for textiles as a whole, together with a uniform and fixed increase of 5 % in the ceilings and tariff quotas.

IV. Presentation of the Draft Regulations and of the Draft Decision

The manufactured industrial products subject to tariff quotas, except textile, jute and coir products, are treated under Draft Regulation No 1.

All other manufactured industrial products (except textile, jute and coir products) whether or not subject to the special observation system, are treated under Draft Regulation No 2.

Cocoa butter and soluble coffee are dealt with in Draft Regulation No 4, preserved pineapples in No 5 and raw tobacco of the "Flue-cured Virginia" type in No 6.

Other processed agricultural products coming under OCT chapters 1 to 24 are dealt with in Draft Regulation No 3.

ECSC products come under Draft Decision No 1.

The individual ceilings and the amounts of the individual maximum shares for products subject to the special observation system, contained in Draft Regulation No 2 and Draft Decision No 1 are not mentioned separately in these proposals. They will appear in a detailed list to be sent to the customs authorities of the Member States at a later date. In this context, it can be recalled that the Council did not agree last year to the publication of ceilings and individual maximum shares even in the case of the limited list of textile products.

The Commission reserves the right to make a proposal for a Regulation on jute and coir products at a later date to take account of the special problem of the alignment of the new Member States' duties on the GSP duties.

V. Supplementary measures

The preferential advantages granted would benefit from being better known, better understood (as far as their effects are concerned) and from being better exploited. A greater knowledge of their effects in the various economic sectors of the Community would permit, inter alia, the appropriate measures to be taken to avoid disturbances of all kinds and, by the same token, to win over the confidence and the support of the private sector which as a whole has taken a rather guarded stance on the issue of generalized preferences. A more thorough understanding of the possibilities offered by GSP to developing countries would certainly stimulate the expansion of private investment in particular in these countries. A more systematic approach directed towards exporters, in particular those from the least advanced countries, aimed at creating a better awareness of the advantages to be gained from the Community's scheme, would undoubtedly attract their active interest and thereby improve the use made of generalized preferences.

The Commission firmly intends to continue its efforts so that the generalized preferences scheme may be better understood, better appreciated, better utilized and may receive greater support.

1. Collection and use of statistical data

In its proposals made last year (COM(73) 1800 final) the Commission announced the setting up, thanks to the help of the Member States, of an elaborate data collection system for statistics on preferential imports. This system will shortly be in operation. The Commission hopes that by the beginning of 1975, it will be in a position to make practical use of all the data gathered during 1974. The Commission's aim in this field is to arrive at a situation in the near future where it is possible, on the one hand, to evaluate as accurately as possible the effects of the preferences on economic activity in the Community, sector by sector, and on the other hand, to measure their impact on the trade-flows between the Community and the beneficiary countries, taken individually and as a whole.

In the immediate future, at any rate, the Commission hopes that this data collection system will enable it to give accurate replies to the requests made by the European Parliament which, inter alia, asks the Commission to

provide with a minimum of delay the figures requested, which should also take into account the impact of any proposed changes to the Common Customs Tariff on the Community's own resources. (1)

2. Research into the creation of a documentation, study and advisory agency on generalized preferences

The Commission departments receive daily requests for information from industry, importers and consumers in the Member States as well as from the beneficiary countries and their exporters. These questions cover a wide variety of fields directly or indirectly related to generalized preferences: information on the workings of the Community scheme, how to conclude a contract which takes into account the individual maximum share, the ceiling, a.s.o, how to allocate or even obtain all of the benefits accruing from the suppression of the customs duty, what is the outlook for the preferential market for given products, addresses of suppliers and importers, a.s.o.

The Commission staff cannot meet all these requests, since they are not equipped to answer such questions, many of which involve specialized commercial knowledge and even market research in preparation for investment decisions. In any case this is not the role of the Commission staff which, moreover, in order to give adequate answers to such questions would have to abandon their impartial and reserved attitude which is the sine qua non of their mission.

For these reasons, the Commission proposes to explore the possibility of encouraging - and even sponsoring - the creation of a private, non-profit making agency whose role it would be to provide documentation, information, research, and advice on any problem related to generalized preferences. Its task would be to help industrialists, investors, importers, consumers and researchers in the Community as well as producers and exporters in the beneficiary countries, on any problem concerning generalized preferences.

The Commission reserves the right to keep the Council informed of its thinking on this matter and where necessary, to present suitable proposals to the Council.

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(1) cf. Resolution of the Parliament dated December 1973, mentioned on page 7

3. Assistance given to beneficiary countries to improve the use made of the preferences

During the last meeting of the UNCTAD Special Committee on Preferences, the help given in this area by the Commission to the beneficiary countries in its information operations and seminars was recognized as fruitful. It was fully appreciated by the beneficiary countries themselves and by the Director of the UNCTAD/UNDP Project on "Training and Advisory Services on the GSP". The spokesman for ASEAN, His Excellency Mr. Brillantes (the Philippines Ambassador) even pointed out that thanks to this assistance the members of ASEAN were able to increase their exports to the Community.

The Commission confirms its intention to continue this assistance, and its desire to give priority status henceforth to the "countries most seriously affected" by the economic crisis and the least advanced countries.

The Commission also confirms its readiness to offer the necessary facilities to enable the UNCTAD/UNDP Programme to hold a seminar lasting three or four days for about thirty people, in Brussels, in 1975.

The Commission is also prepared to examine the possibility of meeting the costs of publishing, in several languages, a pamphlet prepared by the UNCTAD/UNDP project on the Community's GSP.

The Commission firmly intends to take all the necessary steps to assist the beneficiary countries towards a more intensive and judicious use of the preferential advantages offered by the Communities.

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The Commission is convinced that the proposals it is submitting to the Council for 1975 form a coherent and well-balanced whole.

The proposed improvements are balanced in themselves first of all (widening on the range of products covered, reduction in the tariff quotas, introduction of the "reserve", improved allocation of the advantages between beneficiary countries) and secondly in relation to the limits which the present situation imposes on the Community. These improvements and re-adjustments are in line with the practical and progressive considerations

on which the Community's policy on generalized preferences is based.

Supplementary measures are also planned in support of this policy. The Commission recalls once more that the preferences granted will not fully achieve their aim without continued and intensified efforts in other areas. For many developing countries will only be able to stimulate their industrialization process and their exports if a parallel effort is made in terms of increased financial and technical aid from the developed countries. This statement has often been made but it assumes a particular importance at the present time in the case of the countries most seriously affected by the economic crisis and in need of emergency aid.

In any case, the Commission wishes to stress the fact that generalized preferences constitute a fundamental instrument of development cooperation, one which has the advantage of bringing out clearly the solidarity, not to say the interdependence, which exists between nations. It is this solidarity which makes it possible for advantages, burdens, and in the final instance responsibilities, to be distributed with the aim of achieving the best possible result.

ANNEX I

Concessions proposed by the Commission for a certain number of processed agricultural products, under the conditions mentioned in Chapter III, paragraph 1, page 10

CCT heading No	Description	Rate of duty
09.04	Pepper of the genus 'Piper' ; pimento of the genus 'Capsicum' or the genus 'Pimenta' : A. Neither crushed nor ground : I. Pepper : b) Other	8 %
15.07	Fixed vegetable oils, fluid or solid, crude, refined or purified : C. Castor oil : II. Other D. Other oils : I. For technical or industrial uses other than the manufacture of foodstuffs for human consumption: a) Crude 1. Palm oil ex 3. Other - Cabbage-palm oil..... -Coconut oil II. Other : a) Palm oil : 1. Crude b) Other : 2. Solid, other ; fluid : ex aa) Crude - Cabbage-palm oil - Coconut oil	2,50 u.a. per 100 kg 1.15 u.a. per 100 kg 1.75 u.a. per 100 kg 1.75 u.a. per 100 kg 1.70 u.a. per 100 kg 3.50 u.a. per 100 kg 3.50 u.a. per 100 kg

The proposed rates may be adjusted subsequently in order to take into account the particularities of trade in these products.