

European Communities

EUROPEAN PARLIAMENT

Working Documents

1975-1976

10 October 1975

DOCUMENT 285/75

Report

drawn up on behalf of the Committee on Development and Cooperation

on the proposals from the Commission of the European Communities to the Council (Doc. 179/75) for regulations on the application of generalized tariff preferences in 1976

Rapporteur: Mr W. DONDELINGER

PE 41.637 fin.

By letter of 30 June 1975, the President of the Council of the European Communities requested the European Parliament, pursuant to Articles 43 and 113 of the EEC Treaty, to deliver an opinion on the proposals from the Commission of the European Communities to the Council for regulations on the application of generalized tariff preferences in 1976.

At the European Parliament's sitting of 7 July 1975, the President of the European Parliament referred these proposals to the Committee on Development and Cooperation as the committee responsible and to the Committee on External Economic Relations, the Committee on Agriculture and the Committee on Economic and Monetary Affairs for their opinions.

On 17 September 1975, the Committee on Development and Cooperation appointed Mr Willy Dondelinger rapporteur.

It considered these proposals at its meeting of 29 September 1975.

At the same meeting, the committee unanimously adopted the motion for a resolution and the explanatory statement.

Present: Miss Flesch, chairman; Mr Deschamps and Mr Knud Nielsen, vice-chairmen; Mr Dondelinger, rapporteur; Mr Bersani, Sir Geoffrey de Freitas, Mr Härzschel, Mr Radoux (deputizing for Mr Corona), Mr Seefeld, Lord St. Oswald, Lord Walston and Mr Zeller.

The opinion of the Committee on Economic and Monetary Affairs and the Committee on Agriculture are attached.

The opinion of the Committee on External Economic Relations will be published separately.

C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	7
Opinion of the Committee on Economic and Monetary Affairs	17
Opinion of the Committee on Agriculture	26

The Committee on Development and Cooperation hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council for regulations on the application of generalized tariff preferences in 1976

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council¹;
 - having regard to the communication from the Commission of the European Communities to the Council on the future development of the Community's generalized tariff preferences scheme (Doc. COM(75) 17 final);
 - having been consulted by the Council (Doc. 179/75);
 - recalling its resolutions of 6 October 1970², 9 June 1971³, 13 December 1973⁴, 12 July 1974⁵, and 17 October 1974⁶;
 - having regard to the report of the Committee on Development and Cooperation, and the opinions of the Committee on External Economic Relations and the Committee on Agriculture and the Committee on Economic and Monetary Affairs (Doc. 285/75);
1. Feels that in view of the continuing deterioration of the present economic situation in the Community, the proposals for the generalized tariff preferences scheme in 1976 represent a realistic effort;
 2. Recommends therefore, once more, that the Commission of the European Communities should intensively continue its efforts to make the preferential advantages available more generally known, in particular by submitting proposals on the establishment of an agency to provide documentation and information;

¹ OJ No. C 205, 8 September 1975, p.2

² OJ No. C 129, 26 October 1970

³ OJ No. C 66, 1 July 1971

⁴ OJ No. C 2, 9 January 1974

⁵ OJ No. C 93, 7 August 1974

⁶ OJ No. C 140, 13 November 1974

3. Encourages the Commission to intensify its efforts to provide information to economic and social interests in the Community on the substance and long-term strategy of the Community's policy on generalized tariff preferences, which presupposes that the Commission itself has full information on the real application and the impact of the system of generalized preferences;
4. Hopes that the use made of the system will also be improved by extending the list of products for which reserve shares are constituted in the Community tariff quotas such an extension would by its very nature improve the functioning of the Customs Union;
5. Draws the Commission's attention to the need to review the criteria for determining beneficiary countries, on the understanding that the only countries that may benefit from generalized preferences are those which are still indisputably developing countries;
6. Invites the Commission of the European Communities to submit concrete proposals on the re-adaptation and restructuring of the sectors and regions affected by the measures taken in favour of developing countries;
7. Welcomes the Council's decision of 3 March 1975 to continue the preferential system beyond 1980 and to improve and extend it;
8. Stresses in this connection the growing need to coordinate the different systems of generalized preferences so as to distribute the burden and the advantages in a more balanced manner;
9. Welcomes, in particular, the intention to increase the advantages granted to the least developed countries, and approves the measures already taken in this connection for 1976;
10. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities and, for information, to the Secretary-General of UNCTAD.

EXPLANATORY STATEMENT1. Introduction

1. In accordance with the Council resolution of 27 June 1974¹, the Commission of the European Communities put forward its proposals on generalized tariff preferences for 1976 before the 1975 recess. This report contains your committee's opinion on these proposals. It will also take into account the communication from the Commission to the Council of 3 February 1975² on the future development of the European Community's generalized preferences. The European Parliament has never been asked for its opinion on that document on which the Council - with a haste quite untypical of that institution (probably explicable by the desire to make a gesture of goodwill before the British referendum) - adopted an initial resolution only a month later. In view of the fundamental ideas expressed by the Commission in its communication your committee will also give that document its attention.

2. The proposals for 1976 must be considered against the background of an economic situation in the Community which is still deteriorating. Trade policy measures in favour of developing countries which could easily be supported by industry and agriculture a few years ago, have, with unemployment rampant in many sectors of the economy and profit margins dwindling, come to be seen in a totally different light. While the Community has played a pioneering role in the field of generalized preferences, there is a growing feeling that more even distribution of responsibilities between the countries granting preferences and increased coordination could make the burden easier to carry. There is also the view that the Community can only afford tariff preferences in favour of developing countries if its own prosperity is secure. In principle, whenever the Commission puts forward proposals having financial implications for the Community, it also gives an estimate of the cost. In the absence of exact statistics on the real effect of the advantages conceded, however, as the Commission notes in the explanatory memorandum to Doc. 179/75, (p. 12), it is still not possible at the present stage to undertake even an approximate estimate of the losses of customs revenue resulting from the implementation of the system of generalized tariff preferences. Your committee feels that this last circumstance greatly complicates its task of giving a well-founded opinion on the Community's system of generalized preferences.

¹OJ No. C 79, 8 July 1974, p. 1.

²Doc. COM(75) 17 final

11. Generalized preferences as an instrument of development cooperation

3. The objective of generalized tariff preferences is to bridge the gap between the industrialised and developing countries. The intention is that generalized preferences should provide developing countries with easier access to the industrialised markets. This cannot be achieved by generalized preferences alone; a complete range of measures is needed to ensure that real advantage can be taken of the preferences granted. The developing countries must be helped to find markets for their products. This can be done through consumer guidance in the industrialised countries, information for exporters and importers on the operation of preferential schemes, market research in the industrialised countries, technical assistance with the organisation of trade fairs, promotion of economic diversification in the developing countries, aid for regional integration of countries, training in marketing techniques, etc.

4. Although the Commission is unable to state the exact financial cost of its proposed preferences scheme, it does indicate the amount recipient countries could export to the Community if they took full advantage of the preferences. The Commission estimates that the proposals for 1976, if adopted, will enable the beneficiary countries to export agricultural products to the Community on preferential terms to a value of 850 million u.a. for 1976. In the case of textiles, quotas and ceilings for approximately 75,000 metric tons will be opened, while for products other than in the textile sector there will, moreover, be quotas and ceilings to a value of 2,650 million u.a. At first sight, these figures may seem overwhelming, in particular when compared with the corresponding figures for the first year in which the Community applied a generalized preferences scheme. The Commission estimates, however,¹ that the possibilities resulting from the preferences granted will cover only a little more than 10% of the Community's imports from all third countries on which duty is paid. It also estimates that, in general terms, only about 50% of the preferences granted will actually be taken up. This means, therefore, that only 5% of Community imports fall under the preferential scheme. Your committee feels that these figures, which it realises should be treated with some caution, are an important factor in assessing the Community's preferences system.

¹Doc. COM(75) 17 fin. (p. 4)

5. It might seem therefore that the volume of products imported on preferential terms is so small - compared with the development level of the Member States - that implementation of the scheme should present no difficulties. Difficulties arise because it is precisely those sectors which are most deeply affected by the economic crisis that are most vulnerable to the effects of preferential imports. This applies above all to the textile and footwear industries and, to a lesser degree, to certain agricultural production sectors. The system introduced does in fact include provisions to limit preferential imports of such 'sensitive products'. But given that these are precisely the products developing countries are most able to export, this has been a serious drawback to the effectiveness of the preferential system.

6. The Commission is well aware that development cooperation must not be at the expense of the welfare of certain sectors of the Community's population, whose own living standards are not particularly high. Your committee has made this point repeatedly. It is generally agreed that the development strategy of the industrialized countries can only continue on the same scale if the distribution of the burden can be improved both externally, i.e. among the different groups of industrialized countries, and internally, i.e. among the different sectors of population in a country or groups of countries.

As regards the first aspect, it has long been a thorn in the flesh of most countries offering a preference scheme that the United States still grants no preferences. The biggest economic power in the world is, however, expected to introduce a scheme in the very near future. State-trading industrialized countries such as the USSR do not grant preferences. This is usually justified by the argument that present day inequality is the result of the colonial activity of the other industrialized states and therefore something for which they are not responsible. This kind of cynical attitude amounts to complete neglect of economic reality and is irrelevant to the existing differences between countries.

As regards the second aspect, it is not enough simply to state the position, a start must be made on improving it. Your committee feels that it is up to the Commission to submit proposals in this connection as soon as possible; these might include measures on the readaptation and restructuring of particular undertakings and regions. If there is to be a serious effort to achieve an international division of labour, such measures will be essential. Your committee feels that all aspects should be considered in close connection with the Community's regional policy.

7. The effect of the generalized tariff preferences has, to a large extent, been cancelled out by the world-wide financial and economic chaos of the last few years. The effect of raising the ceiling by, say, 15% per year, is completely nullified if, at the same time, the inflation rate is the same or even higher. As long as the industrialized countries, which still have the final say in organizations such as the IMF, do not succeed in improving matters, the developing nations will continue to be frustrated in their efforts to increase their share in world trade.

The proposals for 1976 are described by the Commission itself as a 'coherent, balanced and realistic whole'¹. The Commission notes, however, that the proposals involve only a modest improvement. Your committee appreciates that it would be unrealistic of the Commission to propose a significant increase in the preferences in the present economic situation and in the absence of the abovementioned measures to bring about a more even distribution of the burden. If the position of the developing countries is to be improved, the first objective should be more efficient use of the possibilities of the Community's system of preferences. Optimal use would double preferential imports. A 100% improvement achieved in this way would mean much more to developing countries than the mere raising of preferential import possibilities by 5% per year, as is the usual practice. The Commission stated a year ago that it was prepared to put forward proposals that could help the beneficiary countries achieve better results. These included the measures listed below relating to better utilization and control of the preferences scheme and corresponding improvements in its content.

The Commission mentions in this connection (Doc. COM(75) 17 final, p.4):

- the publication of information on the development in the use of preferences,
- the editing of a handbook which would need to be regularly brought up to date,
- the organization of seminars for the benefit of private sector users of the preferences both within the Community and in the beneficiary countries,
- the establishment of an agency to provide documentation, information and advice and certain trade promotion activities which would need to be agreed with the beneficiary countries,
- supplementary measures to simplify the scheme and to streamline those procedures whose complexity in themselves limit its full use,
- active and continuing cooperation between the national administrations and Commission officials, particularly in the area of statistics,
- improvements in the procedures for taking decisions on the working of the scheme.

8. Your committee feels that since only half the possibilities for preferential imports are being used, the above measures, which have its approval, should be officially drawn up and implemented as soon as possible. It regrets that the

¹ Doc. 179/75, p.10

Commission, which had already made some of the abovementioned proposals when submitting the scheme for 1975, has still not found an opportunity to submit them officially to the Council. It urges that this should be done as soon as possible, in particular with regard to the establishment of an agency to provide documentation, information and advice.

As regards the inclusion of primary products in the generalized preferences system, the Commission proposes that a dogmatic approach should be avoided. Your committee is in complete agreement. It believes that if special measures are to be taken in favour of the poorest developing countries, they should, above all, include preferences for primary products, in particular agricultural products. Clearly, longterm arrangements for primary products should be made under world agreements, but your committee feels that it would be unrealistic and far too optimistic to delay improvements in the preferences scheme pending successful (multilateral) trade discussions.

9. Your committee agrees with the Commission's proposals for improvement and adaptation of the preferences scheme in the period 1975-80¹. It notes with satisfaction that in the proposals for 1976 a start has already been made with implementing the above-mentioned proposals. In particular, efforts to give the poorest developing countries an extra advantage must be fully supported. It also asks for attention to be given to the Commission's programme for assisting the industrialization programmes of regional economic groupings. As noted by the Commission on the last page of the explanatory memorandum to doc. 179/75, only a token entry has been made for this purpose. Your committee fears that this way of doing things will cause the original intention to be lost sight of and it would be grateful if the Commission would state in concrete terms what action it intends to take.

10. The most important result of the talks held by the Council on 3 March on the Commission document on the future development of the preferences system was the decision to continue it beyond 1980. Your committee fully approves this intention, the more so since the Council stated on the same occasion that it was prepared to continue to make gradual improvements in the generalised preferences scheme. It points out, however, that the decision, taken with exemplary speed by the Council, to continue the generalized preferences further underlines the need for coordination - both as regards the content of the scheme and the principle of continuing it as such - between the different countries offering preferences. Your committee makes this observation in the hope of averting subsequent criticism of continuing the preferences scheme after 1980 on the grounds that the Community cannot carry the burden alone.

III. THE PROPOSALS FOR 1976

11. These have been made against the background of the present economic situation in the Community. This means, as the Commission itself states, that the improvements are relatively modest. On the principle that the poorest developing countries should be given extra advantages, the following improvements are proposed:

(a) Processed agricultural products

In general, duty on all agricultural products subject to generalized tariff preferences will be reduced by 10%. Exceptions apply to castor oil and coconut oil for industrial use (no reduction) and to raw 'Virginia flue cured' tobacco (for which a new tariff quota of 36,000 metric tons will be opened which represents a 20% increase). The arrangements for tinned pineapples remain provisionally unchanged. When the regulation on the common

¹See doc. COM(75) 17 final, p.6

organization of the market in tinned fruit comes into force (one of whose aims is to support pineapple production in overseas departments) the previous offer will still stand. This means that there will be a 10,000 metric tons increase in the tariff quota for tinned pineapple other than in slices and a 28,000 metric ton tariff quota at a preferential duty of 15% will be opened for tinned pineapples in slices.

The arrangements for soluble coffee and cocoa butter remain unchanged. The same applies to pepper and certain tropical vegetable oils. The Commission had already proposed to the Council in June 1974 that, in conjunction with the entry into force of the relevant provisions of the Lomé Convention, tariff preferences should be accorded for these products. Both came into force on 1 July 1975. This involves imports to a value of approximately 120 million u.a. (from non-Lomé Convention countries).

12. The proposed improvements are not particularly impressive but it is satisfying that they will be a particular advantage to countries that are in real need of extra help, such as, for example, India, as regards tobacco. In order to give the poorest countries some extra help, a small number of new products originating in the poorest countries have, moreover, been included in the generalized preferences scheme. These include products such as freshwater aquarium fish, urad, gram, tur and papad, none of which competes with production in the Community or in the ACP states and which the otherwise highly enterprising European agricultural community has not yet got round to producing. Your rapporteur can hardly imagine that Community consumption of these agricultural products, which he has mostly never heard of, can have reached large proportions.

(b) industrial manufactured products

13. Improvements in this sector include, in particular:

- a flat rate increase of 15% on all tariff quotas and ceilings for finished industrial manufactured products other than textiles and ECSC products. Exceptions apply to a number of wood products for which the proposed increase is 5%, tennis rackets (20%), shoes, radio and television receivers, diodes and transistors (all 8%).
- textile products

Pending the outcome of negotiations on, in particular, jute and coir products and the bilateral negotiations under the Multifibers Agreement, the existing regulation will be extended. The tariff quotas and ceilings in force in 1975 will be increased by 5%. Guatemala,

Paraguay and Haiti, which have already agreed to respect undertakings similar to those given under the former long-term agreement on international trade in cotton textiles, will be added to the list of beneficiary countries. With regard to Hong Kong and its biggest importer of textiles products, Britain, the arrangements proposed are more political than economic. Because of the situation in the textile industry, the advantages accorded by the Community to the developing countries are less than would normally be the case: of the 1,200 million metric tons of textiles which the Community imports annually only about 75,000 metric tons, or just over 6%, will be imported under the generalized preferences scheme.

- ECSC products

A flat rate increase of 15% is proposed for these products.

In view of present inflation rates, the above increases should not be regarded as particularly impressive. The Commission states (see p.5) that, for technical reasons and for reasons of principle, it is out of the question under the present circumstances to attempt to establish a strict correlation between the rate of increase of the level of ceilings and that of inflation in the various Member States of the Community. Your committee can appreciate the technical difficulties more than it can the principles applied by the Commission. According to the Commission's calculation, the flat rate increase is based on an actual incidence varying between 11% and 22% of an overall 40% increase in prices between 1972 and 1973, the reference year for calculating the additional amounts. This means that inflation will, broadly speaking, cancel out the effect of the proposed increase. The Commission states in its proposal that it is suggesting this method of calculation and this percentage as an experiment. Your rapporteur would very much like to know what the Commission means by this.

14. The European Parliament has been advocating for years the introduction of a Community reserve for products to which tariff quotas apply. Tariff quotas are fundamentally in conflict with one of the basic ideas of the Community market. Your committee therefore regrets that the proposed improvement in this respect is so small. Only in respect of two new tariff items, both relating to travel goods, have Community reserves been proposed. It is also proposed to increase the total additional shares which the Member States may draw on the reserve by 40% to 50%.

It should be noted that under the special provisions for the poorest countries, Pakistan and India are given some extra advantages (tennis rackets and hand-knotted carpets).

15. The list of beneficiary countries remains unchanged except for an adaptation to the new legal status of some of the 'countries and territories'. This means therefore that the Commission - like the Council - has taken no account of point 6 of the resolution adopted by the European Parliament on 17 October 1974¹ in which the European Parliament states that it 'Considers it essential to review the criteria for deciding which countries should benefit from the system and declares that the only countries that may benefit immediately from generalized preferences are those which are still indisputably developing countries'.

The Commission has been commendably prompt in submitting its proposals for 1976 to the Council. The only disadvantage is that on certain points (rules of origin, possible establishment of a documentation centre and so on) it has not yet been possible to submit any proposals. As already noted your committee therefore looks forward with interest to proposals in this connection.

IV. CONCLUSIONS

16. Your committee feels that the proposals from the Commission for 1976 can be regarded as satisfactory. They make allowance for the poor economic situation in the majority of the Member States, one effect of which has been that unemployment is higher in precisely those sectors (such as the textile and footwear industries) which are more subject than others to the repercussions of the Community's development policy.

Your committee feels that in the circumstances it is more than usually urgent to achieve greater coordination of the different schemes without delay. This could involve easing the work of the administrative authorities in the beneficiary countries (most preferential schemes are so complicated that a large number of developing countries are unable to use them fully) as well as achieving a better distribution of the burden among the countries granting preferences.

17. A serious effort must ultimately be made to achieve a better distribution of the burden within the Community. Measures must be taken to prevent the burden of the Community's development policy from falling again and again on the same Community population groups and regions. For this purpose, funds should be approved, for example, not only under the Community's regional policy, but also under its development policy. Your rapporteur can see no objection to, say, drawing funds for the restructuring of particular sectors which incur special difficulties as a result of development policy, from funds available for development aid. All aspects of the matter should of course be coordinated at international level.

¹OJ No C 140, 13 November 1974, p. 43

18. The Community has decided, rightly in the opinion of your committee, to continue its preferences scheme after 1980. For psychological reasons alone it would be unacceptable not to maintain at least the existing system. It can also reasonably be expected that, in accordance with the Council resolution of 3 March, the scheme will be improved and extended. Your committee welcomes this. It fears, however, that if the European Community continues its pioneering work in this field, certain difficulties will be unavoidable unless other major industrial powers such as the United States, the Soviet Union and China agree to accept part of the burden in proportion to their world position and responsibilities. International discussion of this aspect must be continued and intensified. The existing system would also achieve better results if the procedures were considerably simplified. The Council resolution of 24 June 1974 lays down a number of measures that could be taken to simplify the work of the customs authorities in the Member States.

Your committee is not convinced that all the possibilities for improving the existing situation indicated by the Council in its resolutions are in fact being used. It would welcome the Commission's opinion.

19. A final assessment of the Community's generalized tariff preferences scheme will only be possible when more statistical information is available on the actual use made of the preferential advantages. The European Parliament has already expressed regret several times at the lack of statistical information essential for reaching a well-founded opinion on the repercussions of the scheme on trade between the Community and developing countries. This is all the more important in that the European Parliament cannot get a clear picture of the effects of the system on the Community's own income. Nor can it be stated exactly which developing countries - and why - are not getting the full benefit of the advantages granted. Your Committee would appreciate it if the Commission would try to collect the necessary statistical data.

The proposed measures aimed at protecting the poorest countries seem to your committee rather deficient. If experience in fact shows that the adjective 'deficient' is appropriate in the circumstances, consideration should be given to creating a special category of least developed countries which would be given exclusive advantages. For the most part, advantages are still being granted erga omnes and only the specific trade pattern in a given product enables particular countries to draw special advantages from the preferences granted.

In conclusion, your committee feels that, with its proposals for 1976, the Commission has, under the present circumstances, made a reasonably successful attempt to maintain the Community's position as world-leader in the field of generalized preferences.

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman : Mr A. VAN DER HEK

On 20 March 1975 the Committee on Economic and Monetary Affairs appointed Mr Van der Hek draftsman.

It considered the draft opinion at its meeting of 15 September and adopted it by seven votes to one with four abstentions.

Present: Mr Leenhardt, chairman; Sir Brandon Rhys Williams, vice-chairman; Mr Van der Hek, draftsman; Lord Ardwick, Mr Burgbacher, Mr Lange, Mr Leonardi, Mr Mitterdorfer, Mr Normanton, Mr Scholten, Mr Starke and Mr Suck.

Amendments to the draft report on generalized preferences

1. The economy of the European Community is very closely linked with that of other countries and regions. The European Parliament has therefore repeatedly emphasized that it attaches great importance to the smooth functioning and further expansion of world trade.
2. In the opinion of the Committee on Economic and Monetary Affairs, the recession currently affecting the world economy is a further reason for stimulating international trade. Increased liberalization and harmonization of the remaining measures obstructing trade could help to achieve this aim. That is why the committee attaches great importance to international agreements in this field and the success of the GATT multilateral trade negotiations.
3. Besides the European Community's need for a well-ordered liberalization of world trade in general, the Committee on Economic and Monetary Affairs underlines the need to grant developing countries increased preferential access to the Community market on a non-reciprocal and non-discriminatory basis. The committee feels that its views in this connection are endorsed by Mr McNamara, President of the World Bank, who announced at the annual meeting of that institution that on the whole developing countries were suffering more than the industrialized countries from the current economic recession and that the development prospects of many developing countries would be appreciably increased if industrially developed countries were prepared to give them wider export opportunities by removing obstacles to trade in their favour.
4. The Committee on Economic and Monetary Affairs has always supported the policy objective outlined in the final communiqué of the 1972 Paris Summit Conference, namely that the generalized, non-reciprocal and non-discriminatory tariff preferences in favour of developing countries should be considerably improved. The committee notes that since 1972 the European Community has succeeded in improving every year the terms of its preferential programme.
5. Nevertheless the Committee on Economic and Monetary Affairs believes it right that the Commission of the European Communities should, at the request of the Council of Ministers, devote more fundamental studies to the future development of the system of generalized preferences.
6. In the opinion of the Committee on Economic and Monetary Affairs, although such studies by the Commission represent a valuable contribution, they are incomplete in a number of fields.

- The committee points out firstly that the preferential system constitutes a justified exception to GATT's most-favoured-nation principle. While believing that the regulatory effect of the GATT on international trade relations is undeniably positive, the committee finds it regrettable that there are no provisions in GATT enabling the contracting parties to jointly assess the nature, volume and application of the tariff preferences and to subsequently reach decisions by which the contracting parties would be bound. The absence of such provisions in GATT becomes more noticeable as differences occur between:

- (a) the preferential systems applied by the industrially developed contracting parties;
- (b) the level of and capacity for development of the developing countries and the importance of their foreign trade in this connection.

The matter is complicated by the fact that, in addition to the system of generalized preferences, the European Community has granted or wishes to grant special preferences to the ACP and certain Mediterranean countries. The trouble with these special preferences, established for various reasons is that it is not clear which economic and commercial criteria should constitute the basis for their integration in the GATT system, with its generally non-reciprocal and non-discriminatory preferential system, as a recognized exception to the rule.

The Committee on Economic and Monetary Affairs considers it important that a solution to these problems be found within the framework of the GATT multilateral trade negotiations.

- Secondly, the Committee on Economic and Monetary Affairs shares the view of European trade in general that the current system of Community preferences is so complicated as to have become almost impossible to apply. The present system, involving different 'cut-offs' for each developing country and different tariff quotas for each product and each European market, has shown itself to be impractical.

7. The Commission is now also putting forward proposals on the application of the generalized tariff preferences for 1976. The Commission admits that the 1976 proposals represent only 'a modest, but significant, improvement'. The present-day economic recession and the allied difficulties in certain weak sectors makes it necessary for the Community to adjust the rate of development of the system of generalized preferences in accordance with the economic difficulties of the moment. The present crisis is, however, not only due to short-term economic factors but also to structural factors which can only be solved by implementing the necessary structural changes. The structure of world demand has changed and in future it will be oriented more towards investment goods. The establishment of a structural

programme is, therefore, an urgent necessity. This programme should also make due allowance for the sectors which cover the activities of the primary processing stage of raw materials. The competitive capacity of these sectors in the industrialized countries has in most cases been greatly reduced to the advantage of the developing countries. Support measures for these sectors in Europe and customs arrangements, however, make the creation of the processing industries desired by the developing countries more difficult. Moreover the support given to these European processing industries is very often detrimental to sectors with future potential. Bearing in mind the friction which these structural changes will bring, supplementary social and regional measures should be taken. Implementation of these necessary structural changes would bring an enormous increase in the possibilities open to the Community to expand and improve the system of generalized tariff preferences and support the industrialization of the developing countries.

8. The proposed changes are limited broadly to a supplementary linear reduction of 10% in GSP duties for some agricultural products, a new tariff quota for raw 'Virginia flue-cured' tobacco - mainly in view of India's economic difficulties - a flat-rate increase of 15% for all tariff quotas and ceilings for industrial manufactured products other than textiles, with the exception of a number of special products, the extension for 1976 of the advantages accorded under the GSP in 1975 for jute and coir products and for the other textile products pending the completion of all negotiations on agreements concerning these products and an increase of the tariff quotas and ceilings applying to these products of 5%, the introduction of a reserve in the tariff quotas for 2 products and an increase in the total additional shares which Member States may draw on the reserve from 40 to 50%. There are also a small number of special measures proposed for the industrial sector in favour of the poorest countries.

9. It would be impossible to call the proposed measures large-scale. Moreover, the proposed increase in ceilings and tariff quotas should be interpreted with due circumspection. The proposed increase of 15% in ceilings and tariff quotas for industrial manufactured products other than textiles simply maintains earlier advantages in view of the level of inflation, whilst the proposed increase of 5% for textile products amounts to a reduction. There is no point in concealing the stagnation or regression of advantages accorded by the Community to developing countries as part of GSP by nominally increasing ceilings and tariff quotas. The latter, and increases to them, should be expressed realistically in terms of volume rather than value: this is a matter of urgency. Opinions differed on the advisability of making a real improvement in the Community offer and it was not possible to express a unanimous opinion on this.

10. In view of the restricted possibilities open to it at present, the Commission wishes to concentrate its efforts on increasing exports from the poorest countries and implementing systematic measures to encourage better use of the advantages provided.

11. So far the GSP has worked mainly in favour of the more developed countries which are beneficiaries under the system. These countries are, after all, the best organized to be able to fulfil the somewhat complicated formalities required with regard to the origin of the goods. The result of this is that a large number of countries and areas eligible for preferences do not use them. The information dissemination projects required to ensure better use of the system must, therefore, be aimed mainly at the less developed countries.

12. In the system for agricultural products in particular the more developed countries are at an advantage since there is no provision in the case of agricultural products that one single beneficiary may only take a certain percentage (buffer supply) of the ceiling fixed for a certain product.

On the other hand in the case of industrial products for which there are tariff quotas and ceilings the advantage to the more developed countries is restricted by the use of 'buffers'; a beneficiary country may not take more than a certain percentage of the allotted tariff quota or ceiling. In this connection last year's decision to lower 'buffers' for a number of products to 15% has helped to spread the advantages of the preference system. However, there is no point in this at all if the supply of such goods is spread over a large number of countries, one or more of which may be favoured by certain factors such as geographical situation, to the detriment of others which are consequently not able to use the system. However this reduction of 'buffers' should not lead to less use of the system. So those countries who may start exporting under the system as a result of the reduction of 'buffers' supplies should be given sufficient information on the formalities to be completed so that these formalities do not in any way curb their desire to make use of the system. Conversely in cases where the offer of a certain product is concentrated in a small number of the poorest countries, an increase in the 'buffers' may provide a real support for their economy. Seen in this light the increase in the 'buffers' for certain hand-knotted carpets from 20 to 40% and the increase in the 'buffers' for tennis rackets from 30 to 50% represent support measures for the Indian and Pakistan economies respectively.

Even if positive action is taken on the basis of these remarks, it does not mean that the criticism expressed by trade circles and mentioned in paragraph 6 should be disregarded. It will eventually be necessary to simplify the Community system.

13. Recent economic developments have increased the diversity of developing countries using the preference system. Certain countries have such a high GNP that the granting of GSP advantages can only be justified by the fact that these countries do not export the goods which would qualify for the preference system; at the same time the difficulties of the countries of the Fourth World have increased considerably. In this connection it is to be regretted that the Commission has postponed drawing up a new list of beneficiary countries based on objective economic criteria until after 1980. Selective application and exceptions for the poorest developing countries are necessary pending the review of the list of beneficiary countries.

14. So far in fact only approximately 50% of the ceilings and quotas have been utilized. Better use of the present system would in itself create new possibilities for the beneficiary countries.

The main measures for better utilization of the system are the provision of the necessary technical support for completing administrative formalities, the simplification of these formalities as far as possible, the extension of the cumulative system as regards origin and the institution of a Community reserve for products to which tariff quotas or ceilings apply.

15. In order to prevent countries for whom the measures are not intended taking advantage of the system, rules of origin have been established which necessarily require fairly complex administration. Investigations must, however, be made as to how this rule can be simplified. Efforts should also be deployed at international level to establish uniform arrangements for the various donor countries. This in itself would greatly simplify matters for the beneficiary countries.

16. With a system of cumulative origin, the beneficiary countries can naturally increase their exports. It also helps their regional integration. The institution last year of a partial cumulative origin system for three regional groups is a positive measure in this connection. Measures to expand this cumulative origin system can only be welcomed.

17. The institution of Community reserves makes for better utilization of the tariff quotas and ceilings. A start was made on this last year by instituting limited reserves for a number of products.

For 1976 it is proposed to add two new products to the list of products for which a reserve has been instituted. The Committee on Economic and Monetary Affairs urges further progress on the number of products in respect of which reserves apply and the volume of the reserves. The lack of a Community reserve does after all contradict the basic principles of the Common Market. It is unacceptable that importers in one country should have less opportunity to import goods under the preferential system (since the quota for their country has been fully used) than importers in other countries.

18. Certainly in the present circumstances the Community cannot continue to maintain a policy of generalized preferences if it is not in a position to keep a close watch on the results of this policy for its own economy. The European Parliament has already expressed the desire¹ that the Commission should draw up statistics showing especially to what extent revenue from customs duties has been reduced as a result of the application of generalized preferences and to what extent the multinational undertakings benefit from these preferences.

19. Better integration of the various forms of Community policy is required if the generalized preferences system is to work properly. The Commission therefore quite correctly recommends that an operational link should be forged between this system and the industrial policy, social policy and regional policy with the aim of averting or overcoming any negative consequences the preferences may have on economic efficiency and employment in certain weak areas or sensitive sectors.

20. The beneficiary countries hope that basic agricultural products will be incorporated into the generalized preferences system. Here, the Commission must naturally be careful not to adopt an excessively dogmatic attitude, but as long as world markets are not better organized it can do little more than make slight, cautious changes at the moment.

21. Although the European Parliament has always attached importance to the application and expansion of the system of generalized preferences it is now more than ever evident that all the industrial countries must bear their share of our joint responsibility towards developing countries

Happily, Canada started applying the system on 1 July 1974 and the United States recently established its own generalized preferences. There will, however, only be equitable sharing of responsibilities and genuinely

¹See report by Mr Kaspereit, Doc. 285/74, p. 25

effective mechanism for the countries concerned when the donor countries have successfully harmonized the margins of the preferences accorded, the list of products to which they apply, the safeguard clauses and rules on origin. In the Commission's proposals insufficient stress is put on the necessity to achieve greater agreement in this area in the near future.

Conclusions

The Committee on Economic and Monetary Affairs:

- has taken note of the Commission's proposals relating to the Community programme for 1976 under the system of generalized preferences and to the future development of this programme;
- recommends that the Community programme for 1976 in respect of textiles should constitute a genuine improvement on 1975;
- recommends that the Community programme for 1976 in respect of the remaining industrial products should constitute a genuine and balanced improvement for all favoured countries, which implies reconsidering the 15% flat-rate increase in ceilings and tariff quotas, taking into account the evolution of the volume of imports from third countries during the most recent period on which the Community can be held to be reasonably informed;
- recommends that the programme for agricultural products (Chapters 1 to 24 of the Brussels Nomenclature) be revised with a view to incorporating in it as many products as possible which are important exports for the developing countries. Tropical agricultural products in particular should be considered for importation at zero rate;
- recommends an increase in technical aid to developing countries with a view to improving their awareness of the opportunities provided by the present Community programme under the system of generalized preferences;
- expresses the view that the system of generalized preferences in favour of developing countries can contribute to economic expansion and improvement of the conditions under which world trade takes place provided that it continues to meet the objective economic and trade policy criteria to be formulated and applied within GATT.
- therefore recommends that the necessary steps be taken within the context of GATT to arrive at this situation, which is indispensable if the system of generalized preferences is to be an effective instrument;
- recommends further that better utilization of the present system, by simplifying and expanding it, be encouraged;

- considers it unfeasible to assess fairly the effect of the system of generalized preferences without making allowance for its repercussions on the Community's economy, particularly in view of present economic insecurity and difficulties;
- points out that in order to avert or remove any possible negative effects of the generalized preferences system on economic efficiency and employment in certain weak areas or sensitive sectors in the Community the industrial, social and regional policies of the Member States must be integrated more effectively.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman : Lord ST. OSWALD

The Committee on Agriculture appointed Lord St. Oswald draftsman.

It considered the draft opinion at its meeting of 3 and 4 October 1975 and adopted it by ten votes to three with four abstentions.

Present: Mr Houdet, chairman; Mr Vetrone and Mr Laban, vice-chairmen; Lord St. Oswald, draftsman; Mr Baas, Mr Boano, Mr Della Briotta, Mrs Dunwoody, Mr Frehsee, Mr Früh, Mr Gibbons, Mr Hansen, Mr Howell, Mr Hughes, Mr Kofoed, Mr Liogier and Mrs Orth.

The purpose of the Commission's proposal

1. This proposal from the Commission contains the Community's offer of generalized tariff preferences to be granted to developing nations in 1976 (COM(75) 280 final).

This proposal is to be considered in the light of the Commission's communication to the Council concerning the future development of the European Community's generalized tariff preferences (COM(75) 17 final).

Generalised Tariff Preferences

2. The European Economic Community was the first to introduce a system of generalized tariff preference, in 1971, following the request of the developing nations at the UNCTAD Conference in New Delhi in 1968.

Since that date generalized preferences have been introduced by eight other countries, and the United States envisages introducing such a scheme in the near future¹.

3. Lists of products to be covered by generalized tariff preferences, together with the tariff reductions offered, are drawn up on an annual basis.

The first list introduced by the Community was a modest one, comprising products to a value of 30 million u.a. in the agricultural sector; that for 1975 is worth 400 million u.a.

4. 1980 marks the end of the initial ten-year period for which generalized preferences were envisaged. It is evident that generalised preferences will not have achieved their original purpose by that date; consequently, a further period is envisaged.

5. Since the introduction of generalized preferences in 1970, the economic and political relationships between the various regions of the world, and particularly between Europe and the Middle East, have changed, in some cases radically.

Therefore, a period of reflection is required, to examine the purpose of generalized preferences, together with modifications which may prove necessary to the implementing provisions.

¹ See Annex for further details on the various national schemes.

Necessity to develop trading capacity of developing nations

6. The increase in oil prices has hit developing nations particularly severely since oil and oil based products, such as fertilisers, form a relatively larger part of their import bill. The extra demands on their foreign currency reserves has made it far more difficult to finance imports required for development, particularly in this time of inflation. Therefore, these underdeveloped countries require more trade to pay for development needs. Indeed, for a long time 'rather trade than aid' has been their slogan.

The least developed nations

7. Special attention should be paid to the least developed nations (those whose GNP per capita is \$85 per annum or less) situated mainly in Asia (and in particular Afghanistan, Bhutan, Laos, Maldure Islands, Regal Sikkim and Yemen) and Africa (particularly Ethiopia, Guinea and the Sudan).

Clearly, the Community's efforts should be directed more specifically to aiding these countries. However, many of these nations lack the administrative infrastructure to make proper use of the Community's offer. Therefore, in the selection of products to be placed on the list, those benefiting these nations should be given priority, and the administrative procedures simplified wherever possible.

List of products proposed for 1976

8. Faced with these two imperatives - the need for caution imposed by the Community's economic difficulties and recognition of the necessity to develop trade with developing nations - the Commission has taken a middle road, proposing for 1976 a modest improvement in the Community's effort, with special attention being paid to the needs of the least developed nations.

9. This improvement is based primarily upon increasing the margin of preference, rather than adding further products to the list.

The main proposal of the Commission consists, therefore, of a linear 10% reduction in the Community's existing offer (with the exception of oil and cocoa oil intended for industrial use).

10. The number of new products proposed are extremely limited, and are intended to help the least favoured nations. They are : tonquin beans, aquarium fish, certain shrimps and prawns, urad, gram, tur, mangousteens and papad.

11. There is to be no change in the tariff regime :

- for those products subject to special preferential systems, soluble coffee, cocoa butter and tinned pineapple;
- and for those products included in July 1975, pepper and certain vegetable oils.

12. Finally, the Commission proposes to open a new tariff quota for raw tobacco of the Virginia flue-cured type of 36,000 tonnes. This represents a 20% increase over that for 1975 and can be justified by the fact that it helps in particular the least favoured nations, such as India.

Safeguard measures

13. It should be recalled that basic agricultural products are not covered by preference schemes; reductions are granted only on processed agricultural products.

Moreover, countries benefiting from preferences are situated mainly in tropical regions, so their produce does not compete directly with that originating in the temperate regions of the Community.

In the past, no serious disturbances to the Community market have been caused by products on which preferences have been granted.

For 1976, the last proposal contains only a limited number of new products and it cannot be anticipated that these will result in problems for Community or ACP producers :

- tonquin beans, aquarium fish, certain shrimps and prawns, urad, gram, tur, mangousteens and papad.

14. If imports under the preference scheme should disturb the market of a member country of the Community, there is a general safeguard clause which allows for the reintroduction of the tariff in question.

15. In addition, sensitive products are subject to tariff quotas : for each of these products a fixed quantity of imports only are admitted on the preferential terms; their total quantity is then divided among the Member States according to their normal imports in previous years. This is the case with Virginia tobacco imported from India (which is intended principally for the United Kingdom market),

Observations

16. As in previous years, this proposal for the Community's offer of generalized preferences for 1976 improves upon that in force. However, for 1976, this improvement is envisaged in the form of a 10% increase in the margin of preferences, rather than in an increase in the number of products covered. The list of preferences in force for 1975 has not led to disturbances in the Community market; it cannot be envisaged that this proposal will do so.

17. In 1975 preferences in the agricultural field cover about 400 million u.a. of imports. These figures are relatively modest compared to the Community's overall trading balance. There are improvements to be made.

These may be in terms of additional products to be covered by the preferential scheme. But improvements should also be directed to increasing the effectiveness of preferences already accorded.

Countries benefiting from generalised preferences

18. The Committee on Agriculture, in opinions drawn up by Lord St. Oswald and Mr Cifarelli, has drawn attention on several occasions to the need to revise the list of countries benefiting from preferences¹.

The list of developing countries benefiting under the generalized tariff preferences (given in Annex B of the Commission proposals) reveals two groups of countries whose special characteristics call for particular comment.

- (a) The rich oil states of the Middle East - Kuwait, Bahrain, Libya, Qatar, Saudi Arabia and certain members of the Union of Arab Emirates - could be considered to be more in a position to grant aid than requiring special assistance for development.
- (b) Between the European Community and the state-trading countries of Eastern Europe included on the list of developing countries - Roumania and Yugoslavia² - a delicate commercial balance exists, often maintained by barter arrangements produced in very hard bargaining, which could be disrupted by a unilateral grant of preferences on the part of the Community. Moreover, discrimination exists as between the countries of Eastern Europe : Roumania and Yugoslavia have been accorded generalized preferences, and Bulgaria, Hungary and Poland, which export important quantities of processed agricultural goods to the Community, have not.

19. The list of countries to benefit from preferences cannot, and should not, be altered in its main lines, being influenced by political considerations and largely reflecting the decisions of UNCTAD.

¹ Doc. 272/73, p. 35.

² Yugoslavia is not considered as a state-trading country by the Commission, but this is a question open to debate.

The Commission¹ stated that this is an extremely sensitive issue. It would be extremely unwise, of course, to deliberately politicize this issue by including political criteria for inclusion amongst the beneficiaries. On the other hand, the system will be undermined if relatively developed nations are not excluded, since these nations gain a disproportionate share of the trade created by preferences. It is up to UNCTAD to set its house in order by revising conditions for inclusion within the group of '77'. But if it fails to do so, the European Community, in cooperation with others granting preferences, should come to grips with this problem in the near future.

Future development of generalized preference scheme

20. The Commission stresses, correctly, in its Communication to the Council² that a period of reflection and reassessment is required in the development of the Community's policy of generalized preferences. Such a breathing space is imposed :

- by the restraints placed on the ability of the EEC to help developing countries in the difficult economic climate;
- by the fact that the present scheme will not have achieved its aims at the end of the initial ten-year period envisaged;
- and by the necessity to ensure that instruments employed aid those most acutely in need.

21. This pause should not signify, however, a standstill in the development of the preference scheme but rather that a sense of responsibility is kept in mind by all countries involved : those granting preferences, those receiving preferences, as well as the newly emerging centre of economic strength, and in particular the oil producers.

22. The future development of the preferential scheme should be based clearly on the increasing interdependence of the world economic system : there can be no stable economic growth without balanced economic growth between those with varying levels of economic development.

23. In particular, the generalized preference scheme should be placed within a broader framework of complementary policies : to promote trade, stabilise commodity prices, encourage the diversification of developing economies, assist regional integration in Africa and Asia and stimulate investment in developing countries. It is especially important that newly wealthy countries, and in particular the oil producers, be encouraged to invest in the developing countries.

¹ COM(75) 17 final, p. 3.

² Communication to the Council on the future development of the Community's generalized preferences (COM(75) 17 final)

The Community has taken the lead in the past and should maintain its efforts so as to encourage others to renew and diversify their efforts.

24. Such policies need not be detrimental to the European agricultural producers. Just the contrary. European agriculture is becoming increasingly dependent on its exports to ease internal disequilibria between supply and demand. It should become increasingly possible to develop long term exports on a contractual basis, particularly of cereals and dairy produce, to developing countries. Recent talks with Algeria and Egypt have demonstrated the possibilities. The countries, however, must be aided in economic development if their potential as importers of Community produce is to be realised.

25. One further point is of critical importance. It has been stressed above that a sense of responsibility must be maintained by all the countries concerned. This must extend to the developing countries themselves. A certain trading discipline must be maintained. Unreasonable increases in exports to the Community, particularly dumping, and excessive price increases in essential primary products must be avoided if the Community is to continue its own economic growth which alone will allow the Community to maintain its efforts to help the developing countries.

26. This sense of responsibility must be upheld within the Community itself, implying that Community solidarity be defended. Any region or sector must be compensated for any possible loss incurred in terms of economic activity or employment, either through modifications to the common organisation of the market in the principal agricultural sectors, or through the application of the Regional and Social Funds.

Conclusions

27. The generalized preferences proposed by the Commission represent a modest increase on the scheme presently in force. In particular, only a limited number of products (not offering competition to Community producers) have been added to the list of products.

Consequently, the Committee on Agriculture believes that it can approve this proposal.

28. The Committee on Agriculture points out that a qualitative rather than quantitative improvement of the preferential system can be achieved in four ways:

- (a) by revising the list of countries benefiting from preferences;
- (b) by ensuring that preferences are directed more towards helping the least developed nations;
- (c) by helping to achieve increased use of preferences offered through improved information, trade promotion and the simplification of administrative procedures;
- (d) by improving decision-making procedures to ensure that technical problems are eliminated with the minimum of delay.

29. The Committee on Agriculture feels that the possibility should be considered of importing tropical agricultural products at the zero rate.

30. The Committee on Agriculture would like to emphasize furthermore the need to compensate any region within the Community or any sector of agriculture which should be adversely affected in the future by the granting of preferences :

- either by means of direct financial compensation by modification to the common organisation of the market in question¹;
- or through the Regional and Social Funds.

¹ See for example : Doc 128/75 Annex, opinion of the Committee on Agriculture on arrangements applicable to agricultural products originating in the ACP countries.

GENERALIZED PREFERENCES

ANNEX

Characteristics of principal schemes in agricultural sector

	Entry into force	Products	Volume (m.u.a.)	Reduction	Safeguards	Beneficiaries
EEC	1.7.1971	187	400	partial reduction processed products	safeguard clause tariff quotas & ceilings	UNCTAD Group of 77 ¹ , Roumania and OCT
Austria	1.4.1972	113	86	partial reduction certain tropical products exempt	non-automatic safeguard clause	Group of 77, Bulgaria, Israel, Malta, Portugal, Roumania, Spain, Taiwan, Turkey and dependent territories
Canada	1.7.1974	45	30 ⁽²⁾	exemption for 24 products	can be withdrawn from any country	Group of 77, Belgium, Malta, Roumania and Turkey
Finland	1.1.1972	43	5 ⁽²⁾	exemption for all products	safeguard clause	Group of 77, dependent territories, N. Korea and N. Vietnam
Japan	1.8.1971	72	200 ⁽²⁾	partial reduction exemption for 22 products	no tariff quota	Group of 77, Belgium, Greece, Israel, Malta, Mongolia, Portugal, Roumania, Spain, Taiwan, Turkey and Hong Kong
New Zealand	1.1.1972	49	not stated	exemption for 12 products	safeguard clause	Group of 77, Greece, Israel, Malta, Spain, Taiwan and Turkey
Norway	1.10.1971	61	3 ⁽²⁾	exemption for all products	safeguard clause	Group of 77 and dependent territories
Sweden	1.1.1972	47	15 ⁽²⁾	exemption for all products	safeguard clause	Group of 77, dependent territories, N. Korea and N. Vietnam
Switzerland	1.3.1972	76	35 ⁽²⁾	most products exempt	safeguard clause	Group of 77, Greece, Malta, Spain, Turkey, Hong Kong and Macao
United States	to be fixed	to be decided	145 ⁽²⁾	duty free entry envisaged	safeguard clause	Developing countries

¹ The '77' are in fact more than 90.

² Approximate figures