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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. 254/77) concerning regulations relating to the application for the year 1978 of the generalized tariff preferences of the European Community

Rapporteur: Miss C. FLESCH

PE 49.985/fin.

By letter of 18 August 1977 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 43 and 113 of the EEC Treaty, to deliver an opinion on the proposals from the Commission of the European Communities to the Council concerning regulations relating to the application for the year 1978 of the generalized tariff preferences of the European Community.

On 6 September 1977 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 Agriculture, the Committee on External Economic Relations and the Committee on Economic and Monetary Affairs for their opinions.

On 21 September 1977 the Committee on Development and Cooperation appointed Miss Flesch rapporteur.

It considered the draft report at its meeting of 28 September 1977 and adopted it unanimously.

Present: Mr Bersani, acting chairman; Mr Lagorce and Mr Sandri, vice-chairmen; Mr Broeksz, Lord Castle, Mr Dewulf, Mr Dondelinger, Mr Glinne, Mr Jakobsen, Mr Lezzi, Mr Martinelli, Mr Nolan and Mr Price.

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

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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 concerning regulations relating to the application for the year 1978 of the generalized tariff preferences of the European Community

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council (COM(77) 330 final);
 - having regard to the Communication from the Commission of the European Communities to the Council on the future development of the European Community's generalized tariff preferences (COM(75) 17 final);
 - having been consulted by the Council pursuant to Article 43 and 113 of the EEC Treaty (Doc. 245/77);
 - referring to its resolutions of 6 October 1970¹, 9 June 1971², 13 December 1973³, 12 July 1974⁴, 17 October 1974⁵, 16 October 1975⁶, and 14 October 1976⁷;
 - having regard to the report of the Committee on Development and Cooperation and the opinions of the Committee on Agriculture, and the Committee on Economic and Monetary Affairs (Doc.302/77);
1. Regrets that compared with 1977, the Community's offer of generalized preferences for 1978 is very modest in extent and shows no significant improvements;
 2. Recognizes that the Commission's proposals had to be fixed at a relatively low level because of the persistent difficulties in the Community's economic and social situation but fears that the planned increase will not even be sufficient to compensate for the monetary depreciation caused by inflation;
 3. Considers this situation all the more serious because the system of preferences supplements the Convention of Lomé and is a decisive instrument in the Community's development policy; is aware, however,

¹OJ No. C 129, 26.10.1970, p.13

²OJ No. C 66, 1.7.1971, p.15

³OJ No. C 2, 9.1.1974, p.55

⁴OJ No. C 93, 7.8.1974, p.91

⁵OJ No. C 140, 13.11.1974, p.42

⁶OJ No. C 257, 10.11.1975, p.30

⁷OJ No. C 259, 4.11.1976, p.27

that substantial increases are only possible if the other donor countries make similar efforts and are prepared to accept greater responsibility;

4. Welcomes the inclusion of a further eleven processed agricultural products in the system of preferences, but considers this offer inadequate and therefore calls on the Commission to review its proposal, since past experience has shown that the import of these products, which originate mainly in tropical countries, causes virtually no disturbance on the EEC market and is of particular advantage to the industrially backward developing countries;
5. Notes with satisfaction that the Commission wishes to constitute 20% reserve shares, of sensitive products, which will facilitate exports from the developing countries to the EEC;
6. Supports the arrangements proposed by the Commission according to which the poorest countries will not be required to reintroduce duties if they exceed the ceilings for semi-sensitive and non-sensitive products and considers this the only substantial improvement in the 1978 system of preferences;
7. Requests the Commission to draw up the rules of origin in the simplest possible terms since excessively complicated provisions adversely affect the system of preferences;
8. Urges the Commission to open negotiations at world level with a view to amending the list of beneficiary countries, because the developing countries which have reached an adequate level of competitiveness enjoy an excessive share of preferential trade, thus distorting the purpose of the system of preferences;
9. Deplores the fact that in the last few years the available preferences have been utilized only to some 60% and this to the disadvantage of the poorest countries;
10. Hopes that, in the competent international negotiating bodies, the Community will propose all necessary measures to achieve harmonization of the various preference systems, since this would result in a qualitative improvement of the system;
11. Requests the Commission, when submitting its proposals for 1979, to report on how the Community should implement the proposals regarding generalized tariff preferences which were adopted at the North-South Conference in Paris;
12. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities and to UNCTAD.

EXPLANATORY STATEMENT

1. A preferential tariff is a tariff rate which is lower than the most-favoured-nation rate; it may even be a zero rate. The generalized system of preferences which was ultimately agreed at the 1969 UNCTAD at the request of the developing countries was and is the expression of a change in the principles of world trade carried out for the benefit of the 'third world'. Without any reciprocal concessions, the industrialized nations agreed to grant preferences which would be totally non-discriminatory. These non-reciprocal and non-discriminatory preferences were to assist in the attainment of three objectives: an increase in the export revenue of the developing countries, the promotion of their industrialization and an acceleration in their economic growth rate. The generalized tariff preferences were also to contribute towards the gradual adjustment of economic relations between the industrialized nations and developing countries so as to create a more balanced and harmonious relationship between the north and south, corresponding to present conditions. These three objectives, laid down in 1968, appear somewhat outdated today, because although they include such important aspects as industrialization and acceleration of economic growth they take no account of such significant areas as the promotion of agriculture, family planning, redistribution of income, creation of employment and land reform, all of which are of fundamental importance for a successful development policy.

2. However, the generalized system of preferences which the third world ultimately achieved in 1969 after years of negotiations and by which it set great store was from the outset limited in its practical implementation. Its duration was limited to ten years (the GATT waiver expires on 25 June 1981) and it was not binding. Moreover, although the system of preferences was accepted in principle in February 1968, no practical measures were taken to implement it before July 1971. Each industrialized nation was free to designate the products and beneficiary countries which were to enjoy tariff preferences. Apart from this, this system was not to hamper further tariff reductions through new multilateral negotiations. Tariff preferences were to be extended to the largest possible number of processed agricultural products from chapters 1-24 of the CCT and to industrial semi-manufactures and manufactures from chapters 25-99 of the CCT. However, it is common knowledge that some export products which are important for the developing countries were excluded from this arrangement; many agricultural products were even excluded from the system by a number of industrialized nations in an effort to protect their own agriculture. The question thus arises as to whether the generalized system of preferences can be described as 'generalized' or even as a 'system'.

3. It is greatly to the credit of the European Community that on 1 July 1971 it became the first group of industrialized nations to put the generalized system of preferences into effect. Since then, the Community has improved the system each year and constantly extended its scope. It may even be said that compared with the other industrialized nations, the Community has been the pioneer in this field. Above all, it made every effort to regard the generalized preferences not merely as a limited trade measure but also as a component part and instrument of its general development policy. However, it must be noted that the Community system itself contains some restrictions. Maximum import amounts (ceilings) were fixed, and the import of 'sensitive' products, i.e. goods which compete directly with domestic products, was limited by tariff quotas. Moreover, a theoretical ceiling of 50% of the total preferential imports of a product was fixed, above which no supplier may import at preferential rates, although in practice this frequently worked out at 20-30%.

4. Of the other major industrialized nations, Japan has applied a preference scheme since 1 August 1971 and has also improved it gradually over the past few years. The Canadian system came into force on 1 July 1974. The basis for the American system of preferences was laid in Title V of the new Trade Law of 1974. It came into force in January 1976. Australia has granted preferences for certain manufactured and processed products from the developing countries since 1966 and considerably extended its system of preferences on 1 January 1974¹. This demonstrates that of the leading industrialized nations in the world, the European Community and Japan have been applying this system of preferences for a longer period especially when compared with the economic might of the USA.

5. The Commission's proposals concern the regulations required to apply the generalized system of preferences for 1978 for processed agricultural products and industrial semi-manufactures and manufactures originating in developing countries. These draft regulations take account of the Community offer on generalized preferences made to UNCTAD in 1969. The proposals concern the detailed rules for applying the generalized preferences to a number of processed agricultural products of Chapters 1-24 of the CCT and to all industrial semi-manufactures and manufactures of Chapters 25-99 of the CCT. Iron and steel products covered by the ECSC Treaty are dealt with in special draft decisions opening tariff preferences in accordance with the same rules as those adopted for other industrial products, but without prejudice to the special administrative rules applying to ECSC products.

¹Other countries applying the GSP are: Austria, Finland, Norway, Sweden, Switzerland and New Zealand.

6. It is true that in the last few years the Community has regularly extended and improved its system of preferences. This continual improvement was decided in principle at the Conference of Heads of State or Government of the Member States and the States acceding to the European Communities held in Paris from 19 - 21 October 1972. At that time the Conference called on the institutions of the Community and the Member States to progressively adopt an overall policy of development cooperation on a world-wide scale comprising in particular the improvement of generalized preferences with the aim of achieving a steady increase in imports of manufactures from the developing countries.

7. In 1977 the Community raised its offer considerably, by 39%. But for 1978 the Community's volume will rise by only 2.5%, from 6,230 million u.a. to 6,400 million EUA¹ for preferential imports, an offer which can only be described as extremely modest. It is calculated so finely that in all probability it will not compensate for monetary depreciation caused by inflation. In its Communication to the Council, the Commission stresses that given the current economic situation in the Community, it is not possible to introduce new and substantial improvements into the GSP; this is principally due to the fact that the Community's industrialized partners have not made comparable efforts. It should be recalled in this context that the European Community's offer on tariff preferences is dependent on the clause which states that the Community drew up the offer on the assumption that all the major industrialized nations of the OECD would not only participate in granting preferences but also make comparable efforts. Parliament agrees with the Commission on this matter because in comparison with the previous year, the international and domestic economic situation has deteriorated rather than improved. In negotiating the new system of preferences, therefore, the interests of EEC producers as well as those of the ACP states must be balanced against the interests of those countries benefiting from the system of preferences. There is no doubt that the application of the EEC system of preferences has already led and can still lead to considerable competition for Community production in certain sectors. In the difficult economic situation, characterized by an extremely precarious employment situation in some of the Community's major industrial sectors and by drastic economy measures taken by the governments of the Member States, the public, especially the large number of unemployed, would hardly accept an increase in problems caused by exports

¹Pursuant to the Council Decision adopting the European Unit of Account (EUA) in 1978, in particular for the Common Customs Tariff, the EUA is used for the 1978 GSP instead of the previous u.a.

from the developing countries enjoying a greater measure of preferential treatment. In the final analysis such a policy would benefit neither the industrialized nations nor the developing countries. However, if the volume of preferential imports cannot be increased because of the difficult economic situation, Parliament must at least insist that concrete measures are taken to ensure that the fullest possible use is made of concessions already granted.

8. Of the total volume of 6,400 million EUA, 1,300 million EUA will be earmarked for agricultural products. The Commission proposal provides for the inclusion of 11 new agricultural products so that the preferential list now contains 307 products to a value of 1,300 million EUA, as against 1,240 million u.a. in 1977. Among the new products are horses for slaughter, certain kinds of crustaceans, dried garlic, tropical fruits and certain kinds of fruit and vegetables during the winter season¹. The trend in processed agricultural products within the framework of the generalized system of preferences over the past few years is shown in the following table:

<u>Year</u>	<u>Number of products</u>	<u>Value (in m u.a.)</u>
1971	147	22
1972	147	45
1973	147	65
1974	187	450
1975	220	600
1976	241	1,000
1977	296	1,235
1978	307	1,300

9. In 1977, the generalized preference scheme was significantly improved in the agricultural sector by a Community offer on tropical products made in the GATT multilateral trade negotiations. The 1977 GSP, compared with 1976, contains 46 new products and 70 improvements in the preferential limits resulting in an increase in the volume of imports from 1,000 million to 1,240 million u.a. The other industrialized nations have not made the same efforts as the Community and - as the Commission stresses in the proposals - it is consequently very difficult for the Community to make further concessions in view of the current economic situation.

¹ See Annex A to Doc. COM(77) 330 final of 29 July 1977, p. 113 ff.

The improvements in the agricultural sector for 1978 are concentrated in two areas:

- the inclusion of 11 new products and
- the inclusion of a limited reserve share in all the tariff quotas opened under the system of preferences for agricultural products so that the percentage of the import quotas can, where necessary, be increased.

The new products to be included in the proposed Community offer are processed products whose raw materials originate principally in the tropical countries or are delivered in winter. The experience of the past few years has shown that increasing the preferences granted to this kind of product will not lead to any major disturbance of the Community's agriculture or industry. However, there are no concrete references to this in the Commission's Communication. Parliament has already emphasized in previous opinions that the Community's efforts should in particular benefit the least developed countries which in general produce only agricultural products. Since in comparison with previous years the increase in the 1978 offer must be considered moderate, Parliament calls on the Commission to review its proposal once more to see whether it could not also include in the list those products which are mainly produced by the poorest countries and which do not compete with the Community's agricultural production. In this context it must be noted that the agricultural protectionism practised by the industrialized nations and in part any special preferences granted affect the export revenue of the very poorest countries since as a rule these have only one or two processed agricultural products to offer.

10. Out of the total volume of 6,400 million EUA, 5,100 million are provided for industrial semi-manufactures and manufactures of Chapters 25-99 of the CCT, compared with 4,990 million in 1977. For the GSP scheme as it will affect industrial products in 1978, the Commission proposes basically that the 1977 system should be retained, although with a number of improvements and administrative adjustments. In its proposal, the Commission notes expressly - and the European Parliament is in full agreement here - that the acceptance of an even greater burden resulting from generalized preferences presupposes a broader distribution of the costs among the industrialized nations which participate in the generalized system of preferences.

11. The generalized system of preferences authorizes the duty-free importation of all industrial semi-manufactures and manufactures without exception up to a fixed ceiling which is equal to the volume of imports from the beneficiary countries during one reference year together with an additional amount equivalent in principle to 5% of the imports from non-beneficiary countries i.e., the industrialized nations. In the 1978 system of preferences, the

reference year, 1974, remains unchanged. It is, however, to be welcomed that the 1975 statistics are taken into account for the calculation of the additional amounts, since, with the exception of textiles, this raises the ceilings for industrial goods. For those cases where the application of this rule would result in a lower ceiling, the existing ceiling is retained. On the other hand, for goods where the calculations result in an excessive rate of increase, the ceiling increases by a maximum of 50%. For some goods other than textile products - iron and steel and petroleum products, footwear and plywood - the ceilings remain unaltered at their present level, i.e. the status quo is maintained, because of the extremely difficult situation of these industrial sectors in the Community.

12. Although only a moderate increase in the volume of the generalized preferences is possible because of the difficult economic situation in the Community, the Commission nevertheless proposes two essential improvements which are of exceptional significance for the way the GSP functions. For sensitive goods, which have hitherto been subject to a tariff quota system, according to which they were allocated in national quota shares, arrangements have been made to build up a reserve share which should simplify the functioning of the quota procedure¹. In the industrial sector, the number of tariff quotas for sensitive products, for which a reserve share of 20% is laid down, is to rise from 6 to 12. Exceptions are tariff quotas for plywood, textiles and ECSC products. This Community reserve of sensitive products may be considered as a relief measure for imports from the developing countries into the EEC.

As regards the ceilings for semi-sensitive and non-sensitive goods, the Commission submits an important proposal that the least developed countries - i.e. those included in the list established by United Nations Resolution No. 3487 (XXX) of 12 December 1975 - should be exempt from reintroduction of the duty if they exceed the ceiling. In other words, the ceiling arrangement is waived. This represents a substantial improvement in the system of preferences as it affects the poorest countries and Parliament therefore calls on the Council to accept unconditionally this Commission proposal. In 1977 these countries received a duty exemption under the buffer arrangement (maximum exports which each beneficiary country could make: in general an additional 50% - in many cases - 20-30% of the ceiling). In 1977, under a special arrangement, 70% of the ceiling for a large number of textile products was reserved for these countries vis-a-vis the competitive countries.

13. The European textile industry has been in a serious crisis for many years now and it is this industrial sector which most fears the effects of the generalized preferences. It should be noted in this context, that the

¹ The GSP for industrial goods at present comprises 46 sensitive products, 131 semi-sensitive products and some 1700 non-sensitive products

Community's generalized system of preferences is the only one, apart from Japan's, which includes textile products in its list of generalized preferences. The Commission had always considered that special measures could be taken to avoid adverse effects on the European textile industry, although it cannot be denied that recently its difficulties have increased rather than decreased. For 1978, the Commission proposes maintaining the status quo in the textile sector, i.e. there can be no increase in the ceiling (except for carpets). Because of the continuing difficulties in the textile industry, this measure, seems justified especially as the outcome must be awaited of the negotiations for the renewal of the Multi-Fibre Arrangement. Major difficulties have arisen here and they will not be concluded before the end of the year. The Commission intends to establish a connection between the Agreement concluded in December 1973 on international trade in textiles (Multi-Fibre Arrangement) and the generalized preferences. This can only be described as a logical step.

14. The arrangements introduced in 1977 will be retained in 1978. There is no provision for the introduction of a reserve share in the tariff quotas for textile products. In 1977 the Commission had proposed increasing the ceiling by 5% compared with 1976. To simplify the textile arrangements, the remaining cotton and non-cotton textiles were treated identically and this led to a reduction and simplification in the regulations. For 28 sensitive textile products, two ceilings were introduced, one of 30% reserved for the most competitive recipient countries and one of 70% for the other recipient countries with a normal maximum of 50% for any one country. This proposal is to be warmly welcomed because it enables the poorest developing countries to make better use of the concessions granted by the Community. This restrictive attitude towards all competitive recipient countries in the Far East will also put an end to the previous unfair treatment of Hong Kong, because the other Far Eastern countries are also extremely competitive.

15. Two other proposed measures are worthy of mention: in return for the voluntary restraint agreements negotiated with India (jute and coir) and Bangladesh (jute), the tariff suspension accorded by the Community will be raised on 1 January 1978 from 80 - 100%, although originally, complete tariff suspension was not to begin until 1 July 1978.

It is proposed to extend to Romania the benefit of preferences for a number of additional products. In this way the Community recognizes the economic difficulties which that country is currently experiencing.

16. It is to be warmly welcomed that in response to a request from the European Parliament the Commission includes in its Communication an estimate of the reduction in customs duties attributable to the generalized system of preferences. The reduction in customs duties amounted to 257 m u.a. in 1976 and 300 m u.a. in 1977. Given that the overall value of the offer on generalized preferences under the 1978 scheme is being increased to 6,400 million EUA and that utilization should reach 55% of this amount, the Commission calculates a reduction in customs receipts for 1978 in the order of 304 million EUA on the basis of an average rate of 8.5% for the customs duties applicable. To this must be added further costs of various measures designed to increase the efficiency of the generalized system of preferences (information seminars in the developing countries and in Brussels, a documentation centre, publication of a guide (around 230,000 EUA) etc). These figures demonstrate that the concessions granted by the European Community under the generalized system of preferences are not inconsiderable.

In its Communication, the Commission rightly points out that these calculations are merely given as an indication of the order of magnitude and offer a point of reference. They would not normally be included in a financial statement requiring very accurate data. Parliament must therefore comply with the Commission's request to deal with these figures very carefully and not consider them as representing the definitive costs of the scheme of generalized preferences for 1978.

17. The definition of rules of origin is of great importance for the smooth functioning of the generalized system of preferences. The Commission proposes that the rules of origin in force for 1977, which had already been carried over from 1976, should be maintained in 1978. The Community system of rules of origin has the advantage of including the concept of cumulative origin. The positive effect of this rule is that it encourages regional integration between the beneficiary countries since the rules of cumulative origin stipulate that all the countries benefitting from the GSP form a single zone so that goods enjoying tariff preferences can include components originating in various countries belonging to 'common markets'. Cumulative systems exist, for example, for exports from 'common markets' such as Central America, the Andes group and the ASEAN countries.

The rules of origin in the Japanese system of preferences are less advantageous than those of the EEC because Japan excludes cumulative origin in granting preferences, i.e. for a certificate of origin for the concession of generalized preferences, all components of a product up to a fixed percentage of added value must come from the actual country of origin. In view of the importance of rules of origin for the functioning of the system of preferences, Parliament calls on the Commission to take all possible technical measures to improve the system, since technically complex rules of origin hinder rather than encourage trade.

18. In the context of rules of origin, it should be noted that they can also result in reverse preferences as, for example, in the Community and Japanese systems. This may be explained as follows: materials which are imported by the recipient countries from the EEC or Japan and processed there are subsequently treated as materials originating in the developing countries and the manufactures can be imported at a preferential rate into the country granting preferences. This measure cannot be considered as restrictive; rather is it equivalent to sharing the tariff advantages between the industrialized nation (increased sales) and the developing country which can enjoy preferential treatment for its exports.

19. It is extremely regrettable that the Commission's communication contains no proposals for amendment of the list of recipient countries. Parliament has repeatedly called for the list of favoured countries to be adjusted in order to prevent certain injustices. It has been an open secret for years that the list of countries enjoying generalized tariff preferences¹ includes some which have already attained a relatively high degree of industrialization and whose products are competitive. This undermines and distorts the generalized system of preferences because the most highly developed countries take a disproportionately high share of preferential trade in comparison with the poorest developing countries. From this angle, the United States' system of preferences seems more logical because it excludes, for example, the wealthy OPEC countries from preferential concessions. If one considers that the GSP was established to increase the volume of trade of the developing countries, then it is astonishing to find in the list of countries enjoying generalized tariff preferences names such as Bahrain, Iran, Yugoslavia, Kuwait and South Korea, to mention only a few. Amending the list of countries enjoying preferences is certainly a very delicate matter, since political considerations were doubtlessly an important factor when it was drawn up. However, this list could be revised on the basis of objective economic criteria. Given the statistical data which the Community has at its disposal, this should present no special difficulties. It would also be useful to amend the list of countries enjoying preferences in cooperation with UNCTAD, which largely influenced these decisions. Should UNCTAD not be prepared to cooperate with the Community here, consideration should be given as to whether a new list could be drawn up in conjunction with other industrialized nations which also grant concessions.

¹ See Annex C, list of developing countries and territories enjoying generalized tariff preferences (COM(77) 330 final, pp. 11 and 12)

20. In this context, countries with a fairly high degree of industrialization should observe a certain amount of trading discipline. In particular, excessive expansion of exports or dumping within the Community should be avoided otherwise the Community's economic power will be reduced as inevitably will also EEC aid for the poorest developing countries. The Community should also try to obtain from the beneficiary countries certain guarantees of stability and security of supply and investments. Moreover, granting trade preferences to those countries which do not respect the standards laid down by the International Labour Organization (ILO) for the protection of employees should be reviewed.

21. The figures submitted by the Commission over the last few years show clearly that the generalized preferences only partially achieve their objective because they mainly benefit only a small group of countries which have already reached a certain economic level and whose products are competitive on the international markets. Consequently, efforts must be stepped up to ensure that the preferences are of more substantial benefit to the least developed countries. The immediate priority is to differentiate between genuine developing countries and the 'pseudo-developing countries'. The particular difficulty here is to draw up objective criteria for a genuine developing country. The term 'under-developed countries' would indeed be more appropriate because strictly speaking the term 'developing country' could be applied to every country. For psychological reasons and in deference to national prestige, however, the term 'under-developed countries' is rarely used. The frequent equation: developing country = poor country is erroneous, since although developing countries are poor countries, poor countries are not always developing countries. In developing countries, the available productive forces are currently not being fully exploited: productivity is low and the per capita domestic product correspondingly low also. A higher domestic product could be achieved by the available productive forces if the ratio of the production factors to each other were not so disadvantageous i.e. a relatively large labour force and comparatively little capital. Under-development can be overcome if efforts are made to improve the ratio of the production factors. On the other hand, developed countries can still be poor because they lack productive forces even though the available resources are being fully exploited.

22. At all events, there is as yet no definition of the term 'developing country' which is valid in international law. Each nation is free to request generalized preferences as a developing country or to grant them to whichever country it chooses. Originally the system of preferences was intended for the 'Group of 77', but at present the countries enjoying trade preferences include some whose relatively high degree of development cannot be denied.

In the last few years, the disparities in economic structure, wage levels and availability of natural resources have become very marked even within the third world and may even vary considerably within one and the same country. More specific criteria relate only to the 25 poorest nations, known as the 'least developed countries.' They have an annual per capita Gross National Product of less than \$100 and industry accounts for less than 10% of the economy, in other words they are mainly agricultural countries with under 20% literacy¹.

23. It is therefore important for the EEC to be selective in its trade policy with the developing countries. Those which have a high level of industrialization, and some of whose goods are already competitive on the international market, must be treated as industrialized nations for certain products. For other export goods which are not competitive they could continue to be treated as developing countries and enjoy generalized preferences. But in the long run a blanket policy of granting generalized preferences to developing countries with relatively high competitiveness cannot be tolerated because of its effect on sensitive products and the increasing unemployment in certain sectors. There are already signs that some Member States are reacting against a blanket preference policy; some have already introduced import restrictions for sensitive products. In the long term such a policy may be dangerous for the developing countries and could jeopardize the trade policy pursued by the Community's Customs Union.

24. For this reason the Community should encourage the industries which are important for the domestic market of a developing country or for the regional market of a group of developing countries. From these industries which generally meet local needs and utilize the natural local advantages, there is generally a spin-off in the establishment of a number of smaller local industrial, craft and service industries, and this is favourable for a healthy development policy. A clear distinction must be drawn between such industries which are of use to the developing countries and those which are set up in certain developing countries with a view to exploiting favourable local conditions, in particular cheap labour, for the manufacture of goods to be exported subsequently to the industrialized nations. They have no connections with the domestic market, contribute nothing to the development of the country in question and benefit only the multi-national undertakings which act as both importers and exporters.

¹ These criteria were drawn up by the Development Planning Committee of the UN Economic and Social Committee; the relevant data is, however, very difficult to ascertain.

In the country in question, the products are processed so that they come within the generalized system of preferences. Once the Community has drawn up objective criteria, such products, which are geared to the needs of the multinational investors and hardly serve the development policy, must be treated as products originating in competitive industrialized nations and be subject to the Community's external tariff. The advantages offered by the Community's preference policy must be reserved for projects and products which promote development in the genuine developing countries. It is quite unrealistic to use the same commercial criteria when dealing with the poor developing countries and those which have already made progress. This unselective approach, which in tactical terms must be described as injudicious, also results in the trade unions and the governments in those Member States which are fighting large-scale unemployment problems showing increasingly less understanding of the need for development aid.

25. In the past few years the Community's preferences were only utilized to a relatively low level. For example, in 1974 they were utilized to 65%, in 1975 to 50% and in 1976 to 62%. The efficiency of the system of preferences can only be improved if the poorest developing countries are shown how to use more efficiently the advantages which their exports can theoretically enjoy. The Commission must therefore concentrate its efforts on helping the most backward developing countries to make better utilization of their preferences, in particular by simplifying the administrative procedure. It is unfortunately true that many administratively backward countries do not understand how to apply the system and there are importers in the Community who are not sure whether their goods come within the generalized system of preferences or not.

26. The Commission is proposing both qualitative and quantitative measures to increase the degree of utilization of the generalized tariff preferences over the next few years. The programme provides in particular for further seminar programmes in Brussels, Asia and Latin America with the aim of promoting meetings between business operators and stepping up its information efforts at sectoral level in certain beneficiary countries. Apart from this, the publication of a practical guide for the application of the generalized preferences, which first appeared in May 1977, is to be continued and extended.

27. The Commission's intention of arranging seminars, setting up a documentation centre and publishing a guide is useful and to be approved since it will help the developing countries to obtain more information on the scheme of preferences. However, we should be under no illusions that these measures alone will substantially increase the utilization of the scheme of preferences.

One essential cause of the low utilization of the available preferences is to be found in the complexity of the system. The general principles of the system which are basically simple and clear have with time become so encumbered with new machinery that in the last analysis, the existing system can only be understood and interpreted by experts. Examples of this are the fixing of maximum import values (ceilings), the limitation by means of tariff quotas and maximum import amounts. These advance limitations account for the fact that an average 40% of the quotas offered remained unused. Furthermore, various mechanisms are not made known by the Member States and are also administered in different ways. The best example of this is the maximum import amount. This was fixed in theory at 50%, but in practice at only 20-30% of the total preferential import of a product. Beyond this figure, no supplier could import this product under the system of generalized preferences. If the imports of the major supplier exceeded this amount, then the additional amount imported was taxed at the rate applicable under the most-favoured nation clause. This measure was intended to favour the smaller suppliers - in itself a good idea - but in practice it resulted in a handicap for the competitive main supplier. For example, a main supplier was allowed to supply only 20% in terms of value of the maximum import value or of a tariff quota with generalized preferences instead of the 80% of which he was capable. The smaller suppliers, however, could together supply only some 20% because of their lack of production capacity. As a result, 60% of the quota offered remained unused. There is another striking example of the inadequate utilization of preferences. The tariff quotas are allocated to the countries of the Community without any account being taken of their import capacities, officially so as to share equitably the costs of the preferences granted. But it has emerged that the Federal Republic and the Benelux countries, for example, have a much greater import capacity for goods coming under the system of preferences than the percentage allotted to them, whereas in the case of Italy and France the tariff quotas and maximum import values were not taken up. In simple terms that means that the beneficiary developing countries lost the benefit of that part which was not taken up. Often there were no provisions for a reserve allocation which could have increased the percentage of the import quotas. This complexity or rather illogicality of the system is the basic reason for the low utilization of the GSP. Parliament therefore calls on the Commission to concentrate its efforts on improving the generalized system of preferences in this area. The significance of seminars and information campaigns cannot be denied, but they cannot overcome the complexity of the system and certain defects.

28. The ACP States have had to share the special preferences granted to them for Community trade with the generalized system of preferences granted

to other developing countries. The ACP States have therefore frequently expressed their fears at meetings of the Joint Committee¹ and the ACP-EEC Consultative Assembly² and spoken of an 'erosion' of the advantages gained under the Convention of Lomé. It is indeed the Community's duty, when granting generalized preferences, also to maintain the concessions granted to the ACP countries and to take account of their legitimate interests. Before the Council takes a decision on the new generalized system of preferences for the coming year, discussions should be held with the associated states to examine any problems affecting particular countries and products. A declaration to this effect was included in the minutes of the Council Decision of 6 November 1975 when the decision was taken on the system of preferences for 1976, according to which, at the request of the ACP States represented in the bodies of the Convention of Lomé, these questions were to be discussed. The ACP-EEC Council has also decided to set up a Working Party to study the effects of the generalized system of preferences on the exclusive preferences granted to the ACP States.

29. With reference to the critical remarks made by the ACP States, it should be noted that the GSP has helped the associated states to find new outlets in those industrialized nations which also apply a similar system. The system of special preferences also offers greater advantages to the associated states than the generalized system of preferences. An UNCTAD report has also established that the application of a generalized system of preferences has not worked to the disadvantage of the ACP States; advantages and disadvantages have more or less balanced themselves out³. Here, too, it is pointed out that any losses from the previous exclusive preferences have been compensated by gains under the generalized preferences. Moreover, as regards preferences for which a uniform arrangement exists for all developing countries, the ACP States have obtained better results than the other developing countries vis-à-vis the EEC.

30. There can be no doubt that the Community must fully honour the commitments entered into by it under the Convention of Lomé. At the same time, however, the Community has the moral duty to contribute on a world-wide scale to the alleviation of suffering in the other developing countries, especially in Asia and South America. Both policies are important and complementary.

¹ See minutes of the meeting of 6/7 June 1977 held in Luxembourg, CA/CP/19, 5 July 1977

² See paragraph 15 of the Motion for a Resolution in the report drawn up by Lord REAY on the Annual Report of the ACP-EEC Council of Ministers (Doc. ACP-EEC 5/77) and on current problems connected with the Lomé Convention (CA 10/fin.), p.7

³ UNCTAD Report to the Special Committee set up to review the generalized preferences which met in Geneva from 27 June to 1 July 1977

By establishing the generalized system of preferences, the Community, after lengthy negotiations, gave a positive reply to the requests of the 'Group of 77.' Even if the ACP States have lost a few advantages, the Community must maintain the generalized system of preferences. However, Parliament calls on the Commission to submit figures during the next few months to show whether and to what extent the generalized preferences have adversely affected some associated states or certain products. Details should also be given as to how far discrimination has arisen between the ACP States and the other countries of Asia and Latin America which are included in the various preference systems.

31. If the generalized system of preferences is to function satisfactorily in the future, then the various systems applied by the donor countries must be harmonized; the varying principles complicate the system unnecessarily and consequently prevent the recipient countries from making full use of it. Moreover, only a uniform system can facilitate an effective division of costs which again is an essential precondition for the qualitative improvement of the preferences. Harmonization, which is in the interests of all participants, must extend to the selection of the recipient countries, the tariff concessions, the rules of origin and the other protective clauses. It is also important for the generalized preferences to be coordinated with the other common policies. This generalized system of preferences will only become fully effective when a connection is established with the industrial, social and regional policies; this will limit any adverse effects in certain sectors. The inclusion of the system of preferences with the other policy spheres is important for the Community and for the rest of the world.

32. The Community's generalized system of preferences is of great significance because it supplements the association policy embodied in the Convention of Lomé. It is, therefore, not only an instrument for trade policy but also a part of the Community's overall development policy. It is therefore important that the system be continually extended and improved and adjusted to the new requirements of the developing countries. The GSP has the special advantage of not only including the associated states but also developing countries in Latin America and Asia. In this way it can contribute towards the establishment of a better balance in economic relations between the northern and southern hemispheres.

33. A few critical remarks in conclusion: although the phrase generalized system of preferences is always used, the system is not generalized because the various systems of preferences applied vary widely. Nor can the Community's system be described as a universal system of preferences

but rather as a system which grants specific preferences to individual countries. This statement should not, however, lead us to believe that the preferential system is unimportant for certain countries and products. As stated at the beginning of this report, the generalized system of preferences has three objectives: an increase in export revenue, promotion of industrialization and acceleration of the economic growth of the developing nations. So far, these three goals of the GSP have not been attained globally. Either they were not attained at all or else their attainment cannot be ascribed to the application of the GSP. The Community should therefore explore every possibility of improving its system especially in terms of quality. Studies should be carried out to show how far the original aims of the system of preferences have been achieved. If its efficiency has not fulfilled original expectations then consideration should be given to the possibility of offering effective development aid to promote trade in the form of a direct capital transfer - i.e. a grant equal to the loss of revenue - or of cash for specific projects, its utilization to be supervised by the donor country. Such an arrangement would be administratively less complicated and therefore less expensive than the system of preferences. The developing countries would probably reject such earmarking and direct supervision and describe it as 'neo-colonialism.' However, this should not prevent us from giving some thought to the matter.

OPINION

of the Committee on Agriculture

Draftsman : Mr John CORRIE

On 20 September 1977 the Committee on Agriculture appointed Mr Corrie draftsman.

It considered the draft opinion at its meeting of 29/30 September 1977 and adopted it by one vote in favour and none against, with eleven abstentions.

The following were present : Mr Bourdelles, Acting Chairman; Mr Howell (deputizing as draftsman for Mr Corrie); Mr Albertini, Mr Andersen, Mr Dewulf, Mr Hansen, Mr Hughes, Mr Klinker, Mr Kofoed, Mr de Koning, Mr Lemp and Mr Ney.

Introduction

1. Each year the Committee on Agriculture is called upon to give its opinion on the Community's offer of generalized preferences to be granted to developing countries.

There is no necessity to go into a detailed history of the preferences system, except to state that the Community was the first to introduce generalized preferences in 1971, following the request of the developing countries at the UNCTAD Conference in 1968. The Community has played an important role in bringing about the acceptance of the generalized preferences system; preferences are now offered by Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland and the United States.

In the agricultural sector, the Community applies variable customs duty reductions without quantitative limitations, rather than duty free entry with ceilings as in the industrial sector. For a number of sensitive products, however, tariff quotas are employed : raw and unmanufactured Virginia type tobacco, certain preserved pineapples, cocoa butter and soluble coffee. A Community reserve has been included in these quotas.

1978 offer

2. Since 1971, the Community's offer has been progressively extended. The offer for 1978 in the agricultural sector has been improved but not dramatically.

The volume of trade covered for agricultural products will amount to 1,300 m. e.u.a.. This volume has developed in the following manner :

1971	22 m. e.u.a.
1972	45 m. e.u.a.
1973	65 m. e.u.a.
1974	450 m. e.u.a.
1975	600 m. e.u.a.
1976	1,000 m. e.u.a.
1977	1,235 m. e.u.a.
1978	1,300 m. e.u.a.

The Community's offer for 1978 includes eleven new products; there are no improvements for products already listed. The new products include : horses for slaughter and other horses, certain kinds of crustaceans and molluscs, dried garlic, limes, tropical fruit cocktails and certain kinds of fruit and vegetables during the winter season. 307 products are now covered on the agricultural list.

3. As in previous years, the Commission's offer includes a Community tariff quota for raw or unmanufactured Virginia type tobacco, which is of particular importance to certain less developed countries in Asia, such as Sri Lanka,

India, Malaysia, Pakistan and Singapore, thus taking into account the Joint Declaration of Intent signed with these countries in 1972.

The 1978 offer will also include, as in 1977, tariff quotas for cocoa butter and soluble coffee, and for preserved pineapples other than in slices, half slices or spirals. Shares are allocated amongst the Member States, with a Community reserve upon which Member States may call when their shares are exhausted.

These quotas are to remain unchanged at their 1977 levels.

4. The Committee on Agriculture has stressed in the past the necessity to develop trade with the developing countries which have suffered the effects of the world recession to a far greater degree than the industrialised countries. The products included in the Community's offer do not directly compete with those produced to a significant extent within the Community; and no serious problems have emerged in the past. The modest increase for 1978 should present no problem.

5. There are, however, a number of broader questions, not related to the specific content of the offer, to which attention should be drawn.

Multiplicity of agreements

6. The aim of the preferences system in the agricultural sector is not solely that of the GATT negotiations, i.e. to bring about a general increase in world trade, but also to allow one set of countries to increase its trade with the Community in relation to another set of countries; a substitution in import flows takes place for products generally not produced to a significant extent within the Community: certain varieties of limes may be imported from Mexico, for example, rather than from the United States. The Committee on Agriculture believes the preferential system to be valuable, but at the same time wishes to point out that the existence of more than one preferential system, however, may be a source of conflict between the Community and its various partners, if there is not sufficient consultation when one set of partners must accept a reduction in its preferential margin.

The Community, at some point, will have to face up to the problems of the growing multiplicity of concessionary agreements. There exists the Lomé Convention, generalized preferences, Mediterranean agreements and Association Agreements.

There clearly arises a question whether there should be much greater coordination of the concessions offered, particularly in view of the objections to the 1978 offer which have been made by the ACP countries. The ACP countries have seen their preferential margins undermined by the generalized preferences. Greece had strong reservations concerning the size of the tariff quota for tobacco, and at one time it seemed possible that she would place a veto, as is her right under the Athens Agreement.

This raises the question of the degree of consultation which takes place with the Community's partners, particularly those in the Lomé Convention and those covered by Accession Agreements.

<u>IMPORTS OF AGRICULTURAL PRODUCTS</u>				
<u>COVERED BY GENERALIZED PREFERENCES</u> (Mill.EUR)				
	Total Extra - 9	Developing Countries	ACP	Med.
1974	2188	689	270	196
1975	2025	604	245	189
1976	2452	795	209	244

The least developed countries

7. The undermining of the preferences granted to the ACP countries is a particularly serious issue. Since the ACP countries represent a block of the least developed countries, the Committee on Agriculture has stated on numerous occasions that the least developed countries should benefit primarily from any tariff concessions, and the question must be asked as to whether the generalized preferences are now going against this principle. It was shown clearly in the Explanatory Statement for the 1977 offer that the most developed of the developing countries, such as Yugoslavia, South Korea, Brazil, Hong Kong, Singapore, India and Pakistan, were gaining the lion's share of the increased trade created by the preferences.¹

The Committee on Agriculture has stressed on numerous occasions that efforts to improve the operation of the generalized preferences system should be concentrated on poorest countries (as defined by the United Nations list of 12 December 1975) by : selecting products for inclusion in the Community's offer which benefit primarily those countries; and by simplifying administrative procedures where possible, while providing advice and training to those nations.

Given the modest improvement in the list, little is proposed in the first direction; and, for the second, as we shall see below, Community efforts remain at a rather rudimentary level.

Presentation

8. This general question of the states which had gained the most benefit from the preferences system underlines one major criticism that the Committee on Agriculture has of the presentation of this offer, that the Explanatory Statement is totally inadequate. A certain effort has been made following criticisms made in the past by the Committee on Agriculture, so that there is now an indication of the changes in the tariff rates for new products.

9. The Committee on Agriculture does not wish to be critical for the sake of being critical, but given the brevity of the Explanatory Statement, a theological training would be of great use in interpreting the minimal indications and hints as to the problems of the generalized preferences system contained in the Commission's Explanatory Statement. The information provided is not sufficient to judge the impact of the preferential system on different categories of developing countries.

¹The information provided appears to relate mainly to non-agricultural products. There is no information provided as to which categories of countries have benefitted most from the list of agricultural products.

10. Firstly, there is almost no indication as to the extent to which generalized preferences are used. There are some overall figures stating that between 1974 and 1976 the utilisation rate was 65%, 50% and 62% respectively. This is, however, for all products. There is no information as to the categories of countries which have benefitted most from the agricultural products included in the Community's offer.

Furthermore, there is, in this proposal, no indication at all as to changes in the countries which have benefitted most from the preferences system, either by individual countries or by categories of countries, such as the least developed or the more developed.

Application by Member States

11. On page 5 of this Explanatory Statement, it states that "the Commission urges the Member States to cooperate closely with each other and with the Commission so that the GSP can be administered as flexibly as possible. All those involved in running it should adopt a pragmatic approach which takes account of the situation of the products in question.". One interpretation of this statement is that certain Member States are being excessively rigid in their application of the preferences system, thereby reducing the extent to which the beneficiary countries can develop their trade with the Community. The Commission should give much greater detail on this point and state whether a serious problem exists and, if that is the case, what concrete steps it intends to take.

Additional measures

12. The Committee on Agriculture has, on several occasions, stressed that the least developed countries should be the chief beneficiaries of the preferences system. Such countries, however, have considerable difficulties in fulfilling the complex administrative requirements in particular certificates of origin and in developing the marketing expertise required to expand their trade. This Committee has therefore stressed that there should be as great a simplification in procedures as is possible, and that the Community should take an active role in developing the marketing expertise of these countries.

13. The Commission has a programme of seminars with an emphasis on meetings between business operators and is stepping up its information efforts at a sectoral level. The Commission also hopes that means will be found to improve the possibilities for information concerning preferences.

14. The Committee would like much greater information on these programmes, their nature and the response so far. It can also be noted that the statement of the cost of the supplementary measures is as follows :

A. Seminars in beneficiary countries (Asia, Far East and Latin America)	40,000 e.u.a.
B. Seminar in Brussels (for developing countries)	90,000 e.u.a.
C. Publication of a Guide to the GSP	100,000 e.u.a.
D. Trade promotion and measures to assist regional integration	token entry

The token entry for trade promotion and measures to assist regional integration clearly indicates that no action is envisaged in this area for 1978.

Coordination between donor countries

15. Administrative complications represent a formidable barrier to trade, particularly for the poorest of the developing countries. We indicated above that greater coordination is required of the various concessions offered by the Community : national administrations may have problems administering equitably a Community import regime of growing complexity.

Equally, it is important that donor countries should try, as far as is possible, to harmonize their preferential offers. At present each donor offers a separate list of products, under widely differing conditions and customs rates. Greater harmonization would facilitate enormously the ability of the developing countries to use the offers made.

List of beneficiary countries

16. The list of countries benefitting from the Community's offer is very disparate, including some of the poorest nations, others with per capita GDP equal to or greater than that of certain areas of the Community and East European nations such as Yugoslavia and Roumania.

The mere fact of a high GDP does not reduce the development requirements of a country urgently seeking important long-term sources of produce to take over when short-term sources of wealth, such as oil, come to an end.

There does, however, seem to be room for some modification to the list, as requested in the past by the Committee on Agriculture.

Little has been done. The Commission has entrenched itself behind the political difficulties of altering a list established by UNCTAD and the necessity to confer with other donor countries. The Commission should indicate whether its consultations are one day to come to conclusion. If success is unlikely, the Commission, despite the sensitiveness of the issue, should act. Each donor draws up its own list of beneficiaries. These lists vary. Some room for manoeuvre exists.

Reduction in customs duties

17. On the basis of a utilization rate of 55%, the Commission calculates that the reduction in customs rates for 1978 should be of the order of 354 m. e.u.a. The Commission asked, however, that these figures be treated with caution.

Consultation of the European Parliament and the GATT negotiations

18. In the course of the recent GATT negotiations, forty-four developing countries requested, but eleven developed countries, that the list of tariff and non-tariff concessions be brought into effect before the conclusion of the Tokyo Round. The Community has stated that it will give partial effect to the request, part of which shall be made erga omnes and part through inclusion in the generalized preferences.

Clearly, if the Community has already indicated that it will grant concessions on the products contained in the Commission's present proposal, one can question the utility of the European Parliament giving its opinion at this stage. The decisions have been largely taken. This is not to be critical of the procedure adopted in the GATT negotiations; but if such a procedure is to be followed, the European Parliament needs to be informed during the negotiations so that its opinion may be taken into account.

Conclusions

19. The Community's offer for 1978 of generalized preferences in the agricultural sector is a very modest one, including eleven new products and no tariff improvements for products already listed. The worth of the offer increases from 1,235 m. e.u.a. to 1,300 m. e.u.a.. The proposed improvement should present no difficulties to European producers.

There exist, however, a number of ancillary problems to which the Committee on Agriculture wishes to draw attention.

20. There is a growing need for greater coordination of the increasing number of preferential import arrangements. Administrative complexity and conflict with Lomé and Association partners must be avoided. The inability of national administrations to operate an increasingly complex import regime may frustrate, of itself, the aim of increasing trade with developing countries.

21. Efforts must be directed towards helping the least developed nations.

The lack of expertise by those countries in administrative and marketing techniques, required to benefit from the preferences system, has proved a serious obstacle. The Committee on Agriculture would like greater evidence that the Community's efforts to provide assistance in this area have made an adequate contribution.

22. At the same time, the Community should endeavour to seek greater harmonization in the offers of the donor countries, so minimizing the administrative difficulties of beneficiary countries.

23. The Commission, in its Explanatory Statement, seems to indicate that Member States are not sufficiently flexible in their application of the generalized preferences, so preventing developing countries from benefitting fully. Greater information should be supplied on this point; and the Commission should propose concrete measures where necessary.

24. In the past, a limited number of the richest of the developing nations have benefitted from generalized preferences. The Commission should indicate measures it proposes to rectify this situation, including modification of the list of beneficiaries.

25. The Committee regrets the inadequate nature of the Explanatory Statement, despite certain improvements which have been made (clearer indication of new products covered, together with the changes in tariff rates). More information is required, particularly on the degree to which the least developed nations benefit from the agricultural products included in the Community's offer.

26. Finally, the Committee on Agriculture notes that the 1978 offer was largely determined in the course of the GATT negotiations. Doubts may be cast, therefore, on the value of the European Parliament giving its opinion at this time.

27. The majority of the members of the Committee on Agriculture, considering that there had been insufficient time to re-examine the proposals and the draft opinion, abstained in the vote on the draft opinion.

EEC IMPORT LEVELS OF NEW AGRICULTURAL PRODUCTS IN 1978 SCHEME
(1976, 000 EUR)

ANNEX II

Product	Total Extra - 9	Developing Countries	Mediterranean	ACP
Horses for slaughter	84,625	27,844	303	-
Other horses	14,764	8,556	89	-
Locust lobster	1,698	110	176	631
Octopus	(1)	3,033	15,382	4871
Drumsticks, marrows and pumpkins and others	24,061			
Dried garlic	(1)			
Mexico lime	464	237	10	140
Water melons	(1)			
Mixture of fruit containing added sugar, packings than 1 kg.))))
ditto, less than 1 kg.	14)))
ditto, not containing added sugar, 4.5 kg. or more)	-	13	-
ditto, less than 4.5 kg.))))

(1) Tariff division too small to provide statistical information

(2) Not available

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Letter from Lord ARDWICK, member of the Committee, to the Chairman of the Committee on Development and Cooperation.

Luxembourg, 30 September 1977

Dear Mr Chairman,

At its meeting of 29 and 30 September 1977¹ the Committee on Economic and Monetary Affairs considered the proposals concerning the scheme of generalised tariff preferences for 1978. As the Council asked the Parliament to give an opinion by October but only forwarded the proposals during the summer recess (18 August 1977) the Committee was unable to have a thorough debate on the Commission's proposals. Last year the Committee on Economic and Monetary Affairs had the same problem with such a restricted time schedule and found it impossible to give a written opinion. This is deplorable as generalised tariff preferences have an important economic impact, which would merit closer consideration by the Committee on Economic and Monetary Affairs than is now possible.

The Commission has chosen for the 1978 scheme a prudent course, having regard to the difficult economic situation. For industrial products, the Commission proposes the maintenance of the 1977 scheme with a number of improvements and some administrative adjustments. The ceilings for some industrial products other than textiles will be raised, but in sectors currently in a difficult situation (iron, steel, petroleum products, footwear, plywood) the 1977 arrangements are to be maintained. The Committee on Economic and Monetary Affairs approves these proposals, but emphasises

that it is insufficient to protect those troubled sectors simply by imposing a more restrictive import regime; those sectors also need an appropriate structural policy. The same is true for the textile sector. The critical state of the textile industry in various regions makes any increase in the present ceiling impossible. The Commission proposes consequently to retain the 1977 arrangements with which the Committee on Economic and Monetary Affairs agrees. The problems of this industrial sector are being discussed in detail in the Committee and are the subject of a report by Mr Normanton. The Committee would cite this report, to present its detailed view of the policy in this sector. It will be presented shortly to the plenary.

The Committee stresses once more the need for a revision of the list of beneficiary countries. As this has been postponed until after 1980, more efforts should be undertaken to achieve a more balanced distribution of the benefits among the present beneficiary countries which would concentrate more on the poorest countries and less on countries with a high standard of development.

Further efforts to get more poor countries to use GSP are necessary. The degree of utilisation of only 62% in 1976 is perhaps largely due to the unnecessary complexity of the administrative procedures. The Commission should lose no time in simplifying the procedures.

Finally, the Committee on Economic and Monetary Affairs points out that insufficient statistical data are available about the economic, social and financial impact of the GSP. This makes it difficult to judge the proposals from the economic point of view. A fuller knowledge of the impact of the GSP will be vital if the future development of the system is to be properly assessed.

Please consider this letter as the opinion for your committee on this scheme of generalised tariff preferences.

Yours sincerely,

(sgd) Lord ARDWICK

¹Present: Mr Glinne, chairman; Mr Notenboom, vice-chairman; Lord Ardwick, rapporteur; Mr Nyborg, Mr De Keersmaeker, Mr Lange, Mr Schmidt (deputising for Mr Prescott), Mr van der Mei, Mr Spinelli