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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. 242/76) for regulations on the application of generalized tariff preferences in 1977

Rapporteur: Sir Geoffrey de FREITAS

PE 45.533/fin.

By letter of 7 July 1976 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 43 of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation concerning the application of Generalized Tariff Preferences in 1977.

The President of the European Parliament referred this proposal 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 1976 the Committee on Development and Cooperation appointed Sir Geoffrey de FREITAS rapporteur.

The committee considered the draft report at its meeting of 29 September 1976 and adopted it unanimously.

Present: Miss Flesch, chairman; Mr Sandri, vice-chairman, Sir Geoffrey de Freitas, rapporteur, Mr Broeksz, Mr Deschamps, Mr Dondelinger, Mr Durieux, Mr Espersen, Mr Flämig, Mr Jakobsen, Mr B. Nielsen and Lord Reay.

The opinions of the Committee on Agriculture and the Committee on External Economic Relations are attached. The opinion of the Committee on Economic and Monetary Affairs will be given orally.

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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 for regulations on the application of generalized tariff preferences in 1977

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council (COM(76) 303 final);
 - 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 (Doc. COM(75) 17 final);
 - having been consulted by the Council pursuant to Article 43 of the EEC Treaty, (Doc. 242/76),
 - recalling its resolutions of 6 October 1970¹, 9 June 1971², 13 December 1973³, 12 July 1974⁴, 17 October 1974⁵, and 16 October 1975⁶;
 - 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. 332/76),
1. Welcomes the increase in the volume and value of the preferences offered;
 2. Hopes that the improvements made for agricultural products will benefit the poorer countries, and looks forward to continued progress in this area;
 3. Feels that the average increase in the value of potential preferential imports of manufactured goods represents a significant improvement for the beneficiary countries, even taking into account the rate of inflation;

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

4. Approves the introduction of the Community reserve for three new products, but regrets that further progress on the elimination of tariff quotas and the re-classification of products has not been possible;
5. Approves the new system for textiles, which is simpler and also fairer in its treatment of the more advanced producers, while giving greater scope to the poorer producers, without increasing pressure on domestic markets;
6. Reiterates that the list of beneficiary countries should shortly be amended to ensure that only those countries deserving special treatment will receive it; meanwhile, hopes that the Commission will propose means of obtaining a greater spread of use of GSP amongst developing countries;
7. Strongly recommends therefore that the Commission of the European Communities should immediately submit proposals on the establishment of an agency to provide documentation and information;
8. Notes with pleasure the specific proposals to help increase utilization of the Generalized System of Preferences but considers it essential that a fundamental simplification of the system and greater harmonization of its operation amongst Member States and also amongst the different systems of donor countries be undertaken;
9. Believes that GSP will remain under-utilised unless combined with other positive and complementary measures which should form part of a total package including proposals for integrating internal and external policies, together with specific measures for encouraging investment and trade promotion, and invites the Commission to submit these;
10. Notes that an evaluation of GSP has at last begun, and believes it essential to establish the extent to which the existence of free trade with countries producing goods which compete with GSP has eroded their value, so that appropriate action can be taken if necessary to develop supplementary or alternative methods of encouraging trade with developing countries.

EXPLANATORY STATEMENTI. Background

1. The 1977 proposals for Generalized Tariff Preferences (Doc.COM(76) 303 final) should be seen against an improving economic situation in world trade and in the economies of the Member States. The 1976 proposals to a certain extent "marked time" in view of the recession, and they were accepted by the European Parliament in this light.¹ Although it is true that the return of continuous economic expansion and growing prosperity cannot be predicted with total certainty, the recovery from the recession of 1975 is well under way and the improved concessions offered in the 1977 proposals should be borne by the Community without undue strain. In considering the proposals, it should be borne in mind that the interests of domestic producers and ACP producers must at all times be balanced with those of countries which come under GSP.

II. Scope of the GSP

2. The total volume of GSP proposed for 1977 will amount to 6,470 million u.a., compared to 4,646 million u.a. in 1976.

3. The Community's efforts in the field of GSP have been considerable, and the overall increase for 1977 is noteworthy, representing a 39% increase. Even allowing for the considerable inflation that has taken place in the Community in the last year, this step represents a positive move which is in line with the resolution on manufactured goods adopted at UNCTAD IV and goes a long way towards discharging the Community's obligations in this respect. Of course, it should be borne in mind that the total volume of the Community's trade which comes under GSP is still fairly small. Total Community imports of goods from outside countries in 1974 were 125,000 million u.a. Of this, 25,000 million u.a. was imported from developing countries. GSP in 1977 will apply to 6,470 million u.a., i.e. about a quarter of the 1974 total of imports from developing countries, and about 5% of the Community's total imports. Given that utilization is about 50%, this means that about 2½% of total Community imports are affected.

4. The improvements made in the GSP since its inception in 1971 are also significant, rising from 500 million in 1971 to the proposed 6,470 million in 1977. Again, however, it should be borne in mind that during the same period the Community was enlarged from six to nine members, and has introduced free trade in manufactures with the remaining EFTA countries. In other words, the margin of preference which existed has been eroded considerably.

¹ OJ No.C257, 10.11.1975

5. In 1973, the UNCTAD secretariat, as part of its review of GSP schemes, published a study¹ in which an estimate was made of the proportion of developing countries' exports which might be said to be able to benefit from preferential access under the GSP. Broadly, the study concluded that some 76% by value of the imports into the enlarged Community of GSP products (excluding petroleum products and leather goods for statistical reasons) would have entered duty free from western European sources in 1970 under the enlarged Community's trading arrangements had they existed then. The inference from this is that for GSP products, the main competition in Community markets comes from preferred western European sources rather than from countries which are not treated preferentially, or from other LDCs.

6. If this study remains correct for present-day circumstances, the implication is clear: GSP does not provide preferences for developing countries for a large part of their manufactured products so much as free access to Community markets, so that these products have to compete on the same terms as western European imports. This may well in part explain why the GSP is under utilised; this point will be referred to again later in this report.

III. Agricultural products from Chapters 1-24 of the CCT

7. The proposals under this heading for 1977 are covered by the offer made by the Community on tropical products in the framework of the Tokyo Round and adopted by the Council on 6 April. The agricultural section of the 1977 GSP incorporates 46 new items and 70 improvements in preferential margins. Altogether 296 agricultural products will be covered by the GSP with a value of 1,235 million u.a.

8. The growth in volume of GSP under the agricultural sector can be seen from the following table:

<u>Date</u>	<u>No. of Products</u>	<u>Value</u> (in million u.a.)
1971	147	22
1972	147	45
1973	147	65
1974	187	450
1975	220	600
1976	241	1,000
1977	296	1,235

¹TD/B/C.5/8 Effects of enlargement of the European Community on the Generalized System of Preferences, Geneva, March 1973

9. Most of the improvements in 1977 represent a special effort in favour of the poorest countries ("Virginia"-type tobacco, spices, vegetable oils, cut flowers).

10. The increase in the number of items to be included (46) and the 70 improvements in preferential margins are to be welcomed, particularly as these moves represent a special effort towards the poorest countries, in line with the stated intention of the Commission and in accordance with the European Parliament's previous views.

IV. Industrial semi-finished and manufactured products from Chapters 25-99 of the CCT

11. The proposed GSP total is 5,235 million u.a., against 3,646 million u.a. in 1976, an increase of 43%. The growth in volume of GSP under this heading can be seen from the following table:

<u>Date</u>	<u>Volume</u> (in million u.a.)
1971	478
1972	1,055
1973	1,185
1974	2,800
1975	3,060
1976	3,600
1977	5,235

In essence the proposed improvements in 1977 deal with the raising of the ceilings and with a new scheme for textiles. Of the total, 75 million u.a. relates to ECSC products, 468 million u.a. to petroleum products, leaving 4,300 million u.a. to other industrial products.

(a) Manufactured products other than textiles

12. In conformity with what the Community announced at Paris in the context of the CIEC, and in Nairobi at UNCTAD IV, the Commission proposes to change the base year for calculating ceilings.

In place of 1971 which has served as base year for the calculation of ceilings in 1974, 1975 and 1976, the Commission proposes to take the year 1974 (the last year for which statistics are available) but for sensitive and semi-sensitive products the increases will remain limited to 50% in value or volume as the case may be. This measure applies to all manufactured products other than textiles - apart from shoes and certain steel products for which it is proposed to freeze the 1976 levels because of the

very difficult situation in these sectors (in the case of steel, the Commission reserves the right to present proposals for improvements in the light of economic developments).

The result is to provide a growth in value of GSP for manufactured products of 51%, although this increase varies according to the category of products: 35% for the sensitive products, 45% for the semi-sensitive and 57% for the non-sensitive. This increase runs along the lines of the Resolution on manufactured goods adopted at UNCTAD IV in Nairobi, which provides that the donor countries should, as far as possible, initiate a tangible rise in the ceilings and tariff quotas under their Generalized Preference schemes.

It should be borne in mind that the Community has made clear that the acceptance of a greater burden of GSP would to some extent depend on a wider sharing amongst developed nations of the GSP. With the initiation on 1 June 1976 of the American GSP, most non-Communist developed countries are now taking part. This can be seen from the table below:

European Community: starts	: 1 July 1971	: population 1973	: 257,000,000
Japan	: 1 August 1971		: 108,300,000
Norway	: 1 October 1971		: 3,900,000
Finland	: 1 January 1972		: 4,600,000
Sweden	: 1 January 1972		: 8,100,000
New Zealand	: 1 January 1972		: 2,800,000
Switzerland	: 1 March 1972		: 6,300,000
Austria	: 1 April 1972		: 7,500,000
Canada	: 1 July 1974		: 22,100,000
United States of America	: 1 January 1976		: 210,000,000

The absence of participation by Communist countries stands out.

(b) Classification of products

13. The Commission does not however propose reducing the number of sensitive products by transferring them to the semi-sensitive category. This complex question is linked to the equally difficult problem of securing a balance of advantages between beneficiaries. Your committee appreciates the Commission's problems, but wonders whether the Member States are not being over-cautious in this. Since transferring products to the semi-sensitive category does not lessen the extent of control of the imports of the products concerned, the effect is rather that there is no automatic application of MFN when the quota is reached, but only if market disruption takes place. If one Member States claims that this disruption is taking place, then the MFN rate will be applied. There is no majority decision on this point, so that no one Member State can suffer by the decision of others.

14. On the other hand, the advantages are considerable. The use of tariff quotas can lead to a freezing of portions of the quota. Moreover, the administration of tariff quotas has not been harmonized between Member States, and this can lead to considerable uncertainty amongst exporters. In addition, of course, as the Commission again points out, the use of these tariff quotas raises problems as to whether they are consistent with certain basic principles governing the customs union. In its document on the future development of the European Community's Generalized Tariff Preferences¹ the Commission saw the dismantlement of tariff quotas as one of the areas for improvement and adaptation in the period 1975-80. It is therefore regrettable that progress on this front appears to have been postponed.

(c) Coir and jute products

15. For coir products, the tariff suspensions already achieved under GSP for the second half of 1976 will be maintained for the year 1977. A nil rate is envisaged in two stages, the first on 1.7.76 and the second on 1.1.78.

For jute products, the treatment in force in 1976 will be continued for the whole of 1977.

(d) Other textiles

16. All the other donor countries, with the exception of Japan to a limited extent, have practically excluded textiles from their GSP. The Community's measures therefore represent a courageous exception. It should not be forgotten that the Community's first duty is to its own peoples and the GSP must take account of this.

17. The new system proposed for the 1977 GSP,

- proposes to set up a link between the Multifibres Agreement and the GSP,
- maintains the present GSP volume for textiles with a 5% rate of annual increase,
- introduces a more restricted regime for the over-competitive beneficiaries from the Far East on the basis of equal treatment for all of them (to replace the present discrimination against Hong Kong),
- makes the rules more flexible for the other beneficiaries who include among their number some of the poorest countries.

18. In line with these principles, the Commission proposes that pending the establishment of a link between the Multifibres Agreement and the GSP, the following system should be set up. Cotton and non-cotton textiles would henceforth be treated in an identical manner, which would result in a

¹COM(75) 17 final

significant simplification in the number of regulations (one regulation instead of six) and in administration and utilisation. The global volume of the ceilings would be lifted from 75,323 metric tonnes to 79,131 tonnes, an increase of 5% (excluding additional amounts for Denmark). However, the previous system excluded Hong Kong, which was patently unfair, since other producers which were equally advanced were included in the GSP. The proposal for 1977 is to apply a double system; beneficiaries would be divided according to how advanced and competitive they are. The criteria for this distinction are to be income per head of at least \$300 (IBRD 1972) and at least 6% of the imports per product into the Community coming from developing countries. For 28 products, each global ceiling would be divided into two parts. One part of 30% for the more competitive beneficiaries administered with a tariff quota without buffer and with a reserve portion; the other part of 70% set aside for the other beneficiaries and administered under a ceiling with a normal buffer of 50%.

19. This double system allows the present possibilities for preferential imports from the more advanced and competitive beneficiaries to be preserved in a global manner. Conversely, it gives scope to the less developed countries to develop their exports. It thus has the merits of fairness to all parties, including safeguards for domestic producers, and yet meets entirely the requirements of the customs union. The recent bilateral agreement with Hong Kong (under the MFA) ensures no additional pressure on domestic producers.

It should not, however, be thought that this measure is proposed purely in order to achieve greater fairness. Hong Kong is the direct responsibility of one Member State, which is therefore responsible for its economy, the employment situation and its social welfare.

20. Contrary to general impressions of Hong Kong, which depict it as a city of skyscrapers and luxury, it is in fact a small, highly dependent and relatively poor region. 50% of the population work in textiles. It has no raw materials. The possibilities for further diversification are extremely limited. It amply deserves the Community's help.

21. Some figures may put the textile situation in perspective. The total amount subject to GSP is about 79,000 tons. Total imports into the Community from developing countries are 600,000 tons. Total imports from all sources are 1,200,000 tons.

V. The Community reserve in tariff quotas

22. The Commission again stresses the importance of the progressive introduction (as decided by the Council) of the Community reserve in the tariff quotas still existing under the GSP and for 1977 proposes to add three new products (preserved pineapples other than in slices, diodes and transistors

and certain types of chairs) to the list. This progress is clearly in the right direction.

VI. Rules of origin

23. The system of rules of origin in 1976 will be extended just as it is. These rules are designed to encourage regional integration and the Community has adopted a cumulative system for exports towards the EEC coming from "common markets" such as that of Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua), the ANDEAN Group (Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela) and the ASEAN (Indonesia, Malaysia, Philippines, Singapore and Thailand).

VII. Beneficiary countries

24. The Commission makes no proposals for changing the list of beneficiary countries but reserves the right to do so. The European Parliament has in previous years pointed out the need for this review to take place, and your committee regrets that the Commission was not able to make its proposals in the present document. It understands, however, that the Commission is studying the question with other donor countries, and hopes to be in a position to make proposals during the year.

VIII. Additional measures

25. The Commission has provided approximate figures showing the extent of utilisation of the GSP:

<u>Year</u>	<u>Volume of GSP</u> (in million u.a.)	<u>Utilization of GSP</u> (in million u.a.)
1971	500	220
1972	1,100	450
1973	1,250	695
1974	3,250	2,100
1975	3,680	2,450 (1)
1976	4,600	2,700 - 3,100 (1)

26. In order to alleviate this problem of under-utilization, the Commission proposes continuing its programme of seminars, with an emphasis on meeting the actual commercial operators. Furthermore, it has confirmed that it will take steps to set up a GSP documentation, information and advice agency, and a proposal will be submitted to the Council in the coming months.

(1) Provisional estimates

27. However, your committee believes that one of the main reasons for the relatively low utilisation is the extreme complication of the system. The principles on which GSP are founded are essentially simple: they are generalized, in that they are supposed to be granted by all industrial countries. They are not discriminatory in that they are granted to all developing countries. They are independent or autonomous in that they are not the outcome of any negotiation with the beneficiary countries. Originally, the safeguard mechanisms were to consist of ceilings or quotas to prevent disruption of domestic markets. Similarly, maximum amount limitations were fixed to prevent any beneficiary country absorbing the whole preference. In practice, the EEC system as it has evolved involves a host of mechanisms, including ceilings and tariff quotas which are administered by the various Member States in different ways which in some cases are not even published, so that it is impossible to know when the tariff quota is likely to be filled. Moreover, even when the method used is known as for example in Benelux or in Germany, where the "first come, first served" import licence method (the greyhound method) is known and widely practised, this method in itself creates uncertainty, since neither exporters nor importers can be certain that a given consignment would arrive at the EEC port of entry before other imports had filled the tariff quota allocation. Moreover, the system is not generalized in that variations exist for different products and for different countries. When to this consideration is added the difference between the schemes operated by different trading groups - differences in product coverage, preferential tariff rates, beneficiaries, safeguard measures and rules of origin - as well as the different subtleties in the legal texts authorizing the schemes of preferential tariffs, the complication of the Generalized System of Preferences becomes mind boggling. A small and amusing example of this may be seen if we take an extract from Regulation 7 which reads as follows:

<u>CCT Heading No.</u>	<u>Description</u>
16.02(a)	Other prepared or preserved meat or meat offal
	B Other
	III Other
	(b) Other
	ex.1 Containing bovine meat or offal
	- prepared or preserved bovine tongue ¹

28. The Commission's intention to provide seminars and appropriate documentation is welcome, but perhaps the first stage in increasing the utilisation of the GSP is to make its administration and its rules simpler. The second stage would be to attempt greater harmonization between the administration of the system by Member States and the third stage is to achieve greater

¹COM(76) 303 final, annex B of Regulation 7

harmonization amongst the systems of different countries.

IX. Financial implications

29. The Commission has provided figures which indicate the approximate cost of the reduction in customs duties, although it has specially pointed out that these figures are extremely rough and should not under any circumstances be interpreted as the economic cost of the 1977 GSP scheme.

30. These figures are however a guide as to the extent of the Communities' efforts in this field towards the developing countries:

1974	175 million u.a.
1975	207 million u.a.
1976	257 million u.a.
1977 (forecast)	300 million u.a.

In addition, the cost of the supplementary measures is estimated at 65,000 u.a. for the seminars, 40,000 u.a. for a guide to GSP, to which must be added costs of the documentation centre and other measures.

X. Evaluation of the GSP

31. The Commission gives some information on the impact of GSP which it has compiled from studies for the year 1974, which have been circulated to limited circles in all Member States. It is noteworthy that GSP is geographically limited: overall, ten beneficiaries made up about 72% of the utilization with a sum of 1,500 million u.a. in the order: Yugoslavia (288 million u.a.), Hong Kong (219 million u.a.), Brazil (189 million u.a.), India (181 million u.a.), South Korea (154 million u.a.), Singapore (119 million u.a.), Pakistan (115 million u.a.), Mexico (98 million u.a.), Romania (76 million u.a.), Iran (61 million u.a.).

A breakdown of utilization by major products and countries is also contained in Annex II of the document.

XI. Conclusions

32. Overall, the proposals for 1977 represent a significant improvement, and those criticisms made so far are relatively minor. As such, the Committee on Development and Cooperation can welcome the proposals, but would like to mention one point which is both fundamental and has a bearing on the longer term development of the GSP. The original idea of the GSP was to increase the export earnings of the developing countries, to promote their industrialization and to accelerate their rates of economic growth. This was to be done not merely by granting free access to the developing countries, but by giving

them preferences over other countries. As was mentioned at the beginning of this report, it would appear from studies that have been undertaken that the bulk of GSP products compete with products which also have free access to Community markets. As such, they are not really preferences at all but, instead, a kind of "advance" on the measures proposed for freeing access to developed country markets in the context of the MTN. In fact, given the existence of tariff quotas and ceilings on sensitive and semi-sensitive products, they contain a discrimination against the developing countries, since these restrictions do not apply to the countries producing the same goods in western Europe.

33. The Community's response to this problem is that since one of the intentions of GSP is to promote diversification, the ceilings may have a beneficial effect since the countries concerned will be encouraged to produce new products. This view is however somewhat disingenuous since industries can be developed in developing countries only on the basis of real needs and long-term potential and a host of other factors beyond the current tariff level. Moreover, UNCTAD has also concluded in one of its studies that the use of maximum amount limitations which are intended to prevent one country from absorbing a whole quota in order to allow other countries to develop their exports works only partially. In a number of cases, after application of the maximum amount limitation, there were practically no other beneficiaries capable of utilizing the remaining part of the quota.¹

34. These factors may well explain the relatively low utilization of GSP better than the assumption which the Commission has made that the system simply requires further explanation. This is not to say that the proposed seminars will not be useful, nor that GSP should not be further simplified if possible. It is however to point out that perhaps the Commission should look rather more fundamentally at the way GSP should develop in the long term.

35. The Commission is entirely right when it states in the document on the future development of the European Community's Generalized Tariff Preferences (COM(75) 17 final) that an intensive emphasis must be given to efforts in other and complementary fields of cooperation. These measures include trade promotion, encouragement of diversification, assistance to regional economic integration and investment stimulation. To this might be added the need to integrate development policies with internal economic policies, such as domestic restructuring. Further, it might be possible to develop a "post GSP" strategy, whereby countries or products from those countries could be dealt with by means of agreements between the Community and the exporting country concerned, based on mutual needs.

¹UNCTAD TDB/C point 522 2nd General Report on the Implementation of the Generalized System of Preferences.

Non-reciprocity is quite rightly one of the "sacred principles" of GSP, but it would appear to be better to make positive arrangements with countries which are perhaps no longer eligible for GSP rather than to simply re-impose MFN duties, which is a "sink or swim" policy.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Lord ST. OSWALD

On 2 September 1976 the Committee on Agriculture appointed Lord St. Oswald draftsman.

It considered the draft opinion at its meeting of 30 September and 1 October 1976 and adopted it unanimously.

The following were present: Mr Houdet, chairman; Mr Laban, vice-chairman; Mr Howell (deputizing for Lord St. Oswald, rapporteur); Mr Bourdellès, Mr Brégégère, Mr Concas (deputizing for Mr Cifarelli), Mr Della Briotta, Mr Frehsee, Mr Früh, Mr Haase, Mr Hanse, Mr Hughes, Mr de Koning, Mr McDonald, Mr Marras and Mr Ney.

Introduction

1. The Commission's proposal contained the Community's offer of generalised preferences to be granted to developing countries in 1977.
2. The European Economic Community was the first to introduce a system of generalised tariff preferences in 1971 following the request of the developing countries and the UNCTAD Conference in New Delhi in 1968.

Preferences are now offered by Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland and the United States.

The list of products contained in the offer, with the tariff reductions offered, are drawn up on an annual basis¹.

3. The Community's offer for 1976 was drawn up in the light of two imperatives :
 - the need for caution imposed by the Community's economic difficulties;
 - and the general recognition of the necessity to develop trade with the developing countries;and was drawn up therefore to give particular help to the least developed countries, by increasing the margin of preferences rather than adding further products to the list.

The economic difficulties facing the Community are still considerable; but the impact of the world recession has been, and remains, far more serious for the developing countries.

4. On 6 April 1976 the Council adopted, in the framework of two multi-lateral trade negotiations in GATT, a list of tariff reductions relating to tropical products, with the reduction to be made in the framework of the generalized preferences.

The Commission proposal gives effect to this decision. The reductions decided upon in April are to be added to the list of products currently in force for which preferential margins are to remain as presently laid down.

The offer for agricultural products will contain :

- 46 new items;
- 70 improvements in preferential margins.

296 agricultural products will be covered, as against 250 in 1976, to a value of 1,235 m.u.a. in 1977 as against 1,000 m.u.a. in 1976, an increase of 24%.

¹ The first Community offer in 1971 was relatively modest, covering agricultural products to the value of 30 m.u.a.

The Community's offer and the least developed countries

5. The economic recession and world wide inflation had a particularly severe effect on the least developed countries : trade in primary products has been sharply reduced; and the terms of trade of the developing countries have seriously deteriorated.

6. At the same time the generalised preferences offered by the Community have been of the most benefit to the more developed countries within the list of beneficiaries.

7. As pointed out by the Committee on Agriculture in its opinion, drawn up by Lord St Oswald on the offer for 1976¹, special attention should be given to aiding the least developed countries by :

- selecting products which benefit primarily those countries;
- and simplifying the administrative procedures wherever possible and providing advice and training to those nations.

8. The Commission proposals go some way to fulfilling these requirements : the great majority of improvements in tariff preference margins represent a special effort in favour of the poorest countries and concern such products as Virginia type tobacco, spices, vegetable oils and cut flowers.

9. At the same time, a considerable effort is being made in the field of complementary measures intended to support the Community's offer. These include :

- (a) a proposal to be submitted in the coming months for the establishment of a documentation, information and advice agency;
- (b) a programme to increase information available to commercial operators;
- (c) efforts to persuade Member States to administer preferences in a more flexible manner, particularly with respect to the least developed nations.

Products covered by the Community's offer

10. The Commission's proposal for 1977 takes up improvements in the generalised tariff preferences adopted by the Council on 6 April 1976 for the offer relating to tropical products with the multi-lateral trade negotiations within GATT and therefore includes :

- 46 new items;
- 70 improvements in tariff margins.

¹ Doc. 285/75

The new products contained in the proposed Community offer consist of processed products whose basic product derives from the tropical regions and does not enter into competition directly with produce from the Community¹.

11. These products represent an extension of the types of products already offered and, on the basis of previous offers, they should result in no great disturbance to Community agriculture or industry. However, as we shall underline below, it is impossible to judge this from the Commission's proposal.

12. The main purpose in reducing tariffs is to create or enlarge margins of preference within existing trade patterns and so encourage imports from the developing countries rather than from developed countries such as the United States : imports of these products from developing countries, on average, represent one-seventh of imports from developed countries.

13. As noted above, the principal intention in drawing up the list of new products to be added has been to benefit as far as possible the least developed countries, particularly in Africa and Asia.

The Commission takes into account the Joint Declaration of Intent on relations with Sri Lanka, India, Malaysia, Pakistan and Singapore of 1972 and so to encourage imports from these Asian countries provision is made for the granting of tariff quotas for raw or unmanufactured tobacco, particularly of the Virginia type, which is imported principally from India and is intended largely for the British market. Such tariff quotas are intended to prevent reductions in the traditional trade flows between these Asian countries and the United Kingdom following the accession of the United Kingdom to the EEC.

Presentation of the Commission's proposal

14. One can conclude that generalized preferences are intended to bring about a change in trade flows to the Community from developed to developing countries in tropical produce, and that in consequence there should be no disturbance to the Community market.

15. One should bear in mind that the Commission's proposal for 1977 represents a considerable increase on that for 1976. Yet it is extremely difficult to

¹ and in particular : fresh and filleted sharks and halibut, livers and roes, dried or salted halibut and salmon, crawfish, lobsters, shrimps and prawns, mussels, squid, and certain cuttlefish; certain varieties of orchids, fresh or preserved okra, cajan peas, dried bananas, avocados, cocoa, mangousteens, mangoes, certain exotic stoned fruit and berries, certain exotic preserved fruits (excluding pineapples, melons and watermelons), unroasted decaffeinated coffee and roasted coffee, coffee husks and skin and coffee substitutes, pimentos, cinnamon, cloves, nutmeg and aniseed, banana flours, pectic substances, certain vegetable oils such as palm oil, fatty alcohols, certain cocoa preparations, certain flours intended for infants or dietic or culinary purposes, prepared or preserved truffles, asparagus, sauerkraut or capers, certain preserved or prepared exotic fruits (excluding pineapples, melons and watermelons and their juices), certain sauces and condiments and tequila.

discern from the Commission's text the nature of these changes and their importance for producers in the Community and the ACP countries. Beyond a brief reference to "Virginia type tobacco, spices, vegetable oils and cut flowers", no description of the improvements is made in the explanatory statement.

16. In the list of improvements, the preferential rates of duty to be applied are given, but not the existing rate of duty, so that a comparison is extremely difficult.

17. It is of the utmost importance to be able to assess the impact of the generalized tariff preferences on the industries in the Community, the value of the scheme to the developing countries themselves and the comparison with preferences offered by other industrialized countries.

Only the most general indications are given in the Commission's proposal, even though the Commission states that it has just informed Member States on certain of these points at the request of the Netherlands.

It is difficult for the European Parliament to give a reasoned opinion without such information and until such time as improvements are made to the presentation of proposed offers.

The Commission states that it has set up a system to establish the necessary statistics, despite difficulties encountered in the transmission by Member States of the information required. This information should be given in the explanatory memorandum provided by the Commission in its proposal.

Generalized preferences and the ACP states

18. At the same time as generalized preferences are granted, it is important to ensure that those preferences do not undermine advantages granted to the ACP States. Therefore, the Commission proposes that the advantages granted for preserved pineapples and for cocoa butter and soluble coffee should be made in the form of tariff quotas as follows :

	(tonnes)	
	cocoa butter	soluble coffee
Germany	800	900
Benelux	12,150	1,550
France	100	250
Italy	50	50
Denmark	50	50
Ireland	50	50
United Kingdom	8,400	15,900

for preserved pineapples, sliced and unsliced as follows :

	sliced	unsliced
Germany	35.1%	20.5%
Benelux	13.0%	4.9%
France	1.0%	0.5%
Italy	2.8%	2.0%
Denmark	2.7%	1.9%
Ireland	1.0%	1.0%
United Kingdom	44.4%	69.2%

Safeguard measures

19. It should be recalled that basic agricultural products are not covered by preference schemes; reductions are granted only on processed agricultural products, mainly from tropical regions, which do not compete directly with produce originating in the temperate regions of the Community.

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 (Articles 2 and 3); in addition, the safeguard clauses adopted in pursuance of Articles 43 and 113 of the Treaty remain in force.

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).

Countries benefiting from generalized preferences

20. The Committee on Agriculture, in opinions drawn up by Lord St. Oswald and Mr Cifarelli¹, has drawn attention on several occasions to the need to revise the list of countries benefiting from preferences.

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 comments, the rich oil states of the Middle East, and certain state-trading countries - Roumania and Yugoslavia.

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.

This is an extremely sensitive issue, and it would be extremely unwise to deliberately employ 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 other donors, should come to grips with this problem in the near future.

Conclusions

21. In past reports the Committee on Agriculture has stressed the importance of generalized preferences to the development of trade with developing countries: development which is beneficial in the long term both to the donor and the beneficiary.

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.

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 Doc. 285/74 and Doc. 285/75

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.

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.

22. 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.

23. 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.

24. The Committee on Agriculture points out that a qualitative rather than a 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.

25. Finally, your draftsman would like to query the utility of the Committee on Agriculture giving an opinion on a Community offer of preferences, the main lines of which have already been established by the Council decision of 6 April 1976.

II. DEVELOPMENT OF GENERALIZED
PREFERENCES FROM 1971 - 1977

Value: M.U.A.

	EEC - Six			EEC - Nine			
	1971	1972	1973	1974	1975	1976	1977 according to the Com- mission's proposal
Processed agricul- tural products	22	45	65	450	600	1,000	1,235
Manufactured products	478	1,055	1,185	2,800	3,080	3,600	5,235
Total possible imports	500	1,100	1,250	3,250	3,680	4,600	6,470
Actual imports	220	450	695	2,103	2,444 (estimate)	2,754 (estimate)	3,100 (forecast)
Reduction in customs duties	16	36	55	175	207 (estimate)	257 (estimate)	300 (forecast)

IMPORTS OF PRODUCTS ADDED TO OFFER OF GENERALISED PREFERENCES FOR 1977

Heading ¹	Tariffs		Imports 1974 1000 EUR			
	CCT	GP	Total	GP	ACP	Med.
Fresh fish:						
- sharks	8	4	12,185	1,354	176	126
- halibut	8	4	6,260	51	3	6
Frozen fillets:						
- sharks and halibut	15	10	19,623	8,751	2,907	2,134
Fish liver and roes	10	5	2,077	19	-	-
Fish, dried and salted:						
- halibut	15	10	46	-	-	-
- salmon	11	2	487	-	-	-
Crawfish	25 (susp)	8	8,297	4,415	1,185	725
Lobsters	10/15	8	5,077	267	123	229
Crabs, crayfish	12	6	3,025	49	77	2
Mussels	10	7	2,152	-	3	2,120
Squid and cuttlefish	8/6	5	16,662	5,516	680	2,211
Certain orchids	24/17	15	32,329	12,611	2,611	11,791
Dried bananas	20	10	790	756	28	4
Avocados	8	6	13,173	13	798	8,769
Coffee:						
- unroasted decaff.	13	10	725	199	38	24
- roasted	15/18	12/15	4,465	284	144	229
Fatty alcohols	8	6	9167	-	-	2
Cocoa paste	15	11	39,952	1,209	38,514	-
Cocoa powder	16	11	114	-	56	-
Certain chocolate goods	12 + vc max 27% + ads	10 + vc max 27% + ads	26,816	99	2,954	236
Certain prepared vegetables:						
- truffles	18	14	2,264	-	-	-
- asparagus	22	20	63,037	2,527	-	5,133
Tequila	1.60 u.a./ degree alch. + 10 u.a. l'hl.	1.30 u.a./ degree a.ch. + 10 u.a. l'hl.	11,955	592	1,378	4,559

¹ Descriptions have been simplified

OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Draftsman: Mr P.B. COUSTE

On 3 September 1976 the Committee on External Economic Relations appointed Mr Cousté draftsman.

It considered the draft opinion at its meeting of 28 September 1976 and adopted it unanimously.

Present: Mr Kaspereit, chairman; Mr Schmidt, vice-chairman; Mr Cousté, draftsman; Mr Baas, Mr De Clercq, Mr De Keersmaeker (deputizing for Mr Schulz), Mr Dykes, Mr Fabbrini (deputizing for Mr Maigaard), Mr de Koning, Mr Laban, Mr Marras (deputizing for Mr Sandri), Mr Mitchell (deputizing for Lord Castle), Mr Nyborg, Mr Radoux, Mr Spicer and Mr Vandewiele.

1. The European Community was the first of the major economic powers in the developed world to introduce, on 1 July 1971, a generalized system of preferences for semi-manufactured and manufactured products originating in developing countries.

The aim of these measures was to increase the export revenue of developing countries, encourage their industrialization and speed up their rate of economic growth.

Since then the system has been continually extended and improved to satisfy more effectively the needs of the increasingly diversified range of Third World countries. The Community's generalized system of preferences is just one factor; steps have been taken at world level to achieve greater balance in the economic relations between developed and developing countries.

2. During recent years the Committee on External Economic Relations has had occasion to deliver its opinion on the successive improvements to the Community system. In doing so it has always emphasized the system's inadequacies and regretted the failure to gear concessions to the real needs of the poorest countries.

From this point of view, the 1977 scheme proposes fewer innovations than its predecessors. In accordance with the guidelines laid down by the Commission in its Communication of 3 February 1975 on 'the future development of the generalized tariff preferences of the European Community', and the Council Resolution of 3-4 March 1975 on the same subject, the plan aims to facilitate wider use of the concessions granted to the beneficiaries of the Community system, by simplifying it and improving its administration.

3. In general, the 1977 plan contains a certain number of improvements (new items, improvements in preferential margins, higher ceilings etc.) both for the agricultural products of Chapters 1 to 24 of the CCT and for manufactured and semi-manufactured industrial products. As a result,

the volume of potential preferential imports is raised from 4.64 to 6.47 thousand million u.a., an increase in value of 42%, which largely compensates for losses caused by inflation. For industrial products this large increase, which has been made easier by the improvement in the general economic situation of most of the Community Member States, is mainly due to the raising of the level on the basis of which tariff quotas and ceilings are calculated, with 1974 replacing 1971 as the reference year. The change in the reference year results in an overall growth in value of 51% for industrial products other than textiles.

For agricultural products the Commission's proposals for 1977 take up the improved Council offer on tropical products in GATT. This amounts to an increase over the 1976 figure of 24% of the total volume of possible preferential imports.

4. In view of the serious crisis affecting Community textile production, it is this sector which has the most to fear from the concessions granted by the Community to the developing countries. Apart from Japan, the Community system is the only one to include these products among its generalized preferences. The Commission nevertheless acknowledges that the special provisions introduced to restrict the possible effects of this competition have so far protected the Community industries from possible harm.

5. For the future, the Commission proposes establishing a link between the generalized preferences in this sector and the agreement reached in December 1973 concerning the international textile trade, to which the Community was a party ('Multifibres Agreement').

The Commission proposes raising the global volume of the ceilings for textiles by 5%, as compared with 1976. Pending the link with the Multifibres Agreement, the generalized system of preferences for textiles is to be extended to all the independent and dependent beneficiaries (with the exception of Rumania).

6. To simplify matters, cotton and non-cotton textiles will henceforth be treated in an identical manner. Furthermore, the Commission proposes the creation of two ceilings for 28 sensitive textile products, one of 30% for the more competitive beneficiaries and the other of 70% for the other beneficiaries, with a buffer of 50%.

7. In answer to a question put some time ago by Parliament, the Commission for the first time gives an estimate of the reduction in customs duties resulting from the implementation of the system of generalized preferences. The reduction for 1976 is around 257 m.u.a. and the foreseeable reduction for 1977 should be about 300 m.u.a. (these figures should be compared with the total Community revenue from customs duties for 1976, i.e. 3,000,000,554 u.a. To this should be added the cost of the various supplementary measures to publicise the generalized preferences and increase their effectiveness (information seminars, guide to the GSP, setting up an agency for documentation, etc.)

The various statistics reveal the not inconsiderable cost of the Community concessions.

8. Who benefits from the concessions?

The figures provided by the Commission show that the Community preferences actually benefit a minority of countries - the strongest in economic terms. In 1974, ten beneficiaries accounted for 72% of taken-up preferences. Yugoslavia is at the top of the list (288 m.u.a. out of a total of 2,100 m.u.a. of taken-up preferences). The principal beneficiaries also include Hong Kong (despite restrictions placed on certain of its textile exports), Brazil, India, South Korea, Singapore and Pakistan.

9. Moreover, the Community concessions have been only partly taken up, and this applies for each year since 1971: 2,100 m.u.a. in 1974 out of a possible total of 3,250 m.u.a. and between 2,700 and 3,000 m.u.a. for 1976, out of a total of 4,600 m.u.a.

10. The 1977 scheme provides for a certain number of amendments to enable the poorest developing countries to derive greater benefit from the concessions - hitherto often theoretical - granted by the Community. An example of this is the decision, already mentioned, to create two ceilings for 28 products, with the highest set aside for the least developed countries.

Similarly, the Commission's efforts to publicise the preferences and explain the conditions governing their use (the so-called supplementary measures) should make them more easily accessible to the poorest countries.

11. In this connection, the Committee on External Economic Relations regrets that no concrete proposals have yet been made for the setting up of an agency for documentation and information on the GSP, which has already been accepted in principle. It invites the Commission to draw up such proposals within the next four months, since it feels that the agency has an important role to play and will enable the concessions granted by the Community to the developing countries to be more widely distributed.

12. Apart from the amendments and modifications already mentioned, the 1977 scheme for the Community's generalized preferences is very similar in both principle and procedure to its predecessors.

As in its previous opinions on this matter, our committee feels that this GSP scheme is an essential part of Community policy on development aid, and has the advantage of extending this aid to certain areas (Latin America, South-East Asia) which most bitterly resent the effects of competition from the member states of the Lomé Convention. This scheme therefore makes a major contribution to greater balance in the spread of Community interventions, at a time when the problems of under-development are becoming increasingly world-wide.

13. Our committee considers that the generalized preferences could be made more effective by enabling the poorest beneficiaries to make better use of the export concessions. A greater effort should therefore be made to simplify the administrative procedures involved in obtaining preferences. In this connection we welcome the decision to treat cotton

and non-cotton textiles in an identical manner as from 1977, since this is a step which, by reducing the implementing regulations for these preferences from six to one, makes for the greater simplification required.

14. On the other hand, the implementation of the Community's GSP may mean stronger competition in certain sectors as far as Community production is concerned (processed agricultural products, textiles). Our committee feels that in such cases we must proceed with caution, to avoid any appreciable adverse effect on the level of economic activity and employment in the Community.

This seems particularly necessary at a time when the countries of the Community are, to varying degrees, experiencing a difficult economic situation which is forcing them to pursue policies of restraint.

Any difficulties - however slight - encountered by certain sectors as a result of preferences being granted to exports from a growing number of developing countries would therefore be rather unpopular.

It has admittedly been possible, on the whole, to avoid such difficulties so far. Nevertheless, with the regular increase from one year to the next in the number of generalized preferences, Community production in certain sectors of the economy is likely to face greater competition. It would seem, therefore, that preferences cannot continue to be extended in the next few years at the same rates as since 1971, especially as the governments of the Member States must give priority to problems such as unemployment and their trade deficits.

Similarly, there is a danger that the generalized preferences may impair or in certain cases cancel out the preferences granted by the Community to the associated Mediterranean countries (Greece, Turkey, Malta). The Community has on several occasions refused to include these countries in the preferences system.

Finally, our committee considers that the effectiveness of the Community system will depend on the degree of harmonization which is established between the schemes operated by the various industrialized countries. In the interests of all the parties concerned, harmonization is essential, both as regards the choice of beneficiaries, the tariff concessions and the regulations concerning the rules of origin and the various safeguard clauses.