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GENERALIZED SYSTEM OF PREFERENCES 1981

The Community Generalized System of Preferences (GSP), introduced in 1971, concluded its tenth year at the end of December 1980. The scheme has enabled developing countries to export to the Community market a wide range of industrial and agricultural goods at preferential tariff rates or duty free.

Inevitably, the more developed countries have tended to benefit most from the GSP. Under new rules introduced in 1981 the Community is seeking to establish a better balance in favour of the least developed states, in line with opinion expressed at the ninth session of the UN Conference on Trade and Development (UNCTAD). Overall quotas and ceilings are abolished in favour of individual assessments and operational procedures simplified.

Historical background

The European Community was the first of the industrialized countries to introduce the GSP in July 1971, followed quickly by Japan, the Scandinavian countries, New Zealand, Switzerland, Austria, Canada, and the United States on January 1, 1976. Australia also operates a special system of preferences, as do some of the Eastern European countries. The latter, however, do not absorb more than three percent of manufactured exports from developing countries, whereas the western industrialized states import about 75 percent.

The GSP arose from demands in UNCTAD in 1968 when the developing countries asked for preferential access for their products to the markets of the industrialized countries. The scheme that emerged is based on four principles. Preferences are:

- generalized - they are granted to all developing countries;
- non-discriminatory - they are supposed to be accorded to all developing countries without distinction;
- autonomous - they do not derive from any negotiations with the beneficiary countries, who may, however, be consulted;
- non-reciprocal - the beneficiary countries are not expected to make any tariff concessions in return.

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The Community's GSP involves (subject to quotas or ceilings) exemption from customs duties for industrial goods and partial exemption for certain processed agricultural products.

Industrial goods enter the Community duty free within these ceilings or quotas for semi-sensitive or non-sensitive products based on an agreed formula. Sensitive products, i.e. those which pose a threat to the Community industry concerned, are subject to a tariff quota. For all products, once the ceilings are reached, normal customs duties may be reimposed. In order to qualify for exemption under the GSP, exporting countries must comply with certain rules regarding the origin of goods, in particular by providing certificates of origin whether from individual countries or approved regional groupings such as ASEAN (Association of South Eastern Asian Nations), the Central American Common Market, or the Andean Group.

Quotas are shared among Community member countries, but in order to ensure that the more advanced and competitive among the developing countries do not use up all the preferential possibilities, maximum amounts of duty free imports - known as butoirs or buffers - have been established for each beneficiary country. These restrict the maximum share that each country is entitled to within the overall framework of quotas and ceilings.

Since 1971 the Community has continually expanded the number of imported goods benefitting under the GSP. The number of sensitive products (including textiles and clothing) subject to quota dropped from 58 in 1971 to 15 in 1980, while agricultural products covered by the SGP rose from 147 to 312 over the same period, representing an increase in value from 90 million ECU to 1,300m ECU*.

The system on the whole, therefore, has worked well, but after ten years' experience, the Commission admits that there is room for improvement.

In December 1980 the Council of Ministers agreed to continue the GSP for the next 10 years, up to 1990. The aim will be to ensure a better balanced use of the preferential benefits between the more and less developed countries, extend their use, and make conditions for application and the imposition of quotas easier.

The new GSP

The major difference between the new scheme and the old is in the calculation of ceilings or quotas. From this year overall quotas and ceilings applying to the import of sensitive products as a whole throughout the Community are abolished; instead each beneficiary country will be offered individually assessed preferential quantities, and if these are exceeded, normal tariff duties will be imposed on this country alone.

* 1 ECU = $1.24 as of March 19, 1981

The aim is to stop certain more competitive countries using up the total quota at the expense of the less competitive. In 1980, for instance, 13 countries, mainly from Asia and Latin America, accounted for 70 percent of preferential imports.

Industrial products

Hitherto industrial products eligible for preference have been divided into four categories; these will now be reduced to two - sensitive and non-sensitive. There are 128 sensitive products, of which 64 justify strict control in the form of quotas on account of difficulties faced by Community industries. Each Community member country will have a share of these quotas, and as soon as their share is reached will be expected to reintroduce the customs duties applicable to the exporting country.

Non-sensitive products will be subject only to statistical supervision, but customs duties can be introduced if the increase in imports exceeds a figure corresponding to the theoretical buffer established in 1980 for each beneficiary country, plus two percent on account of the accession of Greece.

Since 1977 the 36 most backward countries (see annex) have enjoyed complete exemption from duties on all industrial products (including textiles) without any limitations, and these concessions will continue.

Agricultural products

In 1981 some 317 processed agricultural products are covered by the GSP. Most of these attract reduced import duties, but the 36 poorest countries enjoy full exemption, although on tobacco and tinned pineapple their exports will be subject to a ceiling. These countries also enjoy special benefits under the GSP for fish flour, dried raisins, non-decafeinated coffee, and clover seeds. Thyme and bay have also been introduced into the scheme specially to help the most backward countries.

Textiles

The classification of textile products is harmonized with that under the Multifibre Arrangement (MFA), which regulates imports between the Community and major suppliers. Benefits from the GSP are restricted to developing countries that have signed limitation of supplies agreements, the most backward countries being the exception.

Encouraging use of the GSP

The Commission reckons that products which have come duty free into the Community account for only 55 - 60 percent of those which could be imported under the scheme. This has been partly because of the highly competitive position of a few countries; partly because the benefits of the GSP are not always understood.

The Commission intends, therefore, to continue with its program of seminars and information in beneficiary countries, and is updating its guide to the GSP for the use of business circles. It believes that the GSP is one of the more important ways in which the Community contributes assistance to the developing countries, with the aim of ensuring a better balance of the distribution of wealth throughout the world.

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ANNEX

List of developing countries and territories enjoying generalized tariff preferences

INDEPENDENT COUNTRIES

Afghanistan (²)
Algeria
Angola
Argentina
Bahamas
Bahrain
Bangladesh (²)
Barbados
Benin (²)
Bhutan (²)
Bolivia
Botswana (²)
Brazil
Burma
Burundi (²)
Cameroon
Central African Republic (²)
Chad (²)
Chile
China
Colombia
Comoros (²)
Congo
Costa Rica
Cuba
Cyprus
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea (²)
Ethiopia (²)
Fiji
Gabon
Gambia (²)
Ghana
Grenada
Guatemala
Guinea (²)
Guinea Bissau (²)
Guyana
Haiti (²)
Honduras
India
Indonesia
Iran
Iraq
Ivory Coast
Jamaica
Jibuti (²)
Jordan
Kampuchea (Cambodia)
Kenya
Kiribati
Kuwait
Laos (²)
Lebanon
Lesotho (²)
Liberia
Libya
Madagascar
Malawi (²)
Malaysia
Maldives (²)
Mali (²)
Mauritania
Mauritius
Mexico
Morocco
Mozambique
Nauru
Nepal (²)
Nicaragua
Niger (²)
Nigeria
North Yemen (²)
Oman
Pakistan
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Qatar
Republic of Cape Verde (²)
Romania
Rwanda (²)
Sao Tome and Principe (²)
Saudi Arabia
Senegal
Seychelles and dependencies (²)
Sierra Leone
Singapore
Solomon Islands
Somalia (²)
South Korea
South Yemen (²)
Sri Lanka
St Lucia
St Vincent
Sudan (²)
Surinam
Swaziland
Syria
Tanzania (²)
Thailand
Togo
Tonga (²)
Trinidad and Tobago
Tunisia
Tuvalu
Uganda (²)
United Arab Emirates
Upper Volta (²)
Uruguay
Vanuatu
Venezuela
Vietnam
Western Samoa (²)
Yugoslavia
Zaire
Zambia
Zimbabwe

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(2) A least developed country

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