

Brussels, 16 September 1987

REPORT
of the Section for External Relations
on the
Proposal for a Council Regulation (EEC) applying generalized tariff preferences for 1988 in respect of certain industrial products originating in developing countries

Proposal for a Council Regulation (EEC) applying generalized tariff preferences for 1988 to textile products originating in developing countries

Proposal for a Council (EEC) applying generalized tariff preferences for 1988 in respect of certain agricultural products originating in developing countries

Draft Decision of the representatives of the Governments of the Member States of the European Coal and Steel Community, meeting within the Council applying for 1988 the generalized tariff preferences for certain steel products originating in developing countries

(submitted by the Commission to the Council
(COM(87) 227 final)

Rapporteur: Mr CAVAZZUTI

CES 688/87 fin F/HO/tg

Introduction

1. The Generalized Schemes of Preferences (GSP), applied by the industrialized countries with the aim of helping the developing countries to extend their industrial base, derive from a decision taken in June 1971, within the framework of the UN Conference on Trade and Development (UNCTAD), to accept a ten-year waiver of the most-favoured nation clause. The EC, followed by Japan and Norway, introduced their first annual schemes in 1971. The other industrialized countries (i.e. the majority of the other OECD States and a small number of Eastern block countries) followed suit in succession, though not until 1 January 1976 in the case of the US.

2. The "enabling clause", inserted into GATT in the "Tokyo Round", provides a legal basis for the preferences, thereby making it unnecessary to have recourse to waivers in order to grant differential treatment to the developing countries.

3. The Community GSP, which was extended for a further 10 years in 1981, applies to:

- virtually all the developing countries;
- in principle all industrial products, laying down margins, ceilings and quotas on the basis of a two-category system: sensitive products (of which there were 178 in 1981) and non-sensitive products (all the others); a product may be transferred from one category to the other by reason of changing (market) conditions (the distinction between sensitive and non-sensitive products is drawn each year in the light of the effect which imports of the products in question have on the economic and social situation in the EC);
- a growing number of agricultural products, but not products subject to a common organization of the market and levies.

4. In May 1985 the Commission's Communication to the Council entitled "Revision of the Generalized Scheme of Tariff Preferences of the European Community"⁽¹⁾ announced an initial differentiation in the form of the exclusion of certain country/product combinations (cross-selectivity); this was put into operation in the 1986 scheme, even though the Council did not accept all the Commission's proposals. It should be noted that for a long time the Economic and Social Committee has been advocating a form of selectivity whereby GSP concessions are withdrawn from the products of certain competitive countries in order to give greater aid to products from less favoured countries⁽²⁾.

(1) COM(85) 203 final of 8 May 1985.

(2) Cf. the Report of the Section for External Relations on the renewal of the EC generalized tariff preference scheme for the five-year period 1986-1990 (CES 555/85 final of 16 September 1985).

Commission Proposals for the 1988 GSP

5. The Commission proposes a small increase in **possible** preferential imports of industrial products over the figure for 1987. Overall, this would enable products to the value of some 24,000 m ECU to be imported into the EC from the developing countries and would provide relief from customs duties to the value of almost 900 m ECU.

Industrial products other than textiles

6. In respect of this category of products the Commission is seeking to enable those developing countries with a genuine need to benefit more from the GSP. Four measures are proposed to achieve this aim:

- liberalization of the GSP by withdrawing two products from the list of sensitive products and by removing five individual quotas from this list;
- continued application of the policy of differentiation approved by the Council and advocated by the Committee over a long period of time; the Commission is proposing three new product/country exclusions, the suppliers concerned having demonstrated their ability to compete by accounting for more than 20% of the EC imports of the products concerned. These exclusions apply to rubber tyres, brushes and brooms from South Korea and watches, clocks and alarms from Hong Kong;
- a 50% reduction in several (tariff) quotas for products from South Korea (pianos, iron/steel stranded wire, cables and ropes), Hong Kong (watch cases), Romania (isopropylamine) and Libya (urea);
- the introduction of nine individual country quotas, not allocated between Member States, covering products from South Korea (diodes, transistors, fish-hooks, micro-wave ovens and one chemical product) China (lactic acid) Malaysia (methonal, urea), Venezuela (aluminium bars) and Hong Kong (cassettes).

7. The EC activates selective product/country exclusions once the exports to the EC of a sensitive product (subject to tariff quotas) from a country reach a level representing:

- at least 20% of total EC imports of the product concerned, or
- at least ten times the amount of the tariff quota provided under the GSP.

The exclusion operates in two stages:

- once one of the two abovementioned conditions is met the EC reduces by 50% the tariff quota allocated to the country concerned;

- if in the following year the exports from that country attain the reduced quota the country loses all entitlement to benefit from the GSP for the product concerned.

Textile products

8. Following the conclusion of the negotiations on the renewal of the Multifibre Arrangement (MFA) and the associated bilateral agreements the Commission carried out a review of the existing scheme and concluded that substantial changes were required. The structure of the current scheme dates back to 1980 and was based on the trade patterns of 1977, with some modifications being made to take account of the trade situation in 1981.
9. The Commission proposes that under the 1988 GSP the provisions relating to textiles be simplified by bringing them into line with the differentiation system applied in the case of the general provisions covering industrial products.
10. The criterion proposed by the Commission for assessing a supplier country's competitiveness is whether it accounts for 10%⁽³⁾ (as opposed to 20% in the case of the general system) of total EC imports of MAF category of textile products expressed as an average annual figure over the three-year period (1983-1985)⁽⁴⁾. Once imports from countries exceed this figure they will lose entitlement to benefit from the GSP, which provides for zero rating of EC customs duties. The countries so affected would be: Brazil (2 products), China (21), South Korea (16), Hong Kong (30), Macao (5) and Romania (5). In the case of a number of beneficiaries of the GSP, however, the rule has not been applied because of their "low income", examples being India, Pakistan and Peru. Conversely, the rule has been applied to certain countries not expressly covered (an example being China because of its high level of international competitiveness with regard to a large number of textile products).

Agricultural products

11. The Commission proposes a reduction in GSP rates of duty on a number of products: avocados, almonds, walnuts, hazelnuts, grapefruit juice and cigars. The Commission's aim is to restore the preferential margin applied to products from countries benefitting from the GSP before the increase in duties decided in 1987 in the wake of the negotiations under Article XXIV (6) of GATT following the accession of Spain and Portugal to the EC.
12. In order to help the least developed countries, to which it is seeking to give a comparable access to the EC market to that enjoyed by the ACP countries, the Commission proposes that pineapple juice be included in the list of products covered by the GSP.

(3) The proposed rate is 10% rather than 20% because there are more countries which are competitive suppliers of textiles than there are competitive suppliers of other sensitive products.

(4) The Commission proposes to use a three-year rather than a one-year reference period in view of the variations - some of them erratic - which occur in levels of imports of some textiles.

Management of the GSP

13. The Commission proposes that the Council abolish the sharing-out of the imports quotas for sensitive products (including textiles) between the Member States.

14. The Commission also proposes that the conditions governing the reapplication of customs duties, once imports of a product into the Community have reached the tariff ceiling laid down in the GSP, be made more flexible.

Legal basis

15. By virtue of a judgement issued by Court of Justice in March 1986, the Commission bases its 1988 GSP proposals on Article 113 of the Treaty of Rome dealing with trade policy. The Council's decision on the matter may therefore be reached by a qualified majority, rather than by a unanimous vote.

Timetable

16. The EC, together with its main trading partners, will put the harmonized system for the description and classification of goods into effect on 1 January 1988. The Harmonized System provides the basis for the new integrated EC tariff (TARIC). In view of the time needed to transpose the 1988 GSP into the TARIC the Commission calls upon the Council to take a decision by 30 September 1987.

The Chairman
of the Section for
External Relations

John KENNA

The Rapporteur
of the Section for
External Relations

Gian Battista CAVAZZUTI

The Secretary-General
of the Economic and
Social Committee

Roger LOUET
