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Report

drawn up on behalf of the Committee on Development and Cooperation

on the communication from the Commission of the European Communities to the Council (Doc. 1-67/80) on the guidelines for the European Community's scheme of generalized tariff preferences for the post-1980 period

Rapporteur: Mr A. PEARCE

By letter of 28 March 1980, the President of the Council of the European Communities consulted the European Parliament on a communication from the Commission of the European Communities to the Council on the guidelines for the European Community's scheme of generalized tariff preferences for the post-1980 period.

On 14 April 1980, the President of the European Parliament referred this communication to the Committee on Development and Cooperation as the committee responsible, and to the Committee on Agriculture, the Committee on Economic and Monetary Affairs and the Committee on External Economic Relations for their opinions.

On 22 April 1980, the Committee on Development and Cooperation appointed Mr Pearce rapporteur.

It considered the draft report at its meeting of 24 June 1980 and adopted the motion for a resolution unanimously with four abstentions on 30 September 1980.

Present: Mr Poniatowski, chairman; Mr Bersani, vice-chairman; Mr Pearce, rapporteur; Mrs Cerettoni Romagnoli (deputizing for Mr Pajetta), Mrs Castellina, Mr Clément, Mrs Focke, Mr Ferrero, Mr Michel, Mr Penders (deputizing for Mr Vergeer), Mrs Rabbethge, Mr Sherlock and Mr Woltjer (deputizing for Mr Enright).

The opinions of the Committee on Agriculture, the Committee on Economic and Monetary Affairs and the Committee on External Economic Relations 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 communication from the Commission of the European Communities to the Council on the guidelines for the European Community's scheme of generalized preferences for the post-1980 period

The European Parliament,

- having regard to the communication from the Commission to the Council (Doc. COM(80) 104 final),
- having been consulted by the Council (Doc. 1-67/80),
- having regard to its resolutions of 6 October 1970¹, 9 June 1971², 13 December 1973³, 12 July 1974⁴, 17 October 1974⁵, 16 October 1975⁶, 14 October 1976⁷, 11 October 1977⁸ and 15 December 1978⁹,
- having regard to the opinions of the Committee on Agriculture, the Committee on Economic and Monetary Affairs and the Committee on External Economic Relations (Doc. 1-455/80),

1. Welcomes the fact that the Commission has produced a guidelines document on its intentions for GSP for the coming years but finds both the analysis of the first ten years of GSP and the proposals for the future rather inadequate in depth and lacking in detail;
2. Fully supports the continuance of GSP, while hoping that its relationship with the other Community aid schemes for the developing world will become better defined and understood.

¹ OJ No.C 129, 26.10.1970, p.13
² OJ No.C 66, 1. 7.1971, p.15
³ OJ No.C 2, 9. 1.1974, p.55
⁴ OJ No.C 93, 7. 8.1974, p.91

⁵ OJ No.C 140, 13.11.1974, p.42
⁶ OJ No.C 257, 10.11.1975, p.30
⁷ OJ No.C 259, 4.11.1976, p.27
⁸ OJ No.C 266, 7.11.1977, p.16
⁹ OJ No.C 6, 8. 1.1979, p.88

3. Draws attention to the low utilisation of the GSP offer (60%) and is of the opinion that increases in the size of the offer may serve no purpose if the exporting countries do not and cannot take advantage of the existing offer;
4. Notes that the countries that presently take most advantage of GSP are generally those which are semi-industrialised rather than the poorest and that, as regards the poorest, trade under GSP is sometimes only concentrated on a few products; asks the Community to differentiate its offer according to the degree of industrialisation of the beneficiary countries, and, if need be, ask for a certain degree of reciprocity;
5. Asks the Commission to review its list of beneficiary countries according to the economic conditions of each developing country, regardless of its belonging to UNCTAD;
6. Stresses that the poorest countries can frequently only be helped by preferences in the field of agricultural products, and urges therefore the Community to resolve the inconsistency between its liberal trade policy for most industrial goods and its policy for most agricultural goods;
7. Supports any possible simplification of the rules of origin, would welcome serious consideration of further development of the various kinds of 'cumulative' origin, involving regional groupings of developing countries or Member States of the Community, and urges that more effort be devoted to explaining rules of origin and procedures to exporters and importers;
8. Welcomes the Commission's general effort to simplify the GSP, and asks for more timely regulations having a longer duration, in order that the Community's industries can make the necessary adaptation;
9. Supports the autonomous nature of the GSP but stresses that notwithstanding this, it is necessary to consult the beneficiary countries to ensure that the offer is of value to them;
10. Expresses disquiet at the suggestion that the Council will be involved in managing GSP; reiterates that this function belongs to the Commission and urges the Council not to exceed its proper role in this matter.

EXPLANATORY STATEMENTIntroduction

The Community generalized preference system was introduced on 1 July 1971 (following the Second UNCTAD Conference in 1968), and forms part of a global Community policy of cooperation with the developing countries. In concept, this policy is principally based on the recognition of the economic and political interdependence of the industrialized and the developing countries. It also stems from the conviction that, quite apart from any humanitarian or moral considerations, the North-South imbalance represents a threat to peace in the world.

On the basis of a general objective, i.e. to facilitate and promote the development of the countries of the Third World, the Community policy of cooperation with the developing countries includes various instruments for taking action, the most important of which are the association between developing countries or groups of developing countries and the Community, financial and technical cooperation with the non-associated developing countries and the liberalization of trade with all developing countries. The scheme of generalized preferences forms an integral part of this global policy. The goal pursued by the Community through the implementation of this scheme is to encourage the growth of developing countries' exports and therefore of their production, and ultimately to promote their economic development. It should also be pointed out that, contrary to a very widespread belief, the aim of the scheme of generalized preferences is to facilitate developing countries' exports and not to benefit either consumers or producers in the Member States except insofar as the Community benefits from improved international relations and better export opportunities.

Lastly, it should be recognized that without the growth in trade with the developing countries the economic situation of the EEC would have deteriorated considerably over recent years. Increases in the purchasing power of the developing countries thus have a beneficial effect on the Community's balance of trade.

In the resolution it adopted on 16 November 1979¹ on the 1980 scheme of generalized preferences, the European Parliament requested the Commission 'to submit to it as soon as possible a comprehensive report setting out :

- all the experience gained since application of the GSP in 1971, and
- general guidelines (international division of labour, specific proposals for the restructuring of certain industries in the EEC which might become necessary, list of beneficiary countries, measures to improve the rate of utilization) for the next period of application of the preference system.'

The Communication from the Commission to the Council now submitted to us for examination at least partly satisfies this request voiced by the European Parliament.

¹ OJ C 309 of 10.12.1979, p.57

As the principle of an extension of the scheme has already been accepted by the Community authorities, the Commission proposes guidelines for the future GSP to be implemented in 1981. On the basis of these guidelines the Commission will later put forward formal proposals for 1981.

CHAPTER I - EXPERIENCE GAINED DURING THE INITIAL PERIOD
OF APPLICATION OF THE GSP (1971 - 1980)

Point 1 - The deficiencies of the Commission's document

Although the experience gained during the 1971-1980 period of application is analysed by the Commission, your rapporteur finds this analysis somewhat brief.

The analysis, as given in point 2 of the document and in Annex No. 1, cannot be used as a basis for the establishment of new guidelines for the future system. The Commission has confined itself to referring to various general aspects concerning the effects of the GSP on various sectors of production in the EEC, the limited number of countries and products concerned and the limited rate of GSP utilization. These comments by the Commission are undoubtedly true, but they are so general that they do not allow of conclusions regarding future action.

It is regrettable that advantage was not taken of the expiry of the first period of application of the Community's GSP to draw up a more detailed, more refined statement, which would have made it possible to locate with greater accuracy the crucial aspects of the system and thus to ascertain how far it has performed the functions assigned to it.

In particular, your rapporteur feels that it was essential to have, at the end of the first period of application, an assessment of the effects of the GSP both on the beneficiary countries and on the donor countries. A study on the effects of the United States' GSP has, moreover, been drawn up for the secretariat of UNCTAD¹. This reveals, in particular, that the United States' imports of products covered by the American scheme increased, at current prices, by \$1,537m, or 78%, between 1974 (\$1,963m) and 1977 (\$3,500m). However, inflation alone (\$1,000m) accounted for 65% of this increase. Consequently, in real terms and at 1974 prices, these imports rose by only \$537m, or 27%. The proportion of the increase attributable to the GSP, i.e. \$345m, forms a large fraction of the total. In fact, if the GSP had not existed, the total increase would have been only \$192m.

Your rapporteur does not intend to devote this report to a discussion of the American GSP. The figures quoted above were merely meant to show how important it is for our committee and for the European Parliament as a whole to have an analysis of the Community GSP similar to that made of the United States' scheme.

¹ Evaluation of the commercial advantages derived from the generalized preference scheme (Doc. TD:B:C 5/66 of 20.2.1980)

Secondly, your rapporteur regrets that the Commission has not included in its document a comparative study of the various systems used by donor countries. This would have enabled a more accurate assessment of the 'generosity' of the Community's GSP and of the complexity of the Community scheme (a point to which we shall be returning) compared with the methods applied by other donor countries.

As regards the general framework of the Community's development aid policy, of which the GSP forms part, your rapporteur must again refer to the shortcomings of the Commission's document. It is true, as we have said, that the principle of extending the GSP has already been adopted by the Community authorities. But this decision did not prevent the Commission from placing the GSP within the general framework of the development aid policy to demonstrate its links with other forms of action. There is a need, for example, to consider any cases where specific fields are covered neither by the GSP nor by any other form of development cooperation. Similarly, it should be ascertained whether there is not overlapping on some occasions (as there is with regard to the GSP and the Lomé Convention). The Commission did not feel it necessary to provide such details. As a result, the political, or 'philosophical', part of its document is more than thin, and consequently the analysis of the 'GSP' problem is falsified, since it is overly concentrated on the technical and administrative aspects.

Point 2 - The functioning of the GSP during the initial period of application

Your rapporteur does not intend to explain yet again the various features of the GSP. This has already been done on several occasions in the European Parliament's various annual reports on the GSP.

On the other hand, it is perhaps essential to recall certain fundamental aspects of the scheme which need to be corrected or improved in the future GSP.

Firstly, there is the limited rate of GSP utilization during the initial period. The figures available for 1978 show this rate of utilization to be

- 72% for products subject to tariff quotas
- 103% for products subject to controlled ceilings
- 36.5% for products subject to normal ceilings or not subject to ceilings
- 60% for products as a whole.

While the rate of use for products as a whole may be limited, it is almost negligible in the case of non-sensitive products. It should be established what causes this situation and possible how the new scheme can remedy it.

The second remark concerns the continual increase in the Community's offer during the period of application of the GSP. Between 1974 and 1979 this offer (textiles excluded) rose by 75% from 3,700m to 6,500m EUA. Taking only the offer on industrial products (other than textiles), the increase in the same period was 82%.

These figures must, however, be seen in terms of Community imports from developing countries under the GSP as a percentage of total Community imports from the same countries. In 1977, this figure was 5%. Compared with Community imports subject to customs duties, imports under the GSP amounted to about 16%. Seen in these terms, the annual increase in the Community's offer represents only very limited advantages.

The third remark in this section concerns both the list of beneficiary countries (the question of semi-industrialized countries) and the virtual non-utilization of the benefits of the scheme by the poorest developing countries.

This phenomenon is also encountered in all other schemes of generalized preferences. The OECD, for example, has just published a report according to which two countries (South Korea and Taiwan) accounted for 23% of all GSP imports in 1973; in 1975 the figures was almost 25%. The next three principal suppliers (Hong Kong, Yugoslavia and Brazil) accounted in these two years for almost the same percentage, contributing about two thirds of all GSP imports from the ten principal suppliers.

If we consider only the Community GSP, the following table perfectly illustrates this situation.

Imports subject to customs duties and under the GSP (1977)

Major beneficiary countries	(a) subject to customs duties	(b) under the GSP	in MEUA
			$\frac{b}{a + b}\%$
Yugoslavia	1,253,772	402,803	24
Brazil	2,230,338	391,414	15
Hong Kong	2,128,937	353,492	14
India	1,299,580	322,699	20
Malaysia	610,214	288,470	32
South Korea	1,259,848	281,884	18
Romania	965,288	130,409	12
Philippines	244,302	117,594	32
Singapore	513,087	110,576	18
Thailand	550,979	105,016	16
Argentina	1,417,504	100,586	7
Pakistan	255,575	80,665	24
Iran	402,199	75,779	16
Indonesia	410,304	71,258	15
Mexico	284,931	70,990	20
Some other countries:			
Kuwait	179,778	43,379	19
Haïti	49,245	1,802	3
Burma	7,117	260	3
Cambodia	241	36	13
Dem.Rep.of Yemen	8,862	1	0
TOTAL (all developing countries)	17,562,927	3,402,173	16

Source: EUROSTAT

In view of these figures, it must above all be said that the objective constantly reaffirmed by the European Parliament of having first and foremost the poorest developing countries benefit by the GSP has never been achieved. Here again, your committee must ascertain whether the guidelines proposed by the Commission for the second period of application of the GSP are likely to reverse the present trend.

CHAPTER II - MODIFICATIONS TO BE MADE TO THE GSP

Point 1 - Simplification of the scheme

The various observations made in the previous section, which in fact all concern the problem of too limited a rate of GSP utilization in general and of the small number of developing countries actually benefiting, were simply designed to underline once again one of the typical weaknesses of the scheme, i.e. its complexity. There are, of course, other causes of this situation. In the annex to its document, the Commission says, for example, that 'utilization of preferential advantages is concentrated on a fairly small number of beneficiary countries, some 70% going to 13 countries; in 1977, 17 countries accounted for 85% of utilization. This phenomenon occurs in the schemes of other donor countries as well, and is not really surprising, since the GSP mainly covers manufactured industrial products and thus is essentially of benefit to countries having attained a certain level of economic development and those with traditional trade flows to the Community or a fairly wide range of industrial products. This means that the chief beneficiaries include not only a number of the fairly advanced developing countries but also countries like India, Pakistan, Peru, Indonesia and the Philippines, which belong to the low-income group. It should be noted, however, that for a number of countries the high utilization rate is based on a single group of products : palm oil accounts for 62% of Malaysia's total, tobacco for 44% of Indonesia's and petroleum products for 73% and 95% respectively of the total for Romania and Venezuela'.

The factors mentioned by the Commission naturally play a major role in GSP utilization. But your rapporteur feels that they represent only part of the problem. In its communication, the Commission does not appear to have given detailed thought to the causes of this situation. One might have hoped that the document would provide a more thorough analysis of the problem. This view is supported by the report on this subject drawn up by the Economic and Social Committee, which points out that the figures on trade between the Community and the developing countries clearly show that the latter abandon everything, voluntarily or involuntarily, to benefit by the GSP for non-sensitive products, which are not subject to any limit. It can be assumed that the goods concerned are not always accompanied by the required certificate of origin, that importers or customs agencies ignore the GSP and that the marginal benefit to be derived from the scheme is less than the cost of the formalities.

One simplification of the future scheme suggested by the Commission concerns the classification of industrial products. The former categories of

- sensitive products (15 tariff headings)
- quasi-sensitive hybrid products (28 tariff headings)

- quasi-sensitive products (81 tariff headings)
- and non-sensitive products (about 1,700 tariff headings)

for each of which there are specific rules on the application of the scheme, would be reduced to two classifications : sensitive products (comprising the first three categories of the old scheme) and non-sensitive products.

Within these two product categories a distinction would be made between the more competitive countries (subject to quotas or Community ceilings) and other products (see the section on the list of beneficiary countries).

Your rapporteur proposes to make a final assessment of this part of the communication once the Commission has made known its final proposals; however, he would like to express at this stage the hope that the Commission will maintain its view that there should only be two categories, one for sensitive products and the other for non-sensitive products. While acknowledging that the Commission seems to be moving in the right direction here, he finds notions like 'the economic position of the beneficiaries' and 'the state of trade relations' rather vague. Your rapporteur wonders whether it would not be appropriate to simplify the presentation and, above all, to harmonize the content of analogous articles in the 12 existing regulations (except, of course, where there are good reasons for the differences).

+ The duration of the GSP

The Commission proposes that the principle adopted should be to maintain the system in force until the year 2000, i.e. for 20 years. The period of application of a scheme based on unchanged general rules should not, according to the Commission, be less than five years. Your rapporteur is able to endorse these proposals without difficulty. However, the problems posed by the annual regulations on the GSP remain. The Commission should study the possibility of abandoning this method of annual regulations in favour of a system under which the various rules applicable to them remain the same for a longer period, with provision made for modification in the event of disturbances. The Community should give an assurance that any necessary changes in the system will not be effected until one year after the decision has been taken. Commercial operators would then know where they stood rather than always having to wait until the later date of 31 December to know what form the GSP will take the next year.

In this context, it must also be said that the belated adoption of the annual GSP regulations also tends to favour the more competitive countries, which are better organized commercially and are therefore able to benefit from the annual GSP from the outset.

Collaboration with the business and social spheres is essential if the GSP is to operate smoothly. They should therefore be consulted on each individual sector, and proposed measures should be announced in good time so that industries are able to adapt.

+ Administrative facilities

Your rapporteur feels that operators in the developing countries, particularly the less developed among them, should have administrative facilities for exporting those of their products which come under the GSP. These facilities might include the appendage, at the time the product leaves the country of origin, of a seal certifying that the product is governed by the GSP in respect of all operations. This would make the administrative procedures required of the exporter simpler and, above all, more reliable.

+ Rules of origin

The Commission acknowledges in its document that the rules of origin have been the subject of much criticism, as they are considered too restrictive and complicated. It contents itself, however, with providing for the possibility of simplification with regard to 'cumulative' origin in countries belonging to region groupings and to the 'donor's content' principle.

Your rapporteur supports the Commission's comments as far as they go. He however believes that 'cumulative' origin in regional groupings and between Member States of the Community and countries benefitting from GSP deserve full and careful consideration. He also believes that, while further simplification of rules of origin is difficult, it is worthwhile at this juncture producing a statement of progress in this regard. He also believes that a much greater effort is required on the part of the Commission to explain rules of origin to exporters and importers and urges that sufficient resources of personnel be allocated to this work.

Point 2 - The choice of beneficiary countries

In addition to the simplification of the classification of products, the Commission proposes 'differential' application of the preferential advantages. Given that the imbalance in the use of the scheme must be corrected by enabling the less competitive developing countries to make better use of the advantages of the GSP, the Commission proposes that the preferences accorded to the more competitive developing countries should be limited. Such limitation would have the two-fold advantage of increasing the opportunities for the less competitive countries to use the GSP and of preventing 'excessive pressure being brought to bear on the sectors of production in the EEC which are in difficulties and may need a certain period of time for restructuring'.

To identify the countries and products in respect of which limitations should be introduced, the Commission proposes the use of objective criteria, these being :

- economic and social indicators of the beneficiary countries;
- the use found to have been made of the preferential advantages in the preceding period as regards the maximum country amounts (butoirs);
- the situation of the given product or sector with particular reference to the share of the EEC internal market taken by imports;
- the situation of the countries concerned as producers and exporters of the products in question.

The Commission also states that these 'differential' limitations should not result in the total exclusion of a country or a product from the GSP.

While recognizing the progress which the introduction of such 'differential' application represents, your rapporteur prefers to await an assessment of the quality and value of the proposed objective criteria when they are put into effect through the formal proposals for the 1981 GSP.

As regards the Commission's classification of beneficiary countries (point 5(b)), your rapporteur wonders how realistic is the third category, 'Developing countries not falling into either of the above two categories' (i.e. the more competitive developing countries and the poorest countries and LLDCs). Even leaving aside the difficulties involved in determining which countries fall into this third category, your rapporteur cannot see how the scheme 'liberalized as far as possible' which is to be applied to them differs from the scheme proposed for the less competitive developing countries.

As regards the effects of the GSP on the commercial position of the ACP countries, it should be remembered that in a declaration annexed to Lomé II the Community recognizes the need to ensure that the ACP countries maintain their competitive position where commercial advantages in the Community market are affected by measures aimed at the general liberalization of trade and declares its willingness to examine appropriate action to be taken in individual cases.

It should also be mentioned that a joint working party was set up in 1977 (within the framework of the ACP-EEC Subcommittee on Trade Cooperation) to monitor ACP exports in certain sensitive fields in order to assess the impact of the GSP on ACP exports and, if necessary, to propose measures to safeguard the interests of these countries.

The actual list of beneficiary countries is at present composed of member states of UNCTAD. Your rapporteur considers that in future the Commission should judge each application from the developing countries on the merits of the individual country concerned, as it did, for example, in the case of China and Romania. In this way a favourable reply could be given, subject to certain conditions, to an application from Taiwan.

Point 3 - Product coverage

The Commission does not propose any major changes in the products covered by the GSP. This means that agricultural products will not be eligible for GSP advantages unless there is no threat of competition injurious to EEC production. This is a reflection of one of the fundamental inconsistencies of the policy pursued by the Community that, on the one hand, it claims to encourage exports from the developing countries, particularly through the GSP, but, on the other hand, because of the common agricultural policy, excludes from this liberalization of trade - or favours to a negligible degree - many of the agricultural products which represent the primary sector of production for these developing countries and would thus provide them with export opportunities. The preferential tariff for cigarettes, for example, is 87%, as compared with the normal rate of 90%.

Your rapporteur notes (see p.6 of the Commission's document) that only products not likely to 'endanger Community production' may be included in the list of agricultural products covered by the preferences. He feels that the Commission should make up its mind : there can be no justification for protecting farmers on the one hand, and exposing the textile industry to competition from the developing countries on the other.

It is worth remarking that for some developing countries, the principal access which they would like to Community markets is for agricultural products.

Point 4 - Legal status and administration

Referring to the legal status of the future scheme, the Commission states that 'experience has shown that the "autonomous" nature of the preferences - which has come in for increasing criticism from the beneficiary developing countries - has enable the Community scheme to maintain its principle of offering the widest possible opening and also to adapt flexibly to changing situations in international economic relations. These advantages should be maintained and the new schemes should continue to be legally autonomous rather than contractual' (Point 4(a)).

While accepting the need to maintain the 'autonomous' nature of the GSP, your rapporteur also feels there is a need for 'prior consultations' between the Community and the beneficiary developing countries. If such consultations do not take place, there is a risk that the opportunities, i.e. applications from interested parties, will not match up to the Community's offer.

Furthermore, it might be asked if it would not be advisable for the Community, while respecting the principle of GSP autonomy, to obtain from the semi-industrialized developing countries (which are the principal beneficiaries of the GSP, in respect of products which compete with Community products) some kind of reciprocity with regard to trade advantages according to their degree of industrialization. This could apply to the tariff system of the beneficiary countries, observance of GATT regulations, and, in general, to all arrangements guaranteeing the smooth operation of world trade.

Regarding the current administration of the GSP, the Commission feels it should itself take the decisions after consulting the Member States, in accordance with a management procedure to be created for this purpose and in regard to which it will when the time comes put forward formal proposals.

In this connection, your rapporteur cannot but recall the position which the European Parliament has always adopted, that the Management Committees should play a purely consultative role (and should therefore have no right of veto). It is to be hoped that when it presents these formal proposals, the Commission remembers Parliament's demands and its own commitments.

CONCLUSIONS

In the first part of this report we referred to the deficiencies in the presentation of the Commission's document. As we do not wish to take up the various aspects noted during our examination, we shall confine ourselves in these conclusions to mentioning one subject, i.e. the need for the Community's trade liberalization measures, and more generally its policy of cooperation with the developing countries, to be accompanied by a policy on the restructuring of its economic activities. The Commission refers to this aspect in its document, but does not elaborate, which is, of course, logical since its analysis is limited to the GSP. It points out that the future scheme must not only be adapted to the new economic conditions prevailing in international relations, but also take account of the competitive position of EEC producers so that the required structural changes may be progressively made. It seems to your rapporteur that, while it incessantly reaffirms the urgent need to take restructuring measures aimed at an international division of labour, the Community has not yet been able to match its declarations with action. As long as this situation continues, any attempts at cooperation with the developing countries is bound to clash with the interests of certain economic sectors of the Community.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr E.P. WOLTJER

At its meeting of 22/24 April 1980, the Committee on Agriculture appointed Mr E.P. Woltjer draftsman.

It considered the draft opinion at its meeting of 15 September 1980 and adopted it by ten votes in favour with 18 abstentions.

Present: Sir Henry Plumb, chairman; Mr Früh, Mr Ligios and Mr Caillavet, vice-chairmen; Mr Woltjer, draftsman; Mrs Barbarella, Mr Battersby, Mr Bocklet, Mr Buchou, Mrs Castle, Mrs Cresson, Mr Curry, Mr Dalsaus, Mr Delatte, Mr De Keersmaeker (deputizing for Mr Helms), Mr Diana, Mrs Herklotz, Mr Hord, Mr Jürgens, Mr Kavanagh (deputizing for Mr Lynge), Mr Maher, Mr B. Nielsen, Mr d'Ormesson, Mr Provan, Miss Quin, Mr Skovmand, Mr Sutra and Mr Vernimmen.

The generalized tariff preferences scheme entered into force on 1 July 1971. From 1 January 1974 it was also implemented by the new Member States, which considerably broadened the scope of the scheme. The present system, which has been extended on several occasions, expires at the end of this year after being in operation for 10 years. For the new period consideration must be given to whether the scheme requires adaptation or improvement on the basis of past experience. Politically there is already general agreement that the system should be continued for a new period. In anticipation of the formal and detailed proposals to be submitted later in the year the Commission has made an initial assessment of the operation of the system hitherto and proposed general guidelines for the scheme of generalized tariff preferences to apply from 1981 onwards.

To recap briefly, the system involves certain reductions in the Common Customs Tariff, which vary according to the product or may even amount to complete exemption from duties, on a general and non-discriminatory basis. About 320 agricultural products enjoy preferential advantages. Some sensitive agricultural products are subject to quotas, e.g. sliced and unsliced pineapples, Virginia tobacco, instant coffee and cocoa butter. If preferential imports seriously threaten Community producers, protective measures can be applied. The principle is that preferences are granted without discrimination to the developing countries of the Group of 77 (now many more than 77). However in practice there are considerable differences in the way in which the recipient countries are able to use the tariff preferences available to them.

Those countries that have already reached a certain stage of development and are in fact in a strong competitive position in the industrial sector have clearly been able to make by far the greatest use of the advantages offered, whilst the poorest developing countries, because of the complexity of the system, have had little or no chance to benefit from the arrangements. The actual scope of the system is also extremely limited, particularly when measured against the far-reaching UNCTAD aims for a more equitable international division of labour, the actual removal of obstacles to trade and wider access for products from developing countries to markets in the industrialized countries.

The Commission itself has said that only a moderate percentage of the preferences offered has been utilized, mainly because strict quantitative restrictions are applied to the main products exported by the developing countries whilst for the majority of non-sensitive products the beneficiaries cannot use the advantages as they lack the financial and technical bases which would enable them to increase the output of these products.

Preferential imports can thus hardly have any serious effect on Community products especially as preferential trade is based mainly on traditional trading patterns. However the generalized tariff preferences system is still valuable as, in spite of its complexity and its actually limited advantages, it still has a certain flexibility and can be adapted to changes in the international economic and political scene. Thus, it has been possible to extend the number of agricultural products covered by the system considerably. It is therefore worthwhile reviewing the system for a new period and continuing with it.

However, it is clear that for the next period more efforts must be made to achieve better utilization of the tariff preferences, particularly by the poorest developing countries so that, being fully aware of the opportunities available, they can expand their exports to the Community. This will be of particular value to the countries which do not already have the right to reduced tariffs through other schemes, as do the Lomé countries and the Mediterranean countries. By analogy with the Lomé Convention, the European Community might offer a sales guarantee by allocating quotas to the poorest developing countries for those products on which they are particularly dependent. Consideration must be given to the extent to which such products could be imported into the Community at fixed and reasonable prices, thus promoting large-scale price stability. Products, for instance certain vegetable oils and fats, which are already imported duty-free from developing countries will again have to be free from tariffs in the next period as this would have a considerable effect on the developing countries' export position. In general tariffs will have to be lower for agricultural products in line with their importance for the economy of the developing country concerned and bearing in mind objective criteria such as gross national product, per capital income and the balance of payments position. The Committee on Agriculture considers that the export earnings of the poorest developing countries must definitely increase, not only to secure domestic development but also to facilitate commercial imports of foodstuffs, which for the time being are still necessary.

As the Commission has stated, the preferences scheme as such must be simplified. However the Committee on Agriculture wishes to point out that this should also apply to agricultural products.

The Commission does propose simplifying the system for certain industrial products but this should also extend to the agricultural sector. Only if the system is stripped of its complexity and the beneficiaries are informed of this can the developing countries benefit fully from their preferences.

For the agricultural sector the Commission's proposals contain few ideas for improving the system. The major part of the analysis and the proposed improvements relate to industrial products, which is understandable considering that the GSP primarily covers industrial products. However, this does not mean that the improvements needed in agricultural preferences should be neglected.

For agricultural production the Commission document indicates that as yet the Commission does not intend to extend the list of products covered by the scheme. The Commission states that, 'Given the constraints of the common agricultural policy and the need to safeguard opportunities for access for the ACP countries - or, in the case of certain products, opportunities for the Mediterranean countries - and the possibility of the accession of new countries, it would be inappropriate to widen the present coverage, although consideration could however be given to certain improvements to the present arrangements if this could be justified, especially for the least developed countries'. Although the Commission indicates its willingness to consider improvements, particularly for the least developed countries, it does not draw conclusions from this. The Committee on Agriculture considers that more attention must be devoted, in the context of generalized tariff preferences, to the position of the poorest developing countries which rely totally on exports of agricultural products to initiate and maintain their development. The guidelines submitted by the Commission are clearly lacking on this point.

It must be remembered that, in a global context, there is basically no conflict between Community agriculture and agriculture in the developing countries. On the contrary, unison can be achieved between European agriculture and agriculture in the developing countries, without relinquishing the basic principles of the common agricultural policy.

The Commission mentions the restrictive provisions of the common agricultural policy which prevent extension of the products included in the system. The Committee on Agriculture disagrees with this and considers, indeed, that it is in the long-term interests of the common agricultural policy for it to be better adapted to the international scene. It also thinks that the instruments of the common agricultural policy must be sufficiently flexible for them to be adapted if necessary so that they no longer prevent expansion of trade in agricultural products between the industrialized countries and the poor agricultural developing countries. Europe has the advantage of an enormous technological lead in agriculture and high productivity and therefore must contribute to improving the developing countries' agricultural production potential. The Community must gear its own agricultural policy to the solution of the problems of structural inequalities and internal difficulties

caused by structural market imbalances. The agricultural policies of rich countries stand in urgent need of more effective instruments for regulating the volume of production as it is politically and morally unjustifiable that costly food should be produced which cannot be put to good use either in Europe or elsewhere to combat the shortage of food. The food aid supplied by the Community should not be linked to the production of surpluses. Moreover, it is in the interests of both parties that the production of vegetable proteins, such as oils and fats, and crops for use in cattle feeds should be stimulated in poor countries. By encouraging reasonable prices both inside and outside the Community and by trying to achieve international stability the common agricultural policy will become more credible in the eyes of other countries and the security of world supplies will increase. Whilst preserving the fundamental achievements of the common agricultural policy the opportunity must be found to adapt Community agricultural production better to the international market situation.

In conclusion, the Committee on Agriculture makes the following suggestions:

1. It is desirable to continue the GSP basically along the lines of the old system as, although its scope is limited in practice, it takes account of the developing countries' interests and those of Community producers and has contributed to some improvement of agricultural production in the developing countries belonging to the Group of 77. In the future it could very easily be adapted to new economic circumstances; however, the system must be improved and simplified for the poorest developing countries so that these countries can in practice expand their agricultural exports to the Community.
2. The Commission's guidelines on tariff preferences for the agricultural sector are inadequate and should be amplified.
3. The list of products covered by the scheme must be kept under permanent review with an eye to regular up-dating and extension. For example, account should be taken of new products which the countries concerned could process themselves and which, when supported by preferential import arrangements, could provide an important foundation from which these countries could reach a more advanced stage of development. The scope for the better use or expansion of quotas must also be examined. When the list of products is drawn up thorough consideration must be given to how agricultural products can be added to this list, thereby increasing the real export potential of the poor developing countries. On-the-spot processing of agricultural products should be encouraged, not only by means of technical and financial aid, but also through improved preferential opportunities on the Community market for processed products.

4. Consideration must be given to whether the Community can also offer a sales guarantee to the least developed countries which are mainly dependent on agricultural exports. The system should, in the case of the very poorest developing countries and where it can be considered completely justified, be brought more into line with the Lomé Convention as regards price stability and the stabilization of export earnings.

5. There is an urgent need to eliminate financial, technical and administrative obstacles and restrictions which prevent the least developed countries making use of the preferential advantages.

6. Countries which, because of their level of development and strong competitive position, no longer rely on preferences must be deleted from the list and priority must be given to the least developed countries which up to now have been least able to benefit from the generalized tariff preferences. If this does not happen the Community will still have to support these countries' exports in other ways.

7. The new scheme should enter into force promptly at the beginning of 1981 so that there are no distortions in trade or disadvantages for the least developed countries.

8. Lastly, the European Parliament should be consulted in good time on the list of developing countries and areas to benefit from generalized tariff preferences and on the final proposals.

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman: Mr R.E.A. DELOROZOY

On 23 September 1980 the Committee on Economic and Monetary Affairs appointed Mr Delorozoy draftsman.

At its meeting of 2 and 3 October 1980 it considered the draft opinion and adopted it unanimously with one abstention.

Present: Mr Delors, chairman; Mr de Ferranti, vice-chairman; Mr Beumer, Mr von Bismarck, Mr Bonaccini, Mr Brok (deputizing for Mr Schnitker), Mr Combe, Mrs Forster, Mr I. Friedrich, Mr Leonardi, Mr Mihr, Mr J. Moreau, Mr Piquet, Prinz zu Sayn-Wittgenstein, Mr Walter and Mr von Wogau.

1. As the ten-year period of application of the scheme of generalized preferences draws to a close, a decision must be taken on whether it should be extended and, if so, in what form.

It is absolutely essential for industrialized countries to pursue a responsible development policy for moral and humanitarian reasons above all but also because of the mutual economic interdependence of the developing countries and the industrialized countries. Consequently, the question of whether to extend the generalized scheme of preferences should not really arise. The developing countries should continue to be granted preferential concessions to help them sell their products in our market and thus promote the development of their economies by means of the GSP. This is undoubtedly the most effective type of assistance which can be given to these countries. It is also worth considering whether the system's potential has so far been developed to the full both from the standpoint of the developing countries and of the Community. Can it be improved in any way?

2. The communication from the Commission states that experience of the application of the GSP has shown that 'the scheme's impact has been as much psychological and political as economic'.

It goes on to say that the actual use made of the GSP in the last three years has represented on average only 19% of total imports from the beneficiary countries subject to customs duty.

The table contained in the draft report of the Committee on Development and Cooperation (PE 65.403) shows that the proportion in 1977 was only 16%. The Commission also states that 'the preferential advantages have been used mainly by a limited number of beneficiary countries whose economy was already relatively more developed or diversified and has involved a limited number of products in respect of which there was already a traditional flow of exports to the EEC'. After commenting that the GSP has not endangered the various branches of industry in the EEC, that the complexity of the scheme has prevented it being used to the full and that the actual rate of use is still only 55 to 60%, the Commission nevertheless comes to the conclusion that the scheme does not need to be changed fundamentally as it has achieved the desired objectives.

3. While the merits of the GSP must not be overlooked, its results must nevertheless be subjected to the necessary critical appraisal and the appropriate conclusions must be drawn. The impact of the GSP must be analyzed in detail to ensure that the system goes as far as possible

towards meeting the desired objectives taking into account the interests of both the developing countries and Community producers. The economic, social and financial implications for the Community Member States and the developing countries must be carefully assessed. Only when these results are available, can the necessary conclusions be drawn and future guidelines for the GSP be properly established. The Committee on Economic and Monetary Affairs and the Committee on Development and Cooperation have repeatedly asked the Commission for a report on the economic impact of the GSP. There is an even greater need for such a report now that a decision has to be taken on guidelines for the GSP for the next period of application. In its communication the Commission once again merely makes a number of general observations and has again failed to provide a serious analysis of the impact of the GSP.

4. In the absence of any detailed appraisal of the results of the GSP, the Committee on Economic and Monetary Affairs can only make a few general comments in its opinion. In any event, it is worth restating one general principle. Preferential advantages in a number of sectors in which European producers are facing a crisis, and which often represent important export products for the developing countries, will have to be restricted temporarily. However, this restrictive policy towards imports from the developing countries can be justified only if it is used to carry out the necessary restructuring of Community industry.
5. One of the most blatant distortions of the GSP as it has been applied so far is the fact that the most developed countries that are in a strong competitive position where certain products are concerned and therefore often have no need for any preferential advantage, are the ones which make most use of the GSP concession for these products, leaving the poorer countries totally unable to assert themselves. In addition, massive imports of these products threaten certain Community producers with the result that the preferential advantage has to be limited to a certain quota and implementation of the quota has to be monitored, which, in turn, involves a complicated and extensive administrative process.

Obviously, this raises the question of whether these countries with the most developed economies should still benefit from the scheme. It would clearly be politically difficult to change the list of beneficiary countries. The same end result should be achieved, however, if the more favoured countries were allowed to benefit from some of the advantages of the GSP in respect of products where they are less able to compete. In this way some of the less competitive

countries could benefit from the GSP and it should be possible with a well-designed system and a regular review of countries and products to abolish quotas and the associated complex administrative formalities. In addition, this might perhaps encourage the economically stronger developing countries to try to benefit from the advantages offered under the GSP in respect of products in which their competitive position is not so strong and hence help to diversify their production.

6. The Commission has proposed an intermediate solution whereby the list of beneficiary countries would not be substantially changed, but individual quotas would be imposed on developing countries with stronger economies in respect of sensitive products in which they have a strong competitive position. Imports from the poorest developing countries on the other hand would not be subject to quotas, not even for sensitive products. This would give the poorest developing countries an opportunity to derive greater benefits from the GSP. Since none of the products from the poorest countries would be subject to quotas, it should also be possible to simplify greatly the administrative formalities which these countries have to complete in order to benefit from the GSP.
7. The Commission proposes creating a third category between the more competitive and the poorest developing countries. It lists a number of general criteria for the three categories, including the economic and social situation of the beneficiary country, the extent to which it made use of the GSP in the initial period, the proportion of EEC imports accounted for by the product, and the situation of the producers and exporters of a given product. While these criteria are all undoubtedly valid, more details are needed before a realistic assessment can be made. Nor is it at all clear how beneficiaries in the middle category would be treated. For them, 'the scheme should be liberalized as far as possible'. It is difficult to make any judgement of this until the more detailed proposals for 1981 are available. The Committee on Economic and Monetary Affairs can, however, endorse the principle of differentiated application.
8. The classification of industrial products is to be simplified. There would be only two categories: sensitive and non-sensitive products. The old categories, notably hybrid semi-sensitive products and semi-sensitive products, each with its own particular rules, would be incorporated in the sensitive product category. The Committee on Economic and Monetary Affairs, supports this step as it would serve to streamline the GSP.

9. As has already been stated, as much as possible must be done to reduce administrative formalities to a minimum particularly for the poorer developing countries. In the section on general guidelines, the Commission states that the new system should 'be based on simplified implementing provisions'. Restriction of the product categories to sensitive and non-sensitive products and the non-imposition of quotas on the poorest developing countries would reduce to an absolute minimum the formalities which these countries must complete to benefit from the GSP. In addition, everything must be done to simplify administrative formalities in general, rules of origin and management.
10. The Commission proposes that the new scheme should apply for 20 years, i.e., until the year 2000. The Committee on Economic and Monetary Affairs would like the scheme to apply for not more than 10 years and the system to be sufficiently flexible to allow adjustments and changes to be made without unsurmountable difficulties to suit the economic situation of the industrial countries, the developing countries and the world in general. The Commission document is silent on this point. It is however proposed that a distinction be made between day-to-day administration on the one hand and important decisions concerning general directives and the revision of the system at regular intervals on the other. Periodic revisions of this kind would allow the GSP to be adapted to take account of changes in the world economy. According to the Commission proposals the general directives would be decided, as in the past, by the Council acting on a proposal from the Commission. Decisions on day-to-day administration would be taken by the Commission itself. The Committee on Economic and Monetary Affairs believes that this would indeed simplify administration. Under the present procedure decisions concerning the following year are taken just before December 31 of the previous year. This makes it difficult for businesses to plan their activities and also places the beneficiary countries with the strongest economies in a better position as their relatively more developed trade administration can react more rapidly to decisions on the GSP. Entrusting the day-to-day administration to the Commission is a good way of putting an end to this slow, last-minute decision-making process. The Commission must however make use of this simplified procedure to take decisions in good time so that businesses in the beneficiary countries can plan their future activities in full knowledge of the facts.

OPINION

of the Committee on External Economic Relations

Draftsman: Mrs N. CHOURAQUI

On 22 January 1980, the Committee on External Economic Relations appointed Mrs N. CHOURAQUI draftsman.

At its meetings of 24 April 1980, 30 April 1980, 5 June 1980 and 24 June 1980, the committee considered the draft opinion. This was adopted on 23 September 1980 by 11 votes to 0 with two abstentions.

Present: Sir Fred Catherwood, chairman; Mrs Wiczorek-Zeul and Mr Seal, vice-chairmen; Mrs Chouraqui, draftsman; Mr Almirante, Mrs Lenz, Mr Louwes, Mr Martinet, Lord O'Hagan, Mr Seeler, Mr Spicer, Sir John Stewart-Clark and Mr Welsh.

INTRODUCTION

1. At the Second UNCTAD Conference held in New Delhi in 1968, an agreement was reached on the principles involved in introducing generalized preferences for the developing countries (the idea was originally launched by the Community in 1963 at a meeting of GATT). Soon afterwards a number of industrialized countries, including the European Community, certain other European countries and Japan, put that decision into practice by setting up their own systems. The Community's scheme came into operation on 1 July 1971 and has been adapted and improved each year thereafter (schemes were introduced in Canada and the USA on 1 July 1974 and 1 January 1976 respectively).

2. The generalized system of preferences (GSP) was originally intended to apply for a period of ten years, and a waiver from GATT rules was obtained for that period. However - in the Community's case - the Council announced as early as 1975 its intention to extend the scheme after the initial period. The European Parliament and the Economic and Social Committee also repeatedly pronounced themselves in favour of such extension. The successful outcome of the Tokyo Round has meant that the GSP can continue to be applied after 1980 without requiring a waiver from GATT rules.

3. It is now necessary, therefore, on the basis of experience gained during the first decade and taking into account the changed international economic situation, to sketch out the broad lines of a policy for the second period of application. This is the object of the Commission's Communication to the Council to which this working document refers. Before examining the Commission's new guidelines, it might be useful to recall the content of the scheme and how it has operated during the initial period.

INITIAL PERIOD OF APPLICATION (1971-1980)

4. The first point to be made is that the GSP is one of the Community's policy instruments in the field of development cooperation. Other important pillars on which the Community's development policy rests are the Convention of Lomé and the cooperation agreements within the framework of the 'Mediterranean policy'.

5. On a number of points the GSP differs fundamentally from these other agreements, because the preferences granted under the GSP are:
- (a) granted autonomously by the Community to the beneficiary countries and are not therefore the result of negotiations with these countries;
 - (b) non-discriminatory and therefore in principle granted to all developing countries (the 'group of 77' which has since grown to some 120 countries);
 - (c) generalized, which means that the system is applied by most industrialized countries;
 - (d) in principle non-reciprocal (this follows logically from their autonomous character), meaning that the beneficiary countries are under no obligation to grant duty-free access to the donor countries.
6. Because of the advantages already granted to the ACP and Mediterranean countries under the respective cooperation agreements with them, after Yugoslavia, it is mainly the Latin-American and Asian countries that have benefited from the GSP.
7. Essentially, the Community scheme has consisted in the granting of total exemption from customs duties for all industrial products and partial exemption for certain agricultural products.
8. However, in the case of industrial products, exemption from customs duties is granted for limited quantities (administered as quotas or ceilings depending on the sensitivity of the product). The calculation of these limits usually comprises two elements: a basic amount equivalent to the value of the Community's c.i.f. imports from beneficiary countries (except associated countries) during a given reference year which remains the same for three consecutive years, and an additional amount equivalent to 5% of the value of c.i.f. imports from other countries (in particular the industrialized and associated countries) during the most recent year for which statistics are available. (Where the reference year for the basic amount changes, the same year is taken for the two elements of the calculation for the financial year in question.) However, there have been a growing number of exceptions to this rule, with the concession being increased by a flat-rate percentage substantially lower than that which would have resulted from the usual calculation, or even 'frozen' at the previous year's level.

9. In the case of a number of particularly sensitive products the system is administered in the form of quotas distributed among the Member States. Each Member State must reinstate the normal CCT duty on its own territory when its quota has been used up.

10. Furthermore, for all industrial products the GSP provides for a maximum cut-off amount (50% or less of the ceiling or quota), which each beneficiary country may not normally exceed. Like the ceilings, this cut-off amount obviously remains theoretical in the case of non-sensitive products which are monitored only in statistical terms.

11. Naturally, the beneficiary countries must also satisfy the requirements concerning the origin of goods, the purpose of which is to avoid a diversion of trade to countries not covered by the scheme. The Community has incorporated in the rules of origin, the concept of cumulative origin of goods, under which the countries covered by the GSP are considered as a single zone. This is intended to promote the regional integration of the beneficiary countries¹.

12. Since 1977 the Community has taken a number of measures to assist the least-developed countries (in accordance with Resolution 96 (IV) adopted by UNCTAD in May 1976 in Nairobi).

These countries were exempted in 1977 from the reintroduction of customs duties, up to the cut-off level for quasi-sensitive industrial products other than textiles (products subject to ceilings) and non-sensitive industrial products. In 1978 this exemption was extended to the level of the ceilings and in 1979 to sensitive products (subject to quotas), while textile products continued to be subject to the cut-off arrangement. As from 1980 all their industrial products, including textiles, are exempt from customs duties without any restrictions.

The least-developed countries were granted exemption from duty for all their agricultural products in 1979 subject, however, to the ceiling or quota (except in the case of cocoa butter and soluble coffee). Furthermore, in 1979 two products (raw coffee and dried grapes) were included in this scheme for the sole benefit of these countries, and a third (clover seeds) was added in 1980.

¹ Obvious examples are ASEAN, the Central American Common Market (CACM) and the Andean Group

13. Since 1971 the volume of imports of industrial products under the GSP has risen steadily: from 478 million EUA (1971) to 6,900 million EUA (1980). The number of sensitive products has been reduced from 53 (1971) to 12 (1980). Agricultural imports have risen from 90 million EUA (1971) to 1,300 million EUA (1980). The number of agricultural products covered by the GSP also increased during this period, from 147 (1971) to 310 (1980).

14. The textile sector should be considered separately because the GSP provisions for these products were adjusted as from 1980 to the situation resulting out of the conclusion of the 'multifibre' agreement (MFA) and the bilateral voluntary restraint agreements and autonomous arrangements associated with it.

As is well known, the Community was before then having to contend with a growing influx of textiles from low-cost countries (1.3 million tons in 1978) at the expense of Community producers. Thanks to the conclusion of the above agreements with a large number of textile and clothing producer countries, it was possible to staunch this uncontrolled flood of imports. This has made it possible once again to increase the volume of textile imports for 1980 under the GSP by a greater amount than usual, namely from 88,000 tons (1979) to 115,000 tons (1980). In future exports from the beneficiary countries to the Community under the GSP will amount to about one-fifth of the volume of exports in 1977.

THE NEW GUIDELINES

15. Since 1971, when the GSP first came into operation, the international economic situation has changed drastically. In the 60s development policy was shaped primarily by one fundamental factor: the ever-widening prosperity gap between the industrialized world and the developing countries. The continued economic growth of the Western world was considered then as a foregone conclusion. Midway through the 70s, the world - as we know - was suddenly confronted with a deterioration of the economic situation, with its attendant adverse effects on world trade. It was not only the non-oil-producing developing countries which were seriously affected; the Western world also had to contend with such problems as slower growth, inflation, unemployment and, in some cases, balance-of-payments difficulties.

Another factor which helped to shape events in the 70's was the arrival of a number of traditional developing countries on the international scene.

16. As a consequence of this development, the Community is now faced with the well-nigh impossible task of bringing in a new scheme that strikes a fair balance between a number of sometimes conflicting objectives, such as:

- (a) promotion of world trade;
- (b) better access for products from developing countries on Community markets;
- (c) preservation of Community industries, protection of employment and curbing of inflation;
- (d) protection of the common agricultural policy;
- (e) fulfilment of the Community's obligations towards countries with whom it has preferential agreements (Lomé Convention, Mediterranean agreement);
- (f) special consideration for the poorest and least-developed countries.

17. The conclusion to be drawn from all this is that in the post-1980 period the Community will have to adopt a more differentiated approach towards the various sectors of industry and agriculture and towards the beneficiary countries as well. Moreover, the scheme must be comprehensible and workable for all concerned.

18. Perusal of the guidelines reveals that the principal feature of the new system will indeed be a selective approach, or - as the Communication puts it - a 'differential' application of the preference system, vis-à-vis both the beneficiary countries and the various production sectors. Another important, and, closely-related factor is the Commission's intention to try and simplify the operation of the scheme.

19. It is acknowledged that during its first period of operation the GSP chiefly benefited the most advanced developing countries, in particular the so-called 'newly industrializing countries' (NICs), which have undergone a rapid process of industrial development over the last decade. For the most part these include certain Far-Eastern and a number of major Latin-American countries. What is more, these countries have managed to achieve a high degree of diversification in their production, while at the same time considerably expanding their infrastructure. This has enabled them to consolidate and extend their trade links with other countries all over the world.

20. As a result they have gained such a competitive position on the world market in a number of production sectors, that Community producers (textiles, steel) have run into serious difficulties and others (electronics equipment, chemicals) are in danger of following suit, though this does not necessarily mean that these Community problems are caused only by the NICs. Besides, the fact that a country is strong in one or more industrial sectors does not automatically qualify it as one of the richer developing countries. Some countries - India and Indonesia, for example - whose industrial exports in particular sectors represent a significant share of world trade, nevertheless have a low average per capita income and must consequently be numbered among the poorer countries.

21. It can be seen from the Commission's Communication that overall, in 1977, 85% of the preferential advantages actually used benefited no more than 17 countries. Although these figures give a slightly distorted picture, since the 17 countries mentioned include the largest and most heavily populated in the world, such as India, Indonesia, Brazil, Pakistan and Argentina, it is also obvious that countries with large populations will make greater use of the advantages offered. In certain cases the high rate of utilization by these countries can be attributed to a single group of products.

22. According to the Commission Communication, it is the economically most advanced countries that are quickest to exploit the preferential advantages - particularly in the industrial sector - at the expense of the least-developed countries.

Clearly, then, it must be made easier for the latter category of countries to take advantage of the preferences offered. However, it is also a fact that the average utilization rate - i.e., the relationship between the advantages offered each year and the actual use made of them - is only around 60%. This low percentage is thought to be due to the following factors:

- (a) the strict quantitative limits for certain sensitive products, plus the application of the cut-off;
- (b) the lack of financial and technical resources which the poor countries need to expand their production;
- (c) the complexity of the scheme and the inadequate machinery for administering it in many countries.

23. It would be interesting to know to what extent there is a real connection between the high utilization of preferences by a few more-advanced countries on the one hand and the generally low utilization rate coupled with the low percentage accounted for by the other countries on the other hand. We consider it unlikely that the selective approach - although desirable in itself - will, of itself, prompt (or enable) the poorer countries to make greater use of the preference system. The technical and financial resources of these countries will hardly be increased, if at all, simply by improving the system. That is why we feel that this selective approach is primarily aimed at protecting Community industry.

24. What are the most important specific changes proposed by the Commission? The first is that, in principle, no country or production sector will be excluded from the scheme.

25. The beneficiary countries will be divided into three categories according to their level of development, namely:

- (a) newly-industrializing countries which have achieved such a competitive position, albeit in only a few products, that the advantages they enjoy under the preference system can be restricted;
- (b) ~~the~~ poorest and least developed countries - on the basis of the United Nations classification - for whom the scheme needs to be further improved, in particular by extending the list of products;
- (c) developing countries which possess the financial and technical resources to develop processing industries with an export capacity and for whom the scheme must be liberalized to the greatest possible extent.

This classification calls for some clarification, in particular the countries falling into group (c).

26. The subdivision by products which has always been rather complicated, is simplified by reducing the number of categories to two:

- (a) non-sensitive products, for which, we assume, no ceilings will be applied; it will be sufficient to monitor annual import statistics; it will still be possible to reclassify these products in the course of the new period of application;

(b) sensitive products, for which Community ceilings, fixed on the basis of objective criteria, will be applied to each individual country with a favourable competitive position in the sector concerned, and, in exceptional cases, collectively to all such countries. For all other countries the preferences will be calculated in the same way as for non-sensitive products, it being understood that theoretical ceilings will be fixed for them. This strict control would in fact affect only a limited number of countries (around 12) and normally no more than one or two beneficiaries for any one product.

27. It will be no easy task for the Community to define objective criteria for classifying the combination of country and product into a particular category. The Communication gives a few indications, but they are rather vague.

We believe the criteria should relate to the following factors:

- (a) per capita income;
- (b) industrial growth rate and investments;
- (c) social situation;
- (d) penetration of Community market;
- (e) preference utilization rate during first period of application;
- (f) situation of Community producers.

These criteria will need to be defined, because at some future date the question may arise which criterion should carry most weight in a given situation, for instance when a country with a low per capita income proves a formidable competitor of the Community in a particular sector.

28. With regard to the social situation, the Committee on External Economic Relations feels that account should be taken of the principal standards laid down by the International Labour Organization (ILO), in particular those relating to the employment of children and the role of the trade unions.

29. The Committee considers it to be extremely important that the application of the GSP scheme should ensure that the most needy developing countries enjoy a preferential access which is as extensive and liberal as possible, improving the uneven take up of preferential concessions with regard both to the beneficiary countries and to the products involved.

This means that the scheme should as far as possible restrict access to the Community market under the GSP for products from the NICs.

30. However this may be, the essential feature of these new guidelines resides, then, in the fact that preferential imports into the Community of any sensitive product from any country with a favourable competitive position in the sector concerned will be assessed individually. This selective approach offers the following advantages:

- (a) better protection - largely by virtue of better control procedures - for Community industry;
- (b) simplified administration of the scheme, both for the Community authorities and for the beneficiary countries;
- (c) (in theory) greater opportunities for the countries not deemed competitive.

31. Other points from the Communication can be summarized as follows:

- (a) It appears inadvisable to change the GSP for textile products before 1982, when the bilateral voluntary restraint agreements expire. The Committee on External Economic Relations endorses this view: the selective approach is similar in some ways to the method used in the textile sector;
- (b) In view of the constraints of the common agricultural policy, the commitments entered into under the Conventions of Lomé and the Mediterranean agreements, and the forthcoming enlargement of the Community, the list of agricultural products will not be extended. However, the Committee on External Economic Relations proposes that it should be extended in the case of the least-developed countries, provided that priority is given to products which are in short supply in Europe and have to be imported from third countries. It is then obviously preferable to import the products in question from poor rather than rich countries;
- (c) A number of semi-manufactures will probably be added to the list of industrial products, which is practically complete;
- (d) The rules of origin - which have been repeatedly criticized by the beneficiary countries as too restrictive and too complicated - will be simplified, and the rules on 'cumulative' origin will be liberalized. The Committee on External Economic Relations recommends that regional cooperation between the beneficiary countries be actively supported wherever possible, as this would represent a further contribution to their economic development, and possibly help at the same time to simplify cooperation with the Community;
- (e) The autonomous - and therefore non-contractual - nature of preferences is to be maintained.

The Committee on External Economic Relations agrees, but feels that, in the case of the sensitive sectors, close consultation with the competitor countries is needed;

(f) The period of validity of the system as such is fixed at twenty years to enable the developing countries to establish their industrialization programmes; the period of application, during which the existing basic rules of the scheme will be maintained, is not to be less than 5 years, after which the scheme will be reappraised in the light of any changes in the international economic situation. Since there will inevitably be changes in the international situation, the Committee on External Economic Relations considers twenty years to be too long and therefore proposes that the period of validity be fixed at ten years.

CONCLUSIONS

32. In assessing the GSP it must be remembered that preferential imports account for only 4% (1976-1977) of total Community imports of products to which the system is applicable. This percentage admittedly varies from one sector to another but it cannot be said that the system as such represents a threat to Community industry. Furthermore, it is doubtful whether the increase in preferential imports - the scope of the scheme is extended annually by a fixed amount - has kept pace with the increase in the Community's foreign trade as a whole. Has its share increased or diminished during the first period of application?

33. The GSP is a modest instrument of development cooperation but nevertheless represents one of the few positive results achieved during the initial and difficult phase of the North-South dialogue. In view of the gulf which still exists between the North and the South - over half the world's population still accounts for less than 10% of total world production and trade - it is absolutely essential to strive to achieve the dialogue's objectives - above all to improve export revenue - since this is in the general interest.

34. We must make certain that on the one hand there is adequate distinction between those developing countries which are the poor nations still outside the ACP with a low standard of living and low industrialization, and on the other hand those countries which are clearly on the road to becoming industrialized and prosperous countries. The latter countries must have a high degree of selectivity applied to them in the Community's trading relations.

35. The granting of tariff concessions is not the only method available to the industrialized countries of achieving these objectives. Nor is the GSP the most effective method, particularly in view of its relatively modest scale and its complexity. We must ensure that the system does not develop a bureaucratic life of its own with dubious practical value. The Committee on External Economic Relations would therefore urge the Commission and Council to devise other development cooperation instruments.

36. One indirect form of cooperation is to encourage investment in the countries concerned. Transfers of capital and technology are essential for the industrialization of the developing countries - witness the vital role played by foreign capital in the development of the NICs. However, the private sector will not take the much-needed initiatives in this field unless there is a reasonable chance that their investments will be profitable. This means in effect that market outlets must be found for products manufactured with the aid of invested capital.

At the same time, it must be ensured that such investments also serve the interests of development and are geared to the situation in the developing countries.

37. In the long term, these outlets will have to be found mainly in the developing countries themselves. There would be little point in using western capital and local labour in the developing countries to establish major industries which would have to find their market outlets mainly in the industrialized countries, where they would be faced with an industry at once adequate and competitive.

It is also important that these projects should not endanger those of our industries which play a strategic role and are therefore essential to the Member States of the Community.

38. It is therefore essential that investment in the developing countries should be linked to an increase in local consumption and to a progressive reduction of import restrictions.

But these countries ought also to play a greater part in world trade. All import restrictions should therefore be progressively abolished, so that the freedom of trade between the industrialized countries and the developing countries, and among the developing countries themselves, is hindered as little as possible.