

**The
EEC's
Generalised
System of
Preferences**

Evaluation and Recommendations for Change

**Ann Weston
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Overseas Development Institute

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1 Introduction

The EEC's Generalised System of Preferences (GSP) will be ten years old in 1981. In preparation for the next decade, the European Commission asked the Overseas Development Institute (ODI) to undertake a study of the workings of the GSP to date and to make proposals as to how the scheme might be reformed.

The principal aim of the study was to discover what effect, if any, the GSP has had on the EEC's imports, in particular from less developed countries (ldcs). A major assumption underlying the study was that trade liberalisation is desirable both for ldcs and for developed countries. There are two reasons for this. First, the starting point of the GSP was the belief that increasing the demand for exports from ldcs, particularly of industrial goods, is a necessary condition for their development.¹ Second, there is a growing body of literature which substantiates the need, not least in times of world economic recession, for measures to liberalise trade.² The costs which such liberalisation may impose on certain domestic industries are discussed here but not in detail. Other work is being carried out at ODI and elsewhere on the adjustment costs (and on the consumer benefits) caused by increasing imports from ldcs and on policies to offset these costs—whether by restricting the quantity of ldc imports or merely the amount of preferential access given to them.³ The causal link between imports from ldcs and problems faced by certain domestic industries is tenuous, but the link between tariff preferences and these problems is even more so.

A second, less explicit, assumption was that tariffs are an important constraint on trade flows and therefore that reducing tariffs on goods from ldcs will increase their trade. But two qualifications are necessary. First, there are supply factors operating within many ldcs which constrain the expansion of their exports, and frustrate the success of the GSP. Second, it is generally acknowledged that the role of tariffs is declining. With the successive rounds of multilateral trade negotiations, the level of tariffs has been falling, and, as members of the General Agreement on Tariffs and Trade (GATT) are bound not to increase them, growing use is being made of other, non-tariff, barriers as an instrument to control trade.

The study was carried out in two parts. First, interviews were held with representatives of those interests most closely involved in the EEC's scheme: importers and retailers, exporters, government policy-makers and administrators, domestic producers, and trade unions. The costs and benefits of the GSP scheme were discussed with a large number of individual companies throughout the EEC involved in importing from ldc's, as well as with the many commercial and industrial associations at both national and Community level. The purpose of these interviews was to evaluate the extent to which the GSP had encouraged importers to increase their trade with ldc's, what problems they had experienced with the administration of the scheme, and what changes they would favour in the 1980s. A report on some of the interviews held with importers is given in an appendix. The experience of exporters was raised, where possible, in meetings with ldc trade missions visiting the EEC and with their commercial attachés in the major member states.

The opinion of member governments of the EEC was sought through meetings with officials from ministries (trade and aid) involved in formulating GSP policy and with officials (in customs and import promotion) involved in putting the GSP into practice. The former meetings gave an insight into the constraints on governments' liberalisation of trade, while the latter highlighted the difficulties resulting from the complexities of the GSP scheme and the different methods used to administer it. Third, the position of domestic producing interests (both in industry and agriculture) and consuming interests was the subject of meetings with their representatives at national and Community level.

The second part of the study was a statistical analysis of trade flows, to assess how the GSP operates and to evaluate its effect to date on imports from ldc's. Data were collected on total imports from ldc's, on GSP eligible imports, and on imports which actually received preferences under the scheme. These were used to compare the EEC's scheme with that of other donors, to identify which ldc's were the principal users of the GSP, and to discover for which ldc exports, covered by the GSP, there was evidence of trade creation or diversion.

The origins of the GSP, its aims and institutional features, and a brief summary of the evolution of the EEC's scheme are set out in chapter 2. This is followed by a discussion in chapter 3 of the major interests involved, directly or indirectly, in formulating the new GSP scheme, ranging from those with substantially more preferential treatment than the GSP beneficiaries, including producers within the EEC, to the GSP beneficiaries themselves. All developed countries, including the EEC, have found it necessary to qualify their GSP offers with various forms of safeguards to

ensure that imports receiving tariff preferences really originate in ldc's and not other developed countries, and to protect their industries against possible damage from these GSP imports. These are discussed in chapter 4.

In addition the EEC scheme makes certain *ex ante* restrictions on the amount of industrial imports eligible for GSP, which vary according to the 'sensitivity' of the product. Chapter 5 examines the treatment of the most sensitive category, and chapter 6 the hybrid, semi- and non-sensitive categories. The régime for agricultural products is entirely different and is therefore considered separately in chapter 7. The principles governing each régime precede an analysis of the scheme's practical operations in each case; finally a set of reforms is proposed.

The statistical analysis of the effects of the GSP is presented in chapter 8, together with an assessment of the implications of the Tokyo Round of Multilateral Trade Negotiations for the future of the GSP. The question of the future of the GSP is taken further in the final chapter. Four basic options for the new scheme for the 1980s are discussed; abolishing preferences, eliminating tariffs completely, maintaining the status quo, and piecemeal reform. The last option is given the most extensive treatment as being the most realistic. Various reforms are already being proposed within the European Commission and outside, and these are considered and evaluated here together with our own proposals.

1. See, UNCTAD, *Towards a New Trade Policy for Development*, UN, New York, 1964.
2. For example, R. Blackhurst, N. Marian and J. Tumliir, *Trade Liberalization, Protectionism and Interdependence*, GATT, Geneva, 1977, and *North-South: A Programme for Survival*, The Report of the Independent Commission on International Development Issues, Pan Books, London, 1980.
3. J. Clarke, M. Sutton and V. Cable, *Adjustment to North-South Trade in the UK Economy*, Working Document No. 3, Tripartite Symposium on Employment, International Trade and North-South Co-operation, ILO, Geneva, 1980; OECD, *The Impact of the Newly Industrialised Countries on Production and Trade in Manufactures*, Paris, 1979; M. Szenberg, J. W. Lombardi and E. Lee, *Welfare Effects of Trade Restrictions*, Academic Press, London, 1977.

2 The GSP Scheme

The origins of the GSP

The concept of preferential tariff treatment for imports from developing countries is far from new. Nations in the industrialised centre have long accorded preferences to the peripheral ldc suppliers with which they had some form of association (often due to colonial links). Special preferences following this pattern have been given by the EEC from its inception. Commonwealth preferences were not phased out until the mid-1970s and even in the post-war period the United States continued to give special preferences to the Philippines and Cuba. But the system of generalised preferences as sponsored by UNCTAD, while employing some of the elements of economic theory inherent in the workings of special preferences (notably the infant industry argument for favouring ldc exports of manufactures), marked a new departure in that preferences were to be globalised, that is, they were to be offered to all ldcs without discrimination, and they were not to be reciprocated by the ldcs. The GSP concept was all the more striking because it laid down a path of world trade reform not only divergent from the special preferences within North-South trading blocks, but also in contradiction to the main principle of the GATT. Without a waiver, this would have outlawed discrimination between groups of countries. In another sense, the intention that the rich world should act in concert to favour ldc trade, rather than in competition, was a further factor making generalised preferences a striking new proposal for trade reform.

There were several initiatives towards the formulation of a GSP before the idea was first introduced in UNCTAD I in 1964. Perhaps inevitably, the scheme's current proponents and executors tend to attribute the crucial drive to their own people. Thus, the European Commission states that the idea of GSP 'originated in the Community of the Six';¹ a British author² nominates the then President of the British Board of Trade, Edward Heath, as instigator of a scheme to extend preferences to all ldcs in 1962; while ldc representatives tend to believe that the first UNCTAD Secretary-General, Raul Prebisch, devised the scheme on their behalf.

Such historiographical disputes are not the concern of this book. What matters is that schemes for special tariff treatment for Idcs were proposed at the GATT ministerial meeting of May 1963;³ Prebisch argued the case for general tariff-cutting schemes in favour of developing countries' exports of processed goods and manufactures in his report 'Towards a New Trade Policy for Development'⁴ at the first UNCTAD conference in 1964; before the second UNCTAD conference, the OECD countries had conceded in principle the need to offer preferences;⁵ and at UNCTAD II, in New Delhi, 1968, the principle of generalised tariff preferences was formally accepted by all UN members in Resolution 21 (II) entitled 'Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries'.

The resolution itself represented a major compromise, not surprisingly since it embodied such a fundamental departure from key GATT tenets, from US attachment to most favoured nation (mfn) reductions in the Kennedy Round of Multilateral Trade Negotiations, and from EEC attachment to special preferences (with reciprocity) and enlargement of a free trade zone within Europe. General discrimination as between developed and developing countries was to be encouraged, but, within the GSP, discrimination between groups of developing countries would not be permitted. Its first article sets out the aims and expectations of GSP:

The objectives of the generalised non-reciprocal, non-discriminatory system of preferences in favour of the developing countries, including special measures in favour of the least advanced among the developing countries, should be: (a) to increase export earnings; (b) to promote industrialisation; (c) to accelerate their rates of economic growth.

The resolution established the Special Committee on Preferences as an UNCTAD organ, and charged it with negotiating the implementation of the GSP. At this early stage, however, three main anomalies were already apparent.

First, as the title of Resolution 21 (II) indicates, the GSP was originally concerned only with manufactured goods. The reference was to 'manufactures and semi-manufactures'. Processed agricultural produce, soft commodities and industrial raw materials were not specifically mentioned. This is an indication that the GSP was a child of the trade thinking of the 1960s; the anomaly, however, has its repercussions in the divergences between current GSP schemes.

Second, although the resolution forbade discriminatory treatment between Idcs, an element of differentiation between them

was included in the scheme from its inception with the mention of 'special measures' for the least developed countries. This has provided a basis for the drive for increased graduation and differentiation between ldc's in the GSP during the 1980s.

Third, once again a reflection of the 1960s debates, the resolution concentrated on tariff measures at the expense of market access. It emphasised the importance of preferences to ldc's over mfn suppliers but failed to consider the threat to them from more preferred suppliers or of quantity restrictions and other non-tariff barriers to developed country markets.

Between 1968 and 1970, the Special Committee on Preferences held consultations to draw up the details of the GSP system. The problem of non-discrimination was solved by the 'self-election' principle. Any developing country so declaring itself was to be entitled to GSP treatment, although donors ultimately devised their own systems of exclusion. The principle of non-reciprocity on tariffs was adhered to, although the EEC continued to require reverse preferences from the 18 ldc's associated with it under the Yaoundé Convention and the US used this as one reason for delaying the introduction of a GSP scheme. GSP beneficiaries were not guaranteed any fixed margins of preference over mfn suppliers, and the right to proceed with further multilateral mfn tariff cuts was reserved. Moreover, the GSP was specifically recognised as an autonomous offer on the part of the industrialised nations, not contractual, binding or even formally negotiable, which could be withdrawn, or within which donors could implement legitimate safeguard measures at any time, but which should be expected to run its course, in the first instance, of ten years.

Thus, despite the intention of the UNCTAD II resolution that 'the arrangements should enter into effect in early 1970', and despite the ldc's desire for a uniform, global GSP scheme, what emerged somewhat belatedly was a succession of GSP schemes. The EEC's scheme was the first to be implemented on 1 July 1971. Within the next three years, generalised preference schemes were implemented by Japan, Norway, Sweden, Denmark, Finland, Ireland, New Zealand, the United Kingdom, Switzerland, Austria, Australia and Canada. The UK, Denmark and Ireland converted to the EEC scheme on 1 January 1974, and the United States introduced its scheme on 1 January 1976.

Official publications⁶ and other reference sources⁷ catalogue the intricate details of the EEC's GSP scheme. Chapters 4 to 7 of this book describe and analyse particular features of the scheme. The following sections of the present chapter merely set out the general principles, the methods of operation and the evolution of the EEC's GSP. The EEC's scheme is then compared

briefly with the schemes of other GSP donors, and placed in the notional hierarchy of the Community's external trade relations.

The EEC's GSP: principles and operation

The EEC's GSP is intended primarily to stimulate exports from Idcs. Like all GSP schemes, it works through two distinct economic mechanisms. The first is the generation of trade as a result of improved market access. In effect, GSP tariff concessions act in the same way as multilateral tariff cuts, save that they benefit only Idc exports. This is trade *creation*. Second, to the extent that Idc and developed country (dc) goods compete on price in the EEC market, preferential tariff access switches trade from dc to Idc exports. This is trade *diversion*. The distinction becomes important when considering the likely relative effects of multilateral as against preferential tariff cuts (see chapter 8), and also because import competition presents greater political problems in the EEC than the loss of export markets in other developed countries. The trade-creating potential of the GSP has been undercut by improvements in the tariff status of non-preferred, mfn, suppliers as a result of the Multilateral Trade Negotiations (MTN).

The EEC has also felt it necessary to restrict the trade-diverting potential of its scheme in order to protect the interests of competing domestic industries, and of suppliers from some countries enjoying non-generalised preferential access arrangements. What was initially a generous offer of tariff reductions has been cut by a system of *a priori* (quantitative) limitations. These are most elaborate for the range of industrial products (and within industrial products, most restrictive for textiles). They are less significant for agricultural products, but the initial GSP offer on agricultural products (limited-range, partial tariff reductions rather than duty-free treatment) was itself less generous.

In the case of manufactures and semi-finished industrial products, the EEC regulates the amount of Idc imports which can benefit from the GSP. At Community level this is effected by the imposition of *tariff quotas* (TQs) or *ceilings*. The ceilings are calculated from a basic amount, representing EEC imports of the product in question from Idcs in a previous year,⁸ plus 5% of EEC imports of the product from the rest of the world. Within these maximum limits there are two other systems of restriction, at the national level of either the importing country or the exporting country. Within tariff quotas, *member state shares* (MSS) govern the amount (usually on the basis of a fixed share for each state of the Nine) of preferential imports to a given EEC member.⁹ At the exporting end, GSP beneficiary countries are subjected to *butoirs*

or maximum country amounts, usually fixed at 50% of the ceiling, though in the case of tariff quotas, the *butoir* levels may be set as low as 10%. Whereas MSSs are designed to spread the import 'burden' of the GSP fairly between EEC member states, *butoirs* are intended to distribute the export benefits by regulating competition for the GSP between the beneficiaries, preventing the highly efficient ldc exporters from filling ceilings and TQs on their own.

The extent to which these restrictions are applied depends on whether the import is classified as sensitive, semi-sensitive or non-sensitive. This categorisation is determined internally by the EEC.

Sensitive products (numbering 46 for 1980) face tariff quotas, member state shares and *butoirs*. When any of these limits is reached the full mfn duty is reimposed. Thirty of the 46 sensitive products are textile products and in their case there is an additional calculation, the *butoirs* are fixed for each ldc not in relation to tariff quotas but as a share of its exports to the EEC allowed under the Multi-Fibre Arrangement.¹⁰

Semi-sensitive products (110 products) face tariff ceilings, but are not subject to MSSs. For most of these products (84), GSP import levels are merely the subject of Community surveillance. If a ceiling is reached, GSP treatment may continue until a member state requests that duties be reimposed. *Butoirs* are set at 50%, and are only activated at the request of a member state. Within this category, there is now a small group (26) of *hybrid products*, which are treated more strictly. Withdrawal of preferential treatment is automatic once the ceiling is reached; *butoirs* are set at much lower levels; moreover, once imports from an ldc to any one member state reach 50% of the *butoir*, that state can reimpose mfn duties on imports from the ldc.

Non-sensitive products (normally almost 2,000 products) are subject only to ceilings and *butoirs*. In their case, surveillance is fairly limited as the ceilings are neither pre-calculated nor published by the EEC, although customs duties may be reimposed if a valid case is made by a member state. The ceilings are normally so large, and the 50% *butoirs* relating to them, that they are unlikely to be exceeded. In practice, therefore, the GSP offers duty-free access on most non-sensitive products.

Finally, it should be noted that there are a further 50 industrial products, largely semi-manufactures, which are not included in any of these GSP categories, and are still dutiable.

The EEC's GSP treatment of *agricultural products* is quite different. Just over 300 products are covered, but less than a third of these are granted duty-free entry; the rest are given partial, often small, tariff reductions. However, there are no *a priori* restrictions

except for five items, cocoa butter, two kinds of canned pineapples, instant coffee and some tobaccos (for which there are tariff quotas but no *butoirs*), and for Burley tobacco (for which there is a tariff ceiling).

The scheme operates on the basis of documentation and not of good faith. In order to warrant GSP treatment, imports normally have to be certified as originating in a single GSP beneficiary country. Only in the case of three ldc economic groupings¹¹ is cumulative origin permissible. Originating status is determined by a series of process criteria (usually a change of tariff heading during production, although there are numerous exceptions), which are designed to ensure that the import is a product of a particular ldc, and not merely a repackaged, recycled or barely adapted developed country product. Even EEC goods which are returned after further processing in an ldc have to meet the same originating criteria to qualify for GSP treatment.

Finally, the EEC's GSP scheme is governed by a general safeguard clause. This reserves to the EEC the right to suspend tariff preferences if they are deemed to be causing serious disruption of the domestic market. It can also be invoked to protect the interests of countries enjoying special preferences under agreements with the EEC. The Community has not had recourse to this procedure, however, largely because the quantitative limitations to the GSP offer can be changed annually.

The EEC's GSP: development since its inception

Since the scheme is to be reviewed and renewed in 1981, it is useful to highlight the main changes which have occurred since 1971. These fall under eight headings.

(a) Enlargement of the Community. The GSP schemes of the UK, Ireland and Denmark ceased to operate on 1 January 1974, when the EEC scheme was adopted by the new member states. The effect on the GSP was both quantitative and qualitative. The EEC scheme became larger, its administrative complexity increased, and the bases from which ceilings and quotas were calculated experienced a discrete jump. But the Danish and UK schemes had had less recourse to *a priori* restrictions (see Table 2.1; Denmark's scheme was broadly that still used by the Nordic countries) although some categories of textiles were excluded from the initial offer in the case of the UK. Ireland's GSP had contained numerous exclusions, notably most textiles, most leather footwear, tyres, vehicles and automotive parts. On balance, however, the new entrants had the effect of pressing for some liberalisation of *a priori* restrictions within the enlarged

Table 2.1: Comparison of EEC and other main donors' GSP schemes

Country EEC	Product coverage All manufac- tures and semis; selected agricultural products..	Main product exclusions Industrial raw materials.	Depth of tariff cut		Safeguards Tariff quotas and ceilings plus consideration of ACP suppliers' interests.	Country coverage G77, plus dependencies.
			Manu- factures Duty-free.	Agricultural products Partial duty reductions.		
USA	Most manufac- tures; some agricultural products.	Textiles, glass, watches, electron- ics, petroleum oils; products the concern of national security.	Duty-free.	Duty-free.	Escape clause; competitive need criterion permits withdrawal of benefits from successful ldc suppliers.	All Idcs except Communist countries, members of OPEC, states which have expropriated US property. Taiwan included.
Japan	Most manufac- tures and raw materials; some agricul- tural products.	Textiles, clothing leather, plywood, footwear, petroleum oils and gases, gelatin.	Duty-free or 50% reduction of mfn rates.	Usually partial duty reductions.	Tariff quotas and ceilings.	Most of G77, plus Taiwan.
Norway Sweden and Finland	Most manufac- tures and raw materials; some agricul- tural products.	Textiles, tyres, leatherwares, foot- wear, pottery, glass, cycles, m/cycles, furniture.	Duty-free.	Duty-free.	Only the autonomous donor's right to withdraw.	G77, plus Israel, Malta and Turkey.
UK (scheme operated only from 1.1.72 to 1.1.74)	All manufac- tures and semis (except some textiles); some agricul- tural products.	Cotton and some synthetic textiles, petroleum oils.	Duty-free or Common- wealth preference rate.	Duty-free or Common- wealth preference rate.	Only the autonomous donor's right to withdraw.	G77, plus dependencies.

Community, though this ceased to be true by the late 1970s.

(b) Progress on other GSPs. While the EEC was breaking new ground in 1971, by 1974 ten OECD nations had implemented GSP schemes. The USA did not introduce its scheme until 1976, after the EEC had abolished reverse preferences under the Yaoundé Convention, and this probably prevented the EEC from developing its scheme further. After 1976, however, new constraints acting against further discrimination in favour of Idcs appeared.

(c) The state of the world economy. Although the EEC's GSP proposals can be said to have been improved in each succeeding year since 1971, constraints in the world economy since 1974 have resulted in the EEC prefacing its offers with increasingly doom-laden sentiments as a prelude to a slower rate of liberalisation. Thus in 1976 the EEC felt 'the GSP has become an economic challenge',¹² while the proposals for 1980 'reflect the present trends of the economy, which is showing little improvement and still seems to be lacking in stability. Employment problems are still among the most worrying and a number of major industrial sectors are more vulnerable . . .'¹³ At the same time the industrialised world has become more conscious of its adjustment problems and more sanguine about the issues posed by the more advanced GSP beneficiaries—the newly industrialised countries; however, certain North-South fora, most notably the 1980 UNIDO conference in Delhi, degenerated into pure confrontation on the issue of Idc industrialisation. It is in this climate and with these perceptions that the GSP scheme for the post-1981 period has to be designed.

(d) Changes in a priori restrictions. Modifications in the *modus operandi* of the EEC scheme for industrial goods have consisted mainly in reducing the number of products in the sensitive category and hence subject to tariff quotas (see chapter 5), but as well as inflating the number of semi-sensitive products (see chapter 6) this has also necessitated the introduction of a new category of products—hybrids. Whether this in fact constitutes a liberalisation will be discussed in chapter 6, as will the issue of whether the progressive increase in ceilings, and hence of the nominal GSP 'offer', bears any direct relation to the rate of liberalisation of the GSP. Textile imports, although now effectively regulated by the Multi-Fibre Arrangement (MFA) alone, are still accorded GSP coverage, but since 1979 under a new system which allocates the GSP to individual supplier countries by quota shares, the GSP for textiles has become progressively less generous in real terms.

(e) *Agricultural product coverage.* Although still far from comprehensive, the *number* of products covered has expanded greatly since 1971 to over 320. The depth of tariff cut on many products remains quite small however (see chapter 7). A more important development has been, for the 1979 and 1980 GSP, the complete exoneration from duties of GSP-included agricultural products imported from the least developed countries (lldcs), with the exception of the five TQ-limited products on which the mfn duty is payable even by lldcs once the tariff quota is filled. Products to suit Haiti (raw coffee) and Afghanistan (raisins) were specifically included as a follow up to the 'tropical products offer' made at the Multilateral Trade Negotiations. This concession to the lldcs is, however, robbed of some of its trade-creating potential since, like the rest of the GSP provisions, it is not formally guaranteed for future years.

(f) *Provisions for lldcs.* In addition to this special treatment for agricultural products included in the GSP, lldcs, though originally not recognised as eligible for special tariff treatment by the EEC, have since 1977 been exempted from all maximum country amounts (*butoirs*) for industrial products. From 1979 onwards, lldcs have not had to pay mfn duties on any sensitive (including textiles), semi-sensitive or non-sensitive products, even when the EEC tariff quotas or ceilings for these products have been reached, provided the products qualify under the rules of origin.

(g) *Country coverage.* The main extensions under this heading have been the inclusion of Romania—initially for a limited range of products and with special *butoirs*—in 1975, and as from 1980 the People's Republic of China—for all products except 24 industrial products (nearly all 'sensitive') and 13 agricultural products. For another 34 industrial products China faces special *butoirs*, lower than other beneficiaries. Chinese textiles will also be eligible for the GSP, but only up to a maximum 2% of total Chinese exports to the EEC in the case of products falling under the MFA.

(h) *Legal basis.* Whereas the preceding points apply only to the EEC's scheme, the GSP as a whole has recently been legitimised under international trade law. An introductory word is necessary on the legal and institutional aspects of GSP. Firstly, the GSP is a unilateral concession on the part of the preference-giver, hence the scheme consists of an autonomous offer: only in the most extreme sense could the GSP be said to be, or to have been, 'negotiated' between donor and recipient. Unlike negotiated agreements embodied in treaties such as the EEC's Yaoundé

and Lomé Conventions, there is no contractual commitment on the part of the EEC or any other donor to maintain preferences and market access to Idcs as a whole; nor need there be any fixed duration unless the GSP donor feels inclined to offer one.

Such, at least, was the situation when the GSP was being formulated. In addition, founded as it was on the principle of preferential, ie discriminatory, treatment, the GSP would have violated the first article of the GATT which sets out the most favoured nation principle that all nations, regardless of their current capacity, needs and potential, should be treated equally in world trade matters and none should be discriminated against. The GSP became 'legal' and internationally acceptable not by a change in the GATT philosophy and articles but by a waiver of Article I, under which the contracting parties to the GATT agreed to exempt trade falling under the GSP provisions from the mfn principle. The Article I waiver was voted in June 1971 for a period of ten years, possibly because the parties involved trusted that after this time such preferential measures would no longer be necessary. Although Idc exports increased in the 1970s it was felt that they continued to require the support of the GSP. At the conclusion of the Tokyo Round of Multilateral Trade Negotiations (MTNs) in 1979, therefore, the legal status of the GSP was raised from one of sufferance granted by waiver to formal recognition within the GATT, though the GSP offer was not made legally binding as the Idc Group of 77 desired.

The new GATT Enabling Clause, negotiated during the Tokyo Round, has established differential treatment for developing countries as an integral part of the GATT system, and thus provides a legal basis for tariff preferences accorded under the GSP. The Clause also, *inter alia*:

- provides that the extension of differential treatment for developing countries must not prevent the reduction of trade barriers on a mfn basis, nor raise barriers to the trade of countries to which such treatment is not applied;
- provides that differential treatment accorded by developed countries must be designed to respond positively to the needs of developing countries;
- and perhaps most significantly,
- establishes consultation procedures to deal with difficulties that may arise in connection with the introduction, modification or withdrawal of differential treatment.¹⁴

This represents a compromise between the uncertainty of the initial years of the GSP, bred of its dubious legal basis, which probably acted to the detriment of investment in industrial export capacity in Idcs, and the aim of the Idcs, to make the GSP their normal entitlement within the GATT, under which they would be

eligible for compensation in the case of their preference margins being eroded, for instance by mfn cuts.

Already in UNCTAD IV in Nairobi (1976) it was unanimously agreed¹⁵ that the GSP should continue beyond the initial period of ten years originally envisaged. The EEC has already committed itself to extending its scheme beyond July 1981. As the EEC scheme is the first to come up for renewal, it will have an important demonstration effect on other GSP donors and a powerful political effect on ldc beneficiaries. The UNCTAD Secretariat has campaigned¹⁶ for the extension of the GSP for 'at least another period of ten years', together with an end-term review to determine whether it should be maintained for a further ten years (ie to the year 2000). The EEC, however, has yet to specify whether its formal commitment will cover a ten-year period or any specific number of years. In any case, the 'offer' (including the opening of tariff quotas, etc) will continue to be made on an annual basis as is required by Community law; Council regulations and decisions are renewed every year.

The EEC's GSP: in the context of other GSP schemes

The GSP schemes of the OECD donors fall broadly into two categories. Those like the EEC's and Japan's which are based on annually predetermined preferred import limits, at least as regards products at the sensitive end of the product spectrum, contrast with those such as the Scandinavian and US schemes where, subject to a list of product exclusions, GSP imports are not restricted *a priori*. In the US, however, GSP imports are constrained by a 'competitive need' criterion applied to the GSP beneficiary on a product-by-product basis, which automatically withdraws the GSP from countries which supply more than 50%, or \$37m worth,¹⁷ of a given product.

Product coverage varies between schemes (the EEC's appears quite generous on this point for manufactures), as does the depth of tariff reductions (here the EEC appears more generous than, for instance, Japan). The rules of origin governing GSP-qualifying status vary radically according to whether the process criterion (EEC case) or the value-added criterion (the USA) is applied. Country-coverage varies only marginally between most GSP donors (the US alone explicitly applies negative, non-developmental criteria to exclude ldc's). But in the case of the EEC scheme it is the special preferential arrangements with groups of ldc's rather than country-exclusions from the GSP which are significant, as will be shown in the following section and in further detail in chapter 3. Suffice it to note that the EEC, alone among the GSP donors, offers more favourable trade access terms to certain

groups within the normal grouping of Ldc beneficiaries. The main features of the key GSP schemes are contrasted in Table 2.1, p. 11.

The place of the GSP in the EEC's trade preference hierarchy

International trade measures are one of the few items of European policy where decision-making has already shifted almost entirely from member state to Community level. But the GSP, from its introduction, had to slot into an already established trade preference hierarchy at EEC level. This hierarchy has experienced modifications during the 1970s, but the ranking of GSP beneficiaries—always near the bottom due to the EEC's established predilection for a welter of special and regional tariff agreements with both Ldc and developed country groups—has not improved.

This means, in practice, that GSP beneficiaries enjoy 'preferences' from the EEC only vis-à-vis two main groups of exporters: non-European mixed-economy industrialised countries (the USA, Canada, Japan, Australia, New Zealand and the Republic of South Africa) which trade on a mfn basis with the EEC; and planned economy state-trading countries (the USSR, and all other Comecon countries other than Romania and Cuba). Arguably, Taiwan forms a further one-member group as a country excluded from the EEC's GSP but still fitting the criteria of a Ldc. Generalised preferences as offered by the EEC may thus be less valuable to the recipient (in terms of the margin of preference which they confer) than generalised preferences offered by other donors which have no such array of special preferences. Nonetheless, the fact that the EEC's GSP does offer them conditional tariff preferences vis-à-vis EEC imports from, most notably, Japan and the USA, explains why the EEC's scheme is still prized by those Ldc beneficiaries which have no special preferences.

We shall go on in the next chapter to consider the place of the GSP in the EEC's trade preference hierarchy in greater detail. The hierarchy may be given briefly here in Table 2.2.

Table 2.2: The hierarchy of the EEC's external trade relations in 1980

<i>Countries</i>	<i>Agreement</i>	<i>Trade provisions</i>
(1) EEC (Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, UK)	Treaty of Rome (1957). Treaty of Accession (1973).	Free trade in all goods. Common external tariff on imports from third countries.
(2) EFTA (Austria, Finland, Iceland, Norway, Portugal, Sweden, Switzerland)	Free Trade Agreements (1973 for an unlimited period).	Free trade in all manufactures except paper and some metals
(3) 59 African, Caribbean and Pacific countries (ACP)	Lomé Convention (1975 for 5 years). Second EEC-ACP convention (1980 for five years, not yet ratified).	Duty-free access to the EEC for all industrial and many agricultural goods, though one or two products subject to safeguard clauses. Some concessions for leviable agricultural products. QRs on bananas, beef, sugar and rum; all products are also covered by a general safeguard clause.
(4) Applicants to the EEC		
Greece	Association Agreement (1962) providing for full customs union by 1984. Accession planned in 1981.	Duty-free access for all industrial goods, except steel and coal, and a range of agricultural goods. Volume of cotton products not restricted under the MFA but limited by VER.
Spain	Preferential Trade Agreement (1970) working towards customs union. Accession likely in mid-1980s.	60% duty reductions on most industrial goods; some concessions on agricultural products. Cotton products limited by VER.
Portugal	Free Trade Agreement (1972). Accession likely in mid-1980s.	Duty-free access for all industrial goods (under EFTA); some concessions on agricultural products. Cotton products limited by VER.

(5) Maghreb countries (Algeria, Morocco, Tunisia)	Preferential Trade and Co-operation Agreements (1976) for an unlimited period.	Duty-free access to the EEC for most industrial goods. Tariff concessions on some agricultural goods.
(6) Mashreq countries (Egypt, Jordan, Lebanon, Syria)	Preferential Trade and Co-operation Agreements (1977 for an unlimited period). ^a	Duty-free access to the EEC for most industrial goods. Tariff concessions on some agricultural goods. Egypt's exports of cotton are restricted under the MFA.
(7) Other Mediterranean countries	Association Agree- ments providing for full customs union with the EEC.	
Turkey	(1964 for unlimited period).	Duty-free access for industrial goods except some textiles, coal, steel and petroleum products; some concession on agricultural products. Cotton products subject to VER.
Malta	(1971 for 5 years). ^b	From 1978 duty-free access for industrial goods, some con- cessions on agricultural goods. Cotton products subject to VER.
Cyprus	(1973 for 4 years). ^b	70-100% duty reductions on most industrial goods; some concessions on agricultural goods. Cotton products subject to VER.
	Preferential Trade and Co-operation Agreements.	
Israel	(1975 for an unlimited period).	Duty-free access for most industrial goods; substantial concessions on 85% of agricultural goods.
Yugoslavia	(1980 for 5 years).	Duty-free access for most industrial goods except textiles and non-ferrous metals. Some concessions on agricultural goods, notably wine, tobacco, beef.

(8) Other Idcs (except Taiwan)	Generalised System of Preferences. ^c	Duty-free access for industrial goods—for some 150 products duty-free treatment is subject to quotas or ceilings. Duty reductions on 300 agricultural goods, of which 5 are subject to quotas.
(9) People's Republic of China	Generalised System of Preferences. ^c	Duty-free access as above but excluding certain agricultural and manufactured products.
(10) Developed countries which are GATT signatories, plus Taiwan	GATT ^d	Mfn treatment.
(11) Comecon members excluding Romania and Cuba.		Least favoured nation treatment.

^a Subject to periodic review.

^b Can be extended automatically.

^c This is a unilateral offer by the EEC rather than a binding agreement.

^d Binding, subject to safeguards.

MFA — Multi-Fibre Arrangement.

QR — Quantity restriction.

VER — Voluntary export restraint.

1. European Communities Information Service, ISEC/B76/78.

2. P. Tulloch, *The Politics of Preferences*, ODI/Croom Helm, London, 1975, p. 37.

3. One scheme was the Brasseur plan, proposed on behalf of the EEC-Six.

4. UN, 1964.

5. See TD/56 of 29 January 1968.

6. For example, the European Commission's *Practical Guide to the GSP*.

7. For example, A. Pitrone, *EEC GSP Scheme*, Editrice Commercio Estero, Rome, 1977.

8. The most recent year for which statistics are available. In practice, this means that tariff quotas and ceilings are three or four years behind the trend of Idc-EEC trade.

9. The scheme has been further refined by the introduction of a 'Community reserve' upon which member states can draw when they have exhausted their MSS.

10. For further details on the GSP for textiles see note at the end of chapter 5. The second Multi-Fibre Arrangement (MFA) came into force on 1 January 1978 and expires at the end of 1981 (though some of the bilateral arrangements within it last until the end of 1982). The MFA is a multilateral arrangement regulating trade in textiles and clothing, negotiated in the framework of GATT. The European Commission is, in the case of the EEC signatories, responsible for administering and monitoring the MFA. Whereas the first MFA (1974-77) was designed to permit ldc exports of textiles and clothing to rise annually by up to 6% per annum, the second MFA obliges certain ldcs (notably Hong Kong, Taiwan and South Korea) to *reduce* their exports annually. Other ldcs are allowed to increase their exports, within strict limits. But the overall intention has been to reduce low cost imports from ldcs and in 1979 textile and clothing imports from ldcs as a whole actually fell.
11. The Association of the South East Asian Nations, the Central American Common Market, and the Andean Pact.
12. COM (76) 303, 30 June 1976, p. 1.
13. COM (79) 348, 12 July 1979, p. 3.
14. GATT, *The Tokyo Round of Multilateral Trade Negotiations*, Geneva, April 1979, p. 149.
15. Conference resolution 96 (IV), IA (c).
16. In its *Review and Evaluation of the GSP*, 1979 (TD/232).
17. The dollar value of the US ceiling is revised upwards annually. The figure is given for 1979.

3 The Politics of Preferences: Interests Constraining EEC Trade Policy

The Community's policy-makers are faced with a constellation of interests, both within the Community and outside it, which influences the scope of their GSP offer, and the extent to which the Community feels obliged or able to give differential treatment in practice to different countries and different products covered by tariff preferences. These interests can be conveniently divided into three groups:

- (a) the interests of current GSP beneficiaries in maintaining or improving treatment;
- (b) interests external to the EEC, either in the developing world, among new applicants to EEC membership, or in other developed countries, seen as donors with their own GSP scheme and as exporters to the EEC market;
- (c) domestic interests within the EEC, both at national and Community level.

Current GSP beneficiaries

The basis of the GSP as it emerged in UNCTAD was that ldc exporters as a whole should be offered preferential trade measures over those given to industrialised countries. In practice, the EEC's GSP, like the other schemes, has been an *autonomous* scheme offering only *controlled* preferential trade. GSP beneficiary status does not endow ldcs with a formal right to influence the offer or the design of a new GSP, whereas many of the other interest groups covered in this chapter (such as the ACP states, domestic producers and consumers, etc) have formal Community-linked institutions (the EEC-ACP Council of Ministers, the European Parliament, the Economic and Social Committee, etc) through which their views may be heard on tariffs as on other issues. Subsequent sections of this chapter will deal with the power wielded by countries which, although included by the EEC as 'GSP beneficiaries', enjoy better treatment under special preferential arrangements. Initially, however, it is useful to treat the developing countries as a bloc. Their attitudes to the GSP were most succinctly formalised in the 'Arusha Programme' in preparation for UNCTAD V in 1979.¹

Referring to the efforts of all GSP donors, including the EEC, the Ldc Group of 77 noted that 'recent years have witnessed a slackening of efforts to ensure improvements in [GSP] operation' despite repeated commitments on the part of donors to maintain and improve the GSP. Emphasising that 'the introduction of GSP has made some contribution to the improvement of market access for the exports of the developing countries during the seventies', and recalling the Lima Declaration target of 25% of world manufacturing production for Ldcs by the year 2000 and the corresponding target of 30% of world trade in manufactures, the Arusha Programme urged

- (1) that the GSP be given a legal character so as to increase its certainty and permanence, that preferential tariff rates be binding, and that concessions not be withdrawn without prior notification;

- (2) that discriminatory principles and reciprocal conditions be outlawed from the terms of GSP eligibility, out of fear that they would be used as 'an instrument for political and economic coercion or retaliation';

- (3) that a 'time-bound programme of expansion of product coverage' be established, in particular to increase the coverage of agricultural products (Chapters 1-24) and to give them duty-free access; and

- (4) that 'quotas, maximum limits, exclusions because of competitive requirements which restrict the full use of the different schemes' be eliminated.

Similar conclusions were drawn by the UNCTAD secretariat in their paper on the GSP prepared for the Manila Conference.² In particular it stressed the need for an end to all '*a priori* limitations', arguing that if developed country industries require protection from preferential imports, then exclusion from the GSP should be exercised through ceilings 'rather than the more rigid tariff quotas, maximum country amounts or competitive need exclusions'. Ceilings, where necessary, should at least cover the previous year's imports plus an allowance for reasonable growth. The same document found the EEC's tariff quotas set 'far below the traditional level of imports from beneficiaries'; that the EEC's introduction of special lower *butoirs* 'largely negated' liberalisation elsewhere; and that preferential imports would have been greater by 50% without *a priori* limitations. These points are taken up in chapters 5 and 6 of this book.

The UNCTAD secretariat also called for full and global cumulative treatment for rules of origin purposes. This would encourage Ldcs to purchase raw materials and other inputs from each other—a move consistent with their undertaking in the Arusha Programme for collective self-reliance, in particular to establish a

GSTP ('Global System of Trade Preferences') among *Idcs* in the long term.

Another important issue has been that of *country coverage*. GSP beneficiary countries have hitherto been defined according to the self-election principle, whereby any country declaring itself to be a developing country has been eligible for GSP treatment. From the start, however, this principle was diluted on the one hand by an agreement that donors could exclude specific *Idcs* from the scheme on grounds which they held compelling—the USA had been the main user of this provision—and on the other by allowing donors to grant GSP treatment to the dependent territories of their fellow-donors. The end result is that most donors recognise most of the members of the Group of 77, but coverage of dependent territories and the less advanced economies in Southern and Eastern Europe, plus oddities such as Taiwan and Israel, tends to vary from donor to donor. The main exclusions can be represented by Table 3.1, which reveals that the EEC's country coverage is less restrictive than that of the two other major GSP donors, Japan and the USA.

There are, however, certain countries which have presented particular problems to the EEC scheme. Taiwan's exclusion was decided on purely political grounds and seemingly in violation of the principle of self-election. The People's Republic of China did not opt formally for developing country status until 1979, but the EEC has offered it limited GSP coverage from 1980 onwards, after the manner in which Romania was gradually introduced into the GSP in 1975. Bulgaria is considered a developing country within Comecon but has not so far been offered GSP treatment by the EEC. Yugoslavia as a member of the Group of 77 received GSP treatment from the outset and was consistently one of the major beneficiaries of the scheme, until 1980 when it negotiated a special preferential agreement with the EEC and consequently progressed one step up the EEC's preference hierarchy.

The *Idcs'* interest is less to retrace past history than to ensure that they each maintain their individual preferential rights under the scheme for the 1980s. In particular, a small number of manufacturing export-oriented *Idcs*, called variously the NICs (newly industrialising countries), 'take-off' countries, or 'threshold' countries, have obtained an impressively large share of GSP trade, and feel themselves vulnerable to the withdrawal of preferences in the future. Moreover, were the EEC to introduce a system of singling out for exclusion, on competitive grounds, the entire range of imports from a *Idc* which had hitherto been receiving GSP treatment, the *Idcs* fear that this would be taken as a signal to other GSP donors that the self-election principle was defunct. In general the Third World shows solidarity in upholding

Table 3.1: Exclusion from beneficiary lists

Developing countries excluded from beneficiary status	OECD developing		Eastern Europe		Lidcs		OPEC	Other Africa and Middle East				Asia and Pacific										Caribbean		
Donor countries	Greece	Spain	Albania	Bulgaria	Laos	Uganda	Democratic Yemen		Angola	Comoros	Mozambique	Oman	Cambodia	China	Hong Kong	Macao	Mongolia	N. Korea	Taiwan	Vietnam	Nauru	Tonga	Bahamas	Cuba
Australia	X							X ^b						X	X ^c		X	X						
Austria		X	X									X		X			X	X	X					
Canada			X	X										X			X	X	X					
EEC			X											X			X	X	X					
Finland	X		X	X										X		X								
Japan			X						X	X	X			X							X		X	
New Zealand																								
Norway	X		X											X				X						
Sweden	X	X	X											X			X	X	X					
Switzerland			X	X										X			X	X	X					
USA	X		X		X	X	X	X					X	X	X ^c		X	X	X	X			X	
No. of schemes from which excluded	4	6	9	2	1	1	1	1	1	1	1	2	1	9	2	1	6	7	6	1	1	1	1	1

^a Developing countries are not counted as being excluded from the benefits of a scheme if the donor country concerned has preferential trading relations with that country under another arrangement which is at least as advantageous as the GSP.

^b Only Libya and Saudi Arabia are excluded.

^c Only some products are excluded.

the principle of non-discrimination in the GSP between Idcs. Some of the more successful Idcs, however, have indicated that they would not be averse to losing tariff preferences on products in which they are highly competitive, provided *both* that the EEC guarantee that the benefits withdrawn would be redistributed to poorer Idcs *and* that all major GSP suppliers, a group of seven to nine NICs, say, not just one, be excluded.

Interests external to the EEC and to the current GSP beneficiaries

The scope of the offer for generalised preferences, and the Community's room for manoeuvre in offering effective preferential access to Idcs over other third-country suppliers, is constrained not only by a range of domestic interests, which will be dealt with in section (c), but also by the special preferential agreements concluded with other countries and country groups. Some special trade agreements are with developed countries (EFTA, for instance), but special, and partly traditional, agreements with certain groups of developing countries play a more important role in the formulation and operation of the EEC's GSP than in the GSP schemes of other developed countries.

The developing country groups which stand higher in the EEC's hierarchy of trade preferences are:—

- (1) The 59 African, Caribbean and Pacific (ACP) signatories of the Lomé Convention.
- (2) Dependent territories of the EEC member states.
- (3) New applicants for membership of the Community—Greece, Spain and Portugal.
- (4) The Maghreb and Mashreq countries.
- (5) Other Mediterranean countries with special preferential trade agreements—Israel, Malta, Cyprus and, from 1980, Yugoslavia.

The effect of these numerous special preferential agreements is three-fold. First, they reduce the genuinely 'generalised' nature of the GSP by making the non-privileged GSP beneficiaries almost a residual grouping in the developing world from the Community's standpoint. In effect, the 120-odd independent Idcs theoretically covered by the Community's offer of preferences divide into a more numerous (though less populous) group which enjoy special preferences, and a group of some 50 states offered no EEC trade concessions other than the autonomous GSP scheme. The traditions of EEC foreign policy have already created a system of differentiation between developing countries in which tariff preferences play a significant role.

Second, so long as the principle of 'maintenir l'acquis' ('hang on to what you have managed to get') is adhered to in the context of special agreements, the scope for increasing *effective* preferences under the GSP is subject to constraints from other Idcs, although it has been seen in the past that tariff margins can be eroded without undue protest provided that the special beneficiary countries are satisfied with alternative access terms or, when this is no longer possible, by other Community actions (project aid, Stabex, etc). And third, these special groups have to be consulted—if only in a perfunctory way—when EEC GSP policy is renewed or changed. For instance, the preambles to Council regulations on the GSP refer to the possibility of the preferences being withdrawn 'with a view to remedying any unfavourable situations which may arise in the ACP States following the implementation of the generalised preference scheme'.³ Conversely, the first EEC-ACP Lomé Convention (Art. 11) established that consultations shall take place where the Community envisages concluding a preferential trade agreement which might endanger ACP interests.

The conflicts of interest between the recipients of special preferences and the beneficiaries of the generalised scheme deserve analysis in further detail. The following pages will show, however, that the political influence wielded by Idc groups holding special preferences from the EEC by virtue of contractual agreements often outweighs their real economic interest in encouraging the EEC to limit GSP concessions.

The ACP countries

The type of relationship now represented under the Lomé Convention exemplifies the weight of tradition in the EEC's hierarchy of preferences, despite a short-lived attempt by the Commission, in its 1974 'Fresco',⁴ to argue the case for a globalised EEC developed co-operation policy. Earlier preferential but reciprocal agreements between the EEC-Six and the 18 sub-Saharan African ex-colonies of France and Belgium (the Yaoundé Conventions and the preceding interim arrangements for Overseas Countries and Territories (OCT), embodied in Part IV of the Treaty of Rome before the independence of these 18 territories) were adapted, after enlargement of the Community in 1973, into a non-reciprocal trade and aid convention (the Lomé Convention) originally covering 46 countries in 1975. Reverse preferences were ended partly as a result of US pressure—the United States' own GSP scheme was not forthcoming until after such elements of regional trading arrangements had been abolished—but also because many of the new signatories would not have been

prepared to discriminate in favour of the EEC-Nine in violation of the GATT rules.

The present EEC-ACP relationship is to be maintained at least until 1985. 58 ACP countries signed on 31 October 1979 a second Lomé Convention which maintains their duty-free access (without explicit quantitative restrictions) for manufactures and most tropical agricultural products, and it extends levy concessions to certain competing agricultural products. The ACP countries also enjoy guaranteed financial assistance programmed over five-year periods, out of which certain stabilisation measures affecting soft and hard commodity exports are also funded (the Stabex scheme). Over half (35) of the ACP countries are now classed as 'least developed' and receive preferential treatment from the EEC with regard to financial allocations, though this status does not result in any differentiation with regard to tariffs or trade access.

The main differences in treatment between the ACP and other countries in the Group of 77 are:

(i) The ACP are contracting parties to an international co-operation treaty with the EEC. The EEC's offer of trade access is thus a binding commitment for five years, but renewable and subject only to a general safeguard clause, whereas, as we have seen, the GSP is an autonomous undertaking by the EEC modified annually, subject to unilateral withdrawal and embodying *ex ante* restrictions.

(ii) The ACP are chosen by the preference-giver, not under the principle of self-election. Originally the EEC's Idc 'associates' were chosen on the basis of colonial links, later on a geopolitical basis (rationalised by reference to 'having comparable economic structure and production'). But some GSP countries which could qualify technically and geographically as ACP states under this criterion (such as Haiti) have been refused by the EEC. Others (such as Angola and Mozambique) have been encouraged to join, but have themselves refused the offer of closer association.

(iii) Unlike the GSP countries taken as a whole, the ACP export hardly any manufactures. EEC imports from the ACP in 1977 were dominated by raw materials, of which four products—crude oil, coffee, cocoa beans and copper—accounted for almost two-thirds of the total. ACP manufactures on the other hand represented only 3.6% of their total exports to the EEC and a mere 0.7% of EEC imports of manufactures, whereas Idcs as a whole supplied about 15% of EEC imports of manufactures (see Table 3.2). With the exception of the textile and clothing sector in Mauritius and a few African countries, there is little likelihood of the ACP being able to supply significant quantities of manufactures at

competitive prices over the next five-year period (Table 3.3). Hence terms which would be considered generous under the GSP in fact give little away as realistic concessions on a five-year basis to the ACP.

Table 3.2: EEC imports of manufactures^a by source of supply, 1977

<i>Source</i>	<i>Value (m eua)</i>	<i>%</i>
Extra-EEC	60,854	100.0
All Idcs	8,957	14.7
ACP only	443	0.7

^a SITC 5+6(-68, -667)+7(-735)+8

Table 3.3: Principal ACP manufactures imported by the EEC in 1977

<i>Product</i>	<i>ACP total (m eua)</i>	<i>By individual country (m eua)</i>
Aluminium oxide ^a	102.6	Jamaica 48.5; Surinam 38.5; Guinea 11.9
Clothing	46.5	Mauritius 36.3; Ivory Coast 5.5
Veneer sheets	38.0	Congo 12.9; Gabon 6.4
Cotton textiles	29.6	Madagascar 10.0; Ivory Coast 8.2; Cameroon 7.0
Dressed goat and kid skins	21.5	Nigeria 14.8
Veneers and plywood	15.2	Gabon 10.7

^a Not covered by GSP although classified by the EEC as a manufacture for ACP purposes.

Source: The Courier, November/December 1978, p. 73.

(iv) While the rules of origin applied by the EEC to ACP exports operate according to the process criterion as under the GSP, not only is cumulative treatment allowed within the ACP taken as a group, but this is also extended to include processing operations conducted in the EEC itself. For the GSP, however, as already stated in chapter 2, cumulative treatment for originating status has been permitted only within certain ldc economic groupings—ASEAN, CACM and the Andean Pact—and the rules disallow Community content.

(v) Through the consultation procedures in Article 11 of the Lomé Convention, ACP interests are allowed to affect EEC policy with regard to the GSP. The EEC's GSP offer is considered every year by the ACP secretariat, and ACP requests for amendments have on some occasions been implemented. For instance, the Commission's 1980 proposals for the GSP justify the smaller increase in tariff quotas for plywood on the grounds that care was taken 'not to jeopardise the ACP states' interests'.⁵ In some cases, however, ACP interests can be a convenient screen for sectional interests within a member state, and the EEC sets clear limits to the ACP's right to influence the Community's trade policy. The ACP have demanded compensation for the erosion of their preferential margins—either in the form of additional financial assistance earmarked for trade promotion, or by the adoption of a selective approach with regard to other tariff reductions to ensure that ACP exports are given advance protection. But the principle of compensation has never been admitted by the EEC. It is firmly maintained that the ACP were offered duty-free access on a broad range of goods, but not a fixed preferential margin over other suppliers.

(vi) Despite the relatively small volume of ACP trade in relation to other EEC trade with the Group of 77, many ACP countries are heavily dependent on the EEC for both imports and exports (see Table 3.4); in addition, many are dependent on the export of one or a few (agricultural) commodities to sustain their economies. Such economic dependence is reinforced by the powerful political links between, for instance, France and certain West and Central African ACP states, and by Britain's commitment to Commonwealth countries in each of the three ACP regions. Non-ACP non-Mediterranean states have lower trade interdependence levels and hence are not given to expect special treatment from the EEC on this basis, even though political links may be strong.

Table 3.4: Indicators of ACP trade dependence on the EEC (1977)

<i>Imports from EEC as % of total imports.</i>		<i>Exports to EEC as % of total exports.</i>	
<i>Highest concentration:</i>		<i>Highest concentration:</i>	
Gabon	84.3	Mali	88.7
Mauritania	80.0	Mauritania	85.5
Mali	77.1	Senegal	80.1
Madagascar	68.9	Mauritius	78.4
Cameroon	65.9	Gambia	75.5
Ivory Coast	65.1	Togo	75.1

Source: The Courier, November/December 1978.

Despite the more favourable access provisions offered to the ACP, to which could be added non-tariff measures such as guaranteed development assistance for production, export earnings stabilisation, and trade promotion, and despite the relative proximity of the main ACP countries to the European market in comparison with many of the major GSP suppliers, the ACP barely compete at all on the products which dominate current GSP trade. Table 3.5 shows the 1976 values of imports from the ACP and other preferred ldc groups which compete directly with GSP beneficiaries. For the ACP (and the OCT) it is interesting to note that most competition was in the semi-sensitive category—suggesting that, where ACP interests are concerned, the GSP offer is made semi-sensitive. For the Maghreb and Mashreq countries, however, a much larger proportion of GSP-competing imports is sensitive.

Table 3.5: EEC GSP, imports from Idcs with special preferences (1976, 000's of eua)

	Agricultural products (Chapters 1-24)				Manufactures (Chapters 25-99)				All GSP goods (Chapters 1-99)	
	Sensitive	Non-sensitive	Total	Sensitive	Hybrid	Semi-sensitive	Non-sensitive	Total	Total	Total
ACP	9	3,204	3,213	2,278	28	39,520	4,911	46,737	49,950	49,950
OCT ^a	-	18	18	-	-	18,268	86	18,354	18,372	18,372
Maghreb/Mashreq	-	1,667	1,667	11,603	130	23,816	6,935	42,485	44,151	44,151
Total	9	4,889	4,898	13,881	158	81,604	11,932	107,576	112,473	112,473

^a Excludes Hong Kong.

Source: HWWA—Institut für Wirtschaftsforschung, *Das Allgemeine Zollpräferenzsystem Der EG Und Seine Auswirkungen Auf Die Einfuhren Aus Entwicklungsländern*, Hamburg, 1979, p. 180.

Table 3.6 shows that most of the ACP's major exports enjoy no margin of preference over mfn suppliers, let alone over GSP beneficiaries, as most of the commodities in question enter duty-free from any source. The sole exceptions among the ten major ACP exports are four largely unprocessed agricultural commodities—coffee, cocoa beans, raw sugar and groundnut oil—where the ACP countries enjoy a small, though often significant, margin of preference over most or all GSP-country suppliers. The ACP access provisions for sugar are particularly important, though limited by quotas. Otherwise, ACP export production continues to be dominated by the traditional products which would in any case enter duty-free, and, although tariff margins have been slightly eroded in recent years by the multilateral trade negotiations and by the special GSP offer to lldcs, this has hardly acted as a significant threat to ACP trade. For the future, the products on which ACP interests will have to be considered are textiles and clothing; leather and leather products; worked timber and veneers; phosphates; and canned pineapples. Nevertheless, even when ACP market shares represent less than 0.1% of the total for many sensitive goods, the ACP have

Table 3.6: Major ACP exports to the EEC, 1977, by present tariff status

CCT No.	Product	Value (m eua)	Share of EEC imports from ACP (%)	Rate of duty (%)		
				Mfn	GSP countries	ACP countries
2709	Crude petroleum	3215	25.8	0	0	0
0901Aa	Coffee	2006	16.1	5	5(0)*	0
1801	Cocoa beans	1026	8.2	3	3	0
7401	Refined copper	780	5.7	0	0	0
4403B	Rough timber	473	3.8	0	0	0
1701 BII	Raw sugar	382	3.1	80(L)*	80(L)*	G*
2601 All	Iron ore	377	3.0	0	0	0
0902 B	Tea	205	1.6	0	0	0
5501	Cotton	205	1.6	0	0	0
1507 DIIb	Groundnut oil	170	1.4	5	5	0
Total share of these ten			70.3			

* Least developed GSP countries (notably Haiti) have duty-free access for coffee. Raw sugar from countries other than India and specified ACP countries pays a levy (L), but under protocol No. 3 to the Lomé Convention quotas from these latter countries are given guaranteed access at negotiated prices (G).

campaigned not only against GSP tariff cuts and increased ceilings, but even for maintenance of maximum country amounts or *butoirs* within tariff quotas and against the sharing out of the Community reserve (see chapter 5), arguing that, while not opposing the development of other ldc's trade, they feel entitled to protect their privileged access for the future against all-comers.

As members of the Group of 77, therefore, the position of the ACP countries is not entirely free from ambiguity. They risk attempting to use their special relationship with the EEC as a means of excluding other ldc's from duty-free access for products which they (the ACP) are unlikely to be able to supply at competitive prices even without duty (given particularly the low rates of labour productivity generally obtaining in Africa). In the one case, textiles, where several ACP countries have been able to supply European markets, it has been opposition by domestic European interests more than competition from GSP country producers which blocked their market access in 1978/9. But the ACP's main effect on the GSP is less in terms of protectionist pressure than as a long-standing precedent for the principle of differentiation between countries within the Group of 77.

Dependent territories of member states

The Overseas Countries and Territories (OCT) which were at the origin of the EEC policy of special preferences in 1957 have now (through the process of decolonisation) diminished in number to some 16 small island dependencies of Britain, France and the Netherlands (plus Belize, Brunei, French Guyana and Gibraltar). There also remains Hong Kong, which has been excluded from a Lomé-type trade arrangement and is indeed one of the major GSP countries. For all these dependencies of EEC member states, with the exception of Hong Kong, the GSP is irrelevant, as the OCT retain access terms at least as favourable as those given to the ACP. Due to their status, they can supply no political pressure on the formulation of the GSP offer other than that expressed by the member state on which they are dependent. As they gain independence, they invariably join the ACP. Their export volume is insignificant in comparison with that of any other 'special interest group'.

Overseas countries and territories which are not dependent on, or administered by, EEC member states (mainly islands in the Pacific administered by the USA, Australia or New Zealand) are given GSP treatment (with the exception of Puerto Rico) and receive no further concessions from the EEC. By far the most important trade interest in this group is that of Macao.

New EEC members and applicants

The Community of Nine is likely to become Twelve during the period for which the GSP is to be renewed. Greece signed the treaty of accession on 28 May 1979 which provides for her admission to the EEC on 1 January 1981, while Portugal and Spain have already applied for membership (28 March and 28 July 1977, respectively). Spain and Portugal are expected to become full members by the mid-1980s. The effects of an enlarged Community on GSP trade contain some positive possibilities, but it would seem that, particularly during a period of world recession, the negative effects of enlargement bear more heavily on GSP beneficiaries.

The four main effects can be categorised as follows:

(i) *Diversion of trade* from GSP countries to the CET-free, levy-free and unrestricted suppliers in Southern Europe. In the agricultural sphere, the three applicant countries export a similar range of products—olive oil, raisins and canned fruit and vegetable products which will compete effectively with GSP suppliers, plus citrus fruits and wine. In addition, Portugal is a prominent supplier of canned fish and Greece of tobacco. Their industrial export sector also shows strength precisely in the product ranges of particular interest to GSP beneficiaries, whether the NICs or the barely industrialised. Significant areas where Greece, Spain and Portugal are all low-cost producers and where the enlarged Community would wish to pursue import substitution are textiles, clothing (Portugal in particular), leather and leather products, shoes, plywood and veneers, electrical assemblies and steel products, ranging from the simple to, in Spain's case, the highly sophisticated.

(ii) *A diversion of capital* to the low-cost producing areas of the EEC may occur at the expense of Idcs. The ACP, rather than the GSP beneficiaries, may suffer the withdrawal of some element of Community-level public flows (expansion of the European Regional and Social Funds could cause contraction of the European Development Fund, even though it is separately budgeted at present; European Investment Bank lending may in the long run be increasingly concentrated on Southern Europe). But private investment diversion could be more of a threat to the establishment of new manufacturing capacity in GSP beneficiaries. Investment in food-processing industries, in particular, is expected to be diverted into the new applicant states.

(iii) *Reinforcement of protectionism* within the Community is likely to be the most serious effect of the southward

extension to include countries which themselves have import-competing industries and vulnerable rural groups. The Common Agricultural Policy (CAP) which 'already elevates protectionism over liberalism',⁶ would be strengthened by the interests of the new applicants for added expenditure on farm support measures to the detriment particularly of agricultural imports from other Mediterranean and North African countries, but also from some GSP suppliers. Higher levies on processed foods are likely to be proposed. Protectionism in the sphere of manufactures will be strengthened by the geographical shift to the less industrialised south. This also has demographic and social implications. One question is whether the balance of power will already have begun to shift before the revised GSP is formally proposed. In theory Greece will not take part in policy formulation in the run-up period before its admission to the EEC, but it would be unrealistic to suppose that concessions which harmed its interests and potential would be offered without due consideration of the new member state. The same argument applies at one remove for the other applicants. Furthermore, once the Community of Nine has expanded to ten and eventually twelve, the new members will have a direct voice in stipulating the annual GSP offer.

(iv) *An expanded market for ldc imports* will be one positive influence in offsetting these clearly negative factors. The Community market will grow by 9 million consumers with Greece's accession and by a further 46 million when there are twelve member states. None of the three applicant states currently offers its own GSP (indeed they are beneficiaries of other donors' GSP schemes) and all three maintain much higher tariffs on manufactures than the EEC. A realignment of tariffs could therefore open up a much larger Community market, particularly as the Iberian countries already import quite large shares of their agricultural products from Latin America; 10% of Spain's agricultural imports come from Argentina and 10% from Brazil. It is far from certain, however, that enlargement and adoption of the GSP will result in an export boom for GSP suppliers. On the one hand, the application of CAP prices to their agricultural goods will encourage the new entrants to substitute 'Northern' EEC produce for that of traditional Latin American suppliers, thereby giving added impetus to EEC high-cost production and providing justification for the postponement of adjustment in the EEC. With regard to manufactures, GSP suppliers will be faced with significant non-tariff barriers in the new applicant states, some of which (like the provision of

concomitant investment and distribution channels from the north) will favour suppliers in the Nine over others. For instance, it can be argued that complete tariff disbandment subsequent to EEC entry will bring about an increase in their manufactured imports from, and a rising trade deficit with, the EEC Nine (as occurred with the UK after entry) rather than an export-led boom or an expansion of imports from GSP beneficiaries. However, the importance of the demand in the relatively low-income countries which the three applicants represent (Portugal's per capita GNP is only \$1,840, Greece's \$2,950, Spain's \$3,260) should not be over-estimated.

To conclude, the new applicants' most important influence on the GSP in future years is likely to be a negative one. They have relatively more vulnerable domestic production interests to defend than they have markets to offer. Within the Twelve, displacement effects will tend to outweigh market expansion. The historical trading interests of the Iberian countries with Latin America are much stronger than those with ACP or potential ACP beneficiaries in Africa, but this is a small matter compared with their desire to promote and sustain industrialisation at home and, in a time of recession, to consolidate an inward-looking industrial free trade zone in Europe. Once they are part of the Community rather than just members of a free trade area, the influence of the three might tend to make Community trade policy more protectionist. The Commission's own *Bulletin*⁷ admits that the net effect of enlargement will be to reduce the Community's capacity to absorb agricultural and industrial consumer goods imports, and to increase the capacity for tropical products and raw materials production, none of which augurs well for a liberalised GSP. It suggests, however, that it is on the non-applicant Mediterranean states (Maghreb, Mashreq, Israel, Malta, Cyprus and perhaps Turkey) with competing exports, rather than on GSP beneficiaries, that the diversion effect is likely to fall most heavily. It is to these states that this survey of GSP 'interests' now turns.

Non-applicant Mediterranean countries

The remaining Mediterranean countries receive varying trade and co-operation treatment from the EEC (indeed, the agreements were all negotiated separately with each state, even in the case of the so-called Maghreb and Mashreq agreements), but the common feature of this treatment is that they are offered better terms than Idcs dependent solely on the GSP offer.

The preferences offered may be categorised as follows. Since 1976 the three Maghreb countries (Algeria, Morocco, and Tunisia) enjoy *negotiated* (not autonomous) preferential trade

and co-operation agreements for an unlimited period, giving them duty-free access to the EEC for most industrial goods (restrictions on some sensitive items are supposed to be temporary) and tariff concessions on some agricultural products. In addition, they have received pledges of financial assistance from the Community—mainly loans—up to 1981. Similar agreements dating from 1977 apply to four of the Mashreq countries (Egypt, Jordan, Syria, Lebanon, but not Libya), although the quantitative restrictions on Egypt's cotton products under the bilaterally negotiated Multi-Fibre Arrangement must also be mentioned.

Under a 1977 agreement Israel is to set up a free trade zone with the Community by 1989 (ie involving reciprocity). Israel already enjoys duty-free access for most industrial goods and substantial concessions on 85% of agricultural goods. Cyprus and Malta have association agreements under Article 238 of the Treaty of Rome guaranteeing them preferential access but with restrictions, notably on agricultural goods and textiles. Turkey is moving towards full customs union with the EEC (under an Association Agreement which could result in full membership under Article 237) although duty-free access on industrial products is currently restricted, notably on textiles, coal and steel and some petroleum products. Finally, Yugoslavia graduated to special preferential status in 1980, with restrictions on 29 products, mainly agricultural goods and textiles.

Historical links between EEC member states or the Community itself and these Mediterranean countries are probably less significant in the context of trade policy than two other factors—the Community's geopolitical foreign policy (extending its sphere of influence southwards so as to form 'Eurafrica') and the Euro-Arab dialogue, in which these countries play a role. Two Maghreb countries, Tunisia and Morocco, signed five-year association agreements with the EEC (with reverse preferences) as early as 1970, but a more general EEC Mediterranean policy evolved out of the anomaly of offering liberal access terms to sub-Saharan Africa under the Yaoundé and Lomé Constitutions while excluding North Africa. Such a policy became all the more urgent as oil supplies from the Middle East countries increased in both value and importance; by 1975 EEC trade with countries of the Arab League had exceeded trade with the USA. The oil producers retain GSP status, while the poorer Maghreb and Mashreq countries are offered special preferences, and can be expected to want to guard their margins of preference over GSP suppliers in Asia and Latin America.

EEC imports from these countries in 1977 (at the start of the new agreements) were as shown in Table 3.7.

Table 3.7: EEC imports from and trade balance with Maghreb, Mashreq and Israel, 1977 (in m eua)

	<i>EEC imports</i>	<i>EEC trade balance</i>
Morocco	833	+695
Algeria	2098	+1575
Tunisia	559	+318
*Libya	3851	-1275
Egypt	702	+979
Syria	602	+255
Lebanon	33	+561
Jordan	10	+361
Israel	974	+510

*No special preferential trade agreement.

Source: Statistical Office of the European Communities, *Monthly Bulletin* 4/78.

Apart from Algeria and Libya where exports of crude oil and natural gas predominate, the other littoral states produce for export the same kind of goods which are both 'sensitive' in the EEC-Nine—notably in Italy and southern France—and which compete with the new EEC applicants: textiles and agricultural products such as olive oil, citrus fruits, wine, vegetables and tobacco. The following products registered significant shares of exports to the EEC by country in 1977:

Morocco	– fruits and vegetables	33%
	– fertiliser	22%
Tunisia	– olive oil	12%
	– fertiliser	4%
	– cotton textiles	3%
Egypt	– cotton	7%
	– vegetables	5%
	– non-ferrous metals	3%
Syria	– cotton	9%
Lebanon	– machinery	15%
	– fruit and vegetables	9%
Jordan	– calcium phosphate	35%
	– machinery	39%
Israel	– fruit and vegetables	28%
	– industrial diamonds	21%
	– clothing	9%

With the exception of the last two countries, which have developed an export capacity in products which present no problems, the Mediterranean non-applicants are likely to be adversely affected by the dismantling of EEC tariff barriers against Greece, Spain and Portugal. Their products also experience competition from some of the more advanced ACP countries (like the Ivory Coast) whose preferential treatment is guaranteed for a further five years. Thus, much will depend on the importance which the EEC attaches to cultivating the Euro-Arab dialogue. Any erosion of the Maghreb/Mashreq margins of preference over GSP country suppliers will be avoided wherever possible. If, by having powerful allies in the oil-producing Arab world, these countries can limit the EEC's generosity towards GSP beneficiaries so as to maintain the essentials of their own special preferences, they will be able to show that their views and interests count, whereas those of developing Asia and Latin America are largely dispensable. But it is not certain whether European interests at Community level will in fact be tempted to sacrifice GSP interests for a handful of North African states.

Other developed countries

Despite the GSP, the case can be made that the impact of Western economic integration, in particular in the 1970s, has at the margin been detrimental to ldc exporters. The reduction of mfn tariffs between Western industrial countries (and Japan), which will continue progressively through the 1980s, is one aspect of this development. Another, in the case of the EEC, has been the creation of duty-free trading areas within Europe—not only the 1973 enlargement of the Community to Nine, but also, with effect from 1977, the almost completely duty-free trade provisions established between the EEC and the EFTA countries for manufactures. As a result, most preferences offered by Europe put ldc exporters at best on the same tariff status as exporters to the Community's market from Norway, Sweden, Finland, Iceland, Austria, and Switzerland (countries which, incidentally, operate their own GSP schemes) or from Portugal (which gives no GSP). Limitations within the GSP tend to be more severe than those applied to EFTA suppliers; in the rare cases where EFTA exports to the EEC are subjected to *a priori* restrictions, the tariff ceilings are set so high as not to be a threat to normal preferential trade.

Developed country exporters to the EEC consequently retain an interest in maintaining or improving their access to the largest single market in the world. Those with sophisticated, specialised products may not regard GSP exporters as a threat to their export

markets. Some non-EEC European suppliers of goods with a low value to weight ratio may continue to trade on the basis of comparative advantage regardless of ldc tariff concessions. Economies of scale, or particular factor endowments, may mean that non-preferred developed country suppliers such as the USA and Japan continue to trade successfully with the EEC regardless of the tariff or of the mfn-GSP margin. For ldc as a whole, moreover, it will be argued (in chapter 8) that tariffs are now as a general rule only a residual problem; the access problems created by non-tariff barriers are quantitatively and psychologically far more important. Nevertheless, the restrictions which ldc in the GSP scheme face on certain products clearly limit their industrial expansion, and competing interests in the developed world, whether trading on a developed country-preferred or an mfn basis with the EEC, may exert their influence often at a high level within the GATT and other international fora (including assemblies of a purely developed composition) to maintain their existing trading privileges enjoyed with the EEC, at the expense, if needs be, of the GSP beneficiaries.

This is to some extent paradoxical since all the Western industrialised nations offer generalised preferences of their own to ldc exporting countries. On the one hand, they may compete with all-comers, developed or developing, tariff-constrained or not, within the EEC market; on the other, their preference schemes are based on the objective of stimulating ldc industrialisation and growth by improving the access of ldc exports to their own markets. This leads to a third element in the as yet unharmonised series of GSP schemes. From the standpoint of development assistance, the various GSP donors may be deemed to be competing with each other to offer the 'best' GSP scheme in terms of coverage, concessionality or volume of trade generated; but looked at as a trade concession, the GSP donors are unwilling to outdo each other for fear of having to shoulder a larger share of the 'burden' of preferential ldc imports.

Table 3.8 shows the EEC as the largest market for preferential imports and ahead of the two other major GSP donors in the ranking of preference utilisation in 1976, as measured by the extent to which the GSP has reduced the proportion of mfn dutiable imports paying duty, although outclassed by some smaller GSP schemes on a *pro rata* basis. More detailed calculation of the 'value' of various GSP schemes is made in chapter 8. Suffice it to say here that, whereas the Japanese scheme operates (though less generously) on the basis of *a priori* restrictions such as tariff quotas after the manner of the EEC scheme, the US scheme has the following, contrasting, characteristics:—

— it has non-developmental ('negative') criteria for

Table 3.8: GSP preferential imports as % mfn dutiable imports, 1976

<i>GSP donor</i>	(a) <i>Preferential imports (\$m)</i>	(b) <i>Mfn dutiable imports (\$m)</i>	(a)/(b) (%)
New Zealand	71	162	44
Canada	303	1,204	25
Norway	22	95	24
Australia	179	768	23
EEC	4,446	21,742	20
Switzerland	257	1,419	18
Finland	21	128	16
Sweden	145	942	15
USA	3,154	21,077	15
Austria	126	1,123	11
Japan	1,790	29,928	6

Source: TD/232 Annex. p. 1

excluding countries from its GSP, notably some based on the ruling political system or on membership of an unacceptable supplier cartel;

- it excludes certain sensitive products from the scheme altogether—notably textiles, shoes, oil and oil products, watches, glass products and some electrical goods;
- it limits the amount of GSP benefit available to a given ldc by a competitive needs provision, based on the share or absolute amount of imports of a given product in the USA (for further details see chapter 4). This is a device which can easily be adapted for protectionist measures although ostensibly used for benefit-sharing purposes by excluding products from super-competitive GSP countries.

Finally, the US uses a completely different criterion (that of the percentage value added) for assessing the originating status of GSP imports. As we have seen, the EEC uses the process criterion and has substantially harmonised its rules with the main users of this method. There seems to be little possibility for alignment of the two types of schemes, although the US, like the EEC, already recognises the integrity of some ldc regional economic groupings for rules of origin purposes. Global cumulation between ldcs or ldcs would be an innovation within the spirit of both systems.

The EEC scheme will clearly set the scene for other GSP schemes in the 1980s, and any *ab initio* exclusions, on the basis of competitive criteria, of countries or products could have a major and illiberal impact on the US scheme, which already discriminates on political grounds. Given that the GSP's status has been raised from dubious legality under the GATT waiver to positive inclusion of differential treatment for Idcs as a whole within the legal framework of the GATT, and that Lomé preferences have recently been renewed for another five years, it will be up to the EEC to show a good example to other GSP donors in the 1980s.

Of all the interests external to both the EEC and the GSP, it is the industrialised countries of the West, both as traders and as 'burden-sharing' donors, which will have the most important influence on the new EEC GSP. The present section of this chapter has shown that other groups or countries enjoying special preferences are unlikely to wield as much power in influencing the formulation of a new GSP. The influence of the EEC's new members—currently still applicant states—could be decisive, but these would in any case be largely categorised as Western industrialised nations. The influence of the ACP countries is based purely on the EEC's contractual obligations to consult them and take account of their interests in formulating its external trade policy. Since their real trade interests in making the EEC more protectionist against members of the Group of 77 are minimal, and since they are well aware that, in the absence of a renewed Lomé relationship, they themselves would be relegated to the status of GSP beneficiaries, their complaints about the EEC's GSP liberality are likely to be a minor, formal irritant, rather than an effective tool influencing policy. Finally, the North African countries (Maghreb more than Mashreq) who do have considerable competitive interests to protect and temporarily favourable EEC access provisions to safeguard against encroachment from GSP suppliers are in perhaps the most vulnerable position. It is uncertain at this stage whether France or any other of the EEC member states will press the Maghreb/Mashreq case to the limit when formulating Community trade policy, on the GSP in particular. There is likely to be a trade-off at Community level between the amount of liveliness (or substance) in the Euro-Arab dialogue, the consideration afforded to the new Mediterranean entrants, and the pressing need to offer at least some trade concessions to Idcs as a whole. While Maghreb/Mashreq interests may well be partly sacrificed in favour of the new entrants, they have at least the reasonable expectation that some of their *acquis* will be *maintenu* at the expense of GSP beneficiaries.

Domestic interests within the EEC

It would be a commonplace to state that the GSP offer tends to be most generous for products where domestic EEC interests are not threatened, either because Idcs are in no position to supply the products—the usually cited examples being jet aircraft and computers—or because, for various physical reasons, certain products—unsubstitutable tropical foodstuffs or some barely processed minerals—face no competing domestic production in Europe. This may be an excessively static judgment, however. Few expected, when the GSP was being formulated, that South Korea, Brazil and others would take up the challenge of exporting motor vehicles. Chapter 8 will highlight a number of products, not previously exported from Idcs, for which the GSP may have facilitated export diversification.

At any stage, it is clear that an autonomous GSP donor has a balance of domestic interests to protect, as well as a balance of trading interests, which have differing implications in the short, medium and long term. The balance is further complicated in the case of the EEC GSP by differing national interests among the member states. No member state government regards the issue of preferential Idc imports with complete equanimity; attitudes will vary according to the government's perception of national interests and the weighting it gives (at least partly influenced by the legitimate demands and/or the vociferousness of the relevant pressure groups) to domestic interests in production and employment. Importers' voices will be heard more or less loudly according to the national importance of their function (and of distribution as a whole) relative to that of domestic production; consumers' interests will be at least implicitly taken into account, in view of the trade-off which may exist between inflation-combating cheaper imports and sustained demand at higher prices for domestic production. Superimposed on all this will be the government's grand strategy with regard to trade and external relations and, more specifically, relations with the Third World on the one hand and Community policy-making on the other.

Many of the distinctive national interests of member states are the result of historical and geographical factors. Although national interests vis-à-vis the Community GSP cannot be summarised briefly without the risk of distortion, the attitudes expressed by governments can be analysed. The question of domestic interests in the GSP will then be treated at the product level, with an attempt to explain why the existing product classification (in particular as regards sensitive products) has evolved, taking into account the domestic pressures in each member state. Lastly,

the issue of composite lobbies and representative bodies at Community level will be considered.

Distinctive national interests

Perhaps the most important general distinction to be drawn between EEC member states is the sensitivity of the government towards domestic *protectionist pressures*. Thus in Germany, the Netherlands, and to some extent Denmark, producers' interests are adequately spread and exports sufficiently buoyant for them not to consider imports, particularly from Idcs, automatically as a threat. Germany, by tradition and on account of its position as the Community's (and now the world's) largest importer, is committed in general terms—food security and agricultural support schemes naturally excepted—to free trade and is also against market interference. German importers are a far more important pressure group (in the sense that they employ substantial numbers and are well organised) than those in France, for instance, where much importing is in the hands of foreign multinational corporations, and where the main pressures on government trade policy come from industrialists or from French-based trading companies with powerful interests in those Idcs for whom the GSP is irrelevant (francophone Africa and Africa north of the Sahara, which benefit from ACP or Maghreb/Mashreq access agreements). Neither the Danish nor the Dutch Governments appear to be under strong protectionist pressure. Denmark rarely intervenes to have duty restored on semi-sensitive products, and has not stood out for product inclusions in the sensitive list. Its share of imports from Idcs is among the lowest in the Nine, and hence the Government actively promotes expansion of this trade and sees an uncomplicated GSP as an instrument to this end. Even the remaining textile producers in Denmark have little cause to complain, since they have mostly successfully moved up-market and no longer compete with GSP products. In fact, under Denmark's transitional EEC arrangements, special GSP tariff quotas on certain textiles were allocated to Denmark as a means of allowing that country's successful industrial adjustment to continue.⁹ The Dutch, already evolving an adjustment policy, have made detailed proposals to reform the GSP along lines which would remove GSP benefits not on the basis of the import 'threat' to domestic producers but, instead, according to the competitive strength of the exporting Idc in relation to other developing countries.

In France and the four remaining countries—the UK, Belgium, Italy, and Ireland—protectionist influences are much stronger

however. Despite tariff quota sharing with the Netherlands and the existence of the Benelux economic union, Belgium has very different, traditional manufacturing interests to protect. The Belgian Government would, moreover, be in favour of excluding outright some of the major GSP beneficiary countries by applying a criterion whereby their per capita income must not exceed the average of that in the Nine. This qualifying threshold for GSP beneficiaries would, of course, be even lower after enlargement of the EEC.

Neither Ireland nor Italy are major trading nations and both are vulnerable to processed agricultural imports (and those of agriculture-related industries), in which some Idcs enjoy a clear comparative advantage. Much of the south of Italy benefits from EEC regional (and social) aid, while the whole of Ireland has been designated a regional problem by the EEC. Ireland embodies some of the characteristics of a ldc—dependence on agriculture, small industrial sector, capital shortages and high structural unemployment; Ireland also has the lowest share of any member state of both imports from and exports to the Third World. It could therefore be expected that competing ldc imports could cause structural dislocation of the economy and that the Irish Government would accept the GSP only in the face of strong protectionist opposition. In fact, with the exception of a number of specific products (dealt with below) Ireland has not used its relative poverty as grounds for obstructing the EEC GSP offer. A Joint Committee of the legislature, however, stressed in its Report on the 1977 GSP offer that because of Ireland's concern to attract foreign investment (and reluctance to see it diverted to Idcs) it favoured replacing the self-election principle by selection of beneficiary countries on the basis of economic criteria so that the GSP would be only 'aiding countries which are in a worse position than ourselves'.¹⁰ The same committee later found that the GSP had had 'no marked adverse effect on Irish industries to date'.¹¹

Italy's concern at seeing GSP benefits accrue to countries which, though developing, appear to be richer than several of its domestic regions, in addition to internal political considerations which necessitate strong support for producers of agricultural goods already vulnerable to imports from the Mediterranean area, means that the Government feels more attuned to the EEC's Africa policy than to the global aspects of the GSP. Furthermore, the Italian Government seems the most disturbed among EEC members at the prospect of the GSP benefits accruing to multinational corporations which, while investing in Idcs, may be based in the USA or Japan—or at least (in the case of Hong Kong and Singapore) in member states other than Italy. France to some extent shares this preoccupation. Although investment policy

would seem to be the domain of the ldc government in question, this is nevertheless presented as a powerful argument for removing some of the more dynamic ldc exporters from the list of GSP beneficiaries under the guise of 'sharing the benefits' of the GSP more equitably.

Britain's rising protectionism has quite different origins. The UK's recent relatively poor international trade performance has engendered in government a belief that Britain has little to gain from freer trade relations with developing countries. Imports are invariably considered 'disruptive' by industrial pressure groups¹² which appear to persuade many consumers to adopt the same views, with the result that both Conservative and Labour Governments have tended to be highly susceptible to protectionist pressures which are more immediate than the long-term free-trading interests traditional to the British economy. This may partly be a structural policy-making problem peculiar to the UK. A House of Commons Select Committee found itself 'quite unable to establish ... the means by which British foreign economic policy is coordinated with domestic economic affairs';¹³ clearly the *ad hoc* procedures employed tend to give more weight to domestic industrial pressure groups than to the country's long-term economic interests with regard to the Third World.

All this must, of course, be seen in the overall context of a considerable trade surplus in manufactures on the part of the four major EEC economies (Germany, France, Italy, the UK) vis-à-vis the NICs.¹⁴

A second important distinction between member states is that of differing '*geographical perspectives on development issues*'. Broadly speaking, the EEC divides up between the 'globalists'—the UK, Germany, the Netherlands, and Denmark—and those whose national policies mirror the 'regional', more geographically concentrated policy of the Community's non-GSP development strategy—France, Belgium and Italy.

Germany in particular is concerned to use the GSP as a means of both supplementing its relatively weak bilateral assistance effort and counter-balancing the Community's concentration of developing privileges on Africa. This global outlook means that Germany would be reluctant to exclude any single ldc from the GSP, though, in the interests of perceived 'fairness', it would favour stricter and lower *butoirs* so as to exclude super-competitive suppliers by product (and also possibly the elimination of tariff quotas altogether). Germany's concern for fairness among ldcs stems from a particular preoccupation. Its trading interests tend to be well scattered throughout the Third World—more in Latin America¹⁵ and Asia than in the ACP region—and its aid performance, though large in terms of volume,

appears small in comparison with most EEC states in terms of 'effort' (1978 *oda* was only 0.31% of GNP). Hence the Government has been keen to stress the financial benefits accruing to Idcs from its liberal trading policy—using the GSP and other tariff concessions as a surrogate for aid, in other words. Consequently, Germany would be reluctant to see any major reductions in the size and scope of preferences.

Similarly, the Netherlands and Denmark tend to favour global actions such as the GSP rather than those which discriminate in favour of particular Idc regions, because neither has any particular axe to grind in Africa. But the same result can be obtained through a different route. The British Government is globalist precisely because of traditional links throughout the Third World. Nevertheless, Britain's globalist outlook is more easily overridden by domestic pressures, and, like Germany, Britain is prepared to employ GSP safeguards as a protectionist measure while claiming to act in the interest of equity. The Netherlands and Denmark, on the other hand, would retort that it has yet to be proved that restrictions on GSP use, even *butoirs*, actually succeed in *spreading* economic welfare among Idcs, rather than just withdrawing a portion of the benefits altogether.

The North-South perspective is quite different in the case of France, Belgium, and Italy, all of whose development interests tend to be focused on the African part of the ACP plus North Africa. For instance, France maintains a whole ministry (Ministère de la Coopération) dealing almost exclusively with the affairs of francophone and lusophone Africa. Trade concessions to Idcs outside this region tend to be of little importance to the *development* preoccupations of the governments of these three states; they might have negative significance in the sense that the member states may conclude that the GSP is unfairly eroding privileges already achieved for their favoured region on the principle of 'not spreading benefits too thinly'. Certainly this means that domestic protectionist forces (which would not in most cases be greatly affected by African exports) are permitted to steal an advance over considerations of trade adjustment: it is significant that the French Ministry of *Industry* (not Trade) retains control of the allocation of GSP tariff quotas in five important products (see chapter 5).

Overlaying the geographical focus of development policy are differences in the member states' degree of *commitment to development*. Government organisational structures are a good guide to the importance attached to development issues. For instance, the Netherlands has a Development Co-operation Minister who sits in the Cabinet and who possesses real power. At the opposite extreme are Ireland, which is not yet a member of

the Development Assistance Committee of the OECD (though, until 1980, with an expanding aid programme); and Italy, where departmental responsibility for development co-operation is scattered between ministries and where the political will to revive the bilateral aid programme has yet to become apparent. In between are countries like Denmark, where development is a live political issue and where public interest is translated into substantial governmental actions (with the Netherlands, Denmark is the only country to have achieved the 0.7% of GNP aid target); the UK where Commonwealth interests still predominate, where the Minister for Overseas Development no longer has a Cabinet post and, since mid-1979, administers only a section within the Foreign and Commonwealth Office; and France, where development issues, apart from being treated in the administration along 'regional interests' lines, are overlaid by the fact that half of the country's creditable aid performance consists of spending in French dependencies.

There are a number of smaller GSP-related issues which distinguish member state attitudes. One relates to the *history of the GSP itself*. The newer EEC members—the UK, Denmark and Ireland—operated GSP schemes which relied on general safeguards rather than *ex ante* restrictions for two years before adapting to the Community scheme. It is not surprising, therefore, that these governments have a clearer awareness of the relative freedom from administrative complexity in the abandoned schemes. Denmark would like to see tariff quotas abolished in the EEC scheme, for instance. Second, the major entrepôt states of continental Europe can see little rationale in the system of allocating member states' shares within the tariff quotas and ceilings, when a large proportion of seaborne trade enters the Community through a handful of ports. To the extent that some importers (and transporters) can actually benefit from the switching of orders due to member state shares restrictions (as will be shown in chapter 5), there is pressure for this system to continue even though, in view of the free movement of goods and services provisions of the Treaty of Rome, it is somewhat irrational.

Lobbies at member state level vary in intensity and direction. National employers' organisations and federations of industrialists have usually been eager to endorse the *principle* of duty-free access for developing countries, but have rapidly pressed for the exclusion from the scheme of products of interest to their members or even of whole countries whose imports actually began to benefit from the GSP. Such back-pedalling has commonly been cloaked under the disguise of a desire to share a perceived import 'burden' between industrialised countries or allegations that, by dominating GSP trade, a few countries (usually Yugoslavia,

Romania, Hong Kong, Brazil, South Korea, Mexico and Singapore are cited) are 'operating' the system to the detriment of other Idcs, Employers' organisations have been strongest in their condemnation of the self-election principle. Some German industrialists were particularly hostile to the inclusion of Eastern European countries in the GSP; in France and Italy, Hong Kong's presence in the scheme was accepted only with reluctance; and in many countries the feeling was voiced that Taiwan's exclusion (and the recent GSP offer to China) made no sense on economic grounds.

The case of Taiwan was, of course, taken up more strongly still by EEC importers. As stated above, importers' influence in the decision-making process varies between member states. There may, however, be a positive correlation between the strength of importers' views vis-à-vis those of industrialists and the existence of national import promotion offices for Idc trade. Though only recently established, they are noteworthy in the Netherlands (the Centrum tot bevordering van de import uit ontwikkelingslanden), in Germany (the Bundesstelle für Aus- und Import-Information deals mainly with Idcs), the UK Trade Agency for Developing Countries, and the Danish Import Opportunities Office in the Chamber of Commerce. In some other member states, however, such organisations are not in evidence; even in France, the Centre Français du Commerce Extérieur appears to concentrate on French export promotion.

Lastly, European labour organisations naturally have an interest in maintaining production and employment in competing domestic industries. As regards the GSP, they have tended to concentrate on the general issue of labour standards in developing countries. Without comparable labour standards (particularly in relation to hours of work, safety and health, child labour, etc), Idc imports are felt to be a source of unfair competition. In addition, trades unions have been insistent that adherence to ILO Conventions Nos. 87 and 98 (guaranteeing the right to unionise) should be included in GSP-type arrangements, in particular if the GSP were to become a legally binding treaty. (The failure to include such a mandatory clause in the 1980-85 Lomé Convention indicates that inclusion in the GSP appears no more than a remote possibility.) On many of these issues, trades unions tend to find common ground with domestic industrialists. An example is the case of asbestos imports from Yugoslavia, where German employers and trades unions have both campaigned for the product's exclusion from the GSP on the grounds that health and safety at work regulations in Yugoslavia are inadequate and consequently the end-product is exported at below the normal competitive price.

A final point is that while all countries, having accepted the GSP, are concerned to a greater or lesser degree that the benefits be spread as widely as possible, this concern takes various forms. We have shown above that national interests conflict somewhat, and, even at Community level, the member states' perceptions of their interests will continue to conflict. GSP policy is thus heavily dependent on the way governments express and represent their interests. Any one member state can veto any move to modify the GSP and, in particular, veto any proposal to withdraw a product from the sensitive list if its own interests, however small overall, are felt to be adversely affected. This is a general phenomenon of EEC policy-making, and in the case of the GSP it tends to act against liberalisation.

It is worth attempting to summarise national governments' stances on the GSP. For Germany, the Netherlands, and Denmark, it is an instrument for extending the benefits of Community policy towards otherwise somewhat neglected Third World countries; it demonstrates their faith in a regime of free trade—at least for manufactures; to grant such preferences involves little opposition from entrenched domestic interests because a healthy and well-managed domestic economy has broadly permitted economic adjustment in tune with comparative advantage. The remaining member states are much more subject to protectionist pressures—often because domestic industries may be becoming obsolete but also sometimes to support youthful, if not infant, industries in the case of Italy and Ireland. For France and Italy, the protection of small farmers against processed agricultural imports is a major political priority. How such pressures are translated into trade policy towards LDCs depends partly on the government's degree and direction of development commitment. For instance, France clearly sees itself as a guardian within the EEC of francophone African interests: whether it would act in the same way when Maghreb/Mashreq privileges come under threat (either from GSP beneficiaries or from EEC enlargement) is much less certain. Britain's commitment to development is less forcefully expressed and tends to lose ground in the process of Whitehall policy-making to powerful domestic pressures, in particular from industrialists, but, to the extent that British development focus is less narrow, the part that survives tends to favour generalised rather than special preferences.

Interests in sensitive products

It may be considered paradoxical that, despite the elaborate mechanism within the GSP for limiting preferential access for

sensitive products, no overall formula or definition of the term 'sensitive' exists. In practice a sensitive product is one that is produced by domestic industry in a particular member state (or quite possibly in all of them) where that industry is facing difficult times. (The same would of course apply to agricultural products—particularly in view of the exclusions and minimal tariff reductions observable in the GSP—although the 'sensitive' classification does not apply here.) In other words, the judgment as to whether a product is sensitive or not is subjective, and its eventual classification may well depend on the balance of interests in the member state concerned as outlined above. A few products are generally agreed by most member states to warrant the label sensitive and the consequent special treatment, because imports (not necessarily from Idcs) have already been the subject of political discussion. Several *textile* items, *leather and plastic footwear*, and *leather goods* would fit this category. The existence of the bilaterally negotiated restraints under the Multi-Fibre Arrangement is perhaps sufficient comment on the first inclusion, which covers man-made fibres and their products as well as natural goods. In the case of *footwear*, most member states have a traditional industry, often employing vulnerable female labour and situated in depressed regions, which once had some exporting capacity. Part of the problem of leather shoes is that of the EEC leather goods industries. They feel particularly disadvantaged not only because of the labour-intensive nature of the product, but also because they are heavily dependent on Idcs for the supply of skins and hides, and some major producers of the raw materials have ceased to export to Europe; this is an issue which is also intimately connected with Europe's meat imports regime. Higher raw material costs added to European-level labour costs make the *leather goods* industries highly vulnerable; once again regional and social considerations may render the product eligible for sensitive status.

At member state level, the pattern is approximately as follows. The British Government would insist on tariff quotas for *footwear* and *textiles*, as products which are 'the subject of political discussion' within the UK, while pressing actively for *plywood* to be removed from the list of sensitive products. Both Germany and the UK would insist on ceilings on the GSP concession for *diodes and transistors* and this would also extend to *calculators*; Germany considers *chairs* and *furniture* sensitive (to protect the Black Forest and West Bavarian producers); France the aforementioned *plywood*; Italy some cattle *leather* and *leather products*; the Netherlands *travel goods*.

The picture could be made more comprehensive by including processed agricultural products under the GSP. Product

inclusions (or, eventually, the depth of the tariff cut) would depend largely on whether the EEC has a processing and packaging industry in that product. Hence, on most tropical products, UK and northern European interests tend to coincide with those of Idcs, but come into conflict with France and Italy. The case can perhaps be best illustrated by a non-tropical product, *honey*, on which Idcs are given only a tariff reduction from 27% to 25% simply because the European producer interests involved (tiny in economic terms) are powerfully represented at a political level.

The above views on product status require some qualification. Thus Germany does not consider GSP textile concessions to be a problem since domestic products are adequately protected by the MFA, which has far more relevance to import *levels* than the GSP. Products on which the German Government receives substantial representations are *leather goods, shoes, glass and asbestos*, imported largely from Yugoslavia and Romania, but the complaints often come from companies which, unlike their competitors, have omitted to form joint ventures in Yugoslavia. Two of these (shoes and leather) are, moreover, included in the list of five products on which the German Government maintains a special licencing procedure (see chapter 5).

The Irish Government has been forthright in listing the GSP products which it feels are politically sensitive—they include *textiles, clothing, shoes, corned beef and sisal twine*. Concern has been expressed by the Irish legislature's joint committee¹⁶ on leather, travel goods, sports goods, dolls, furniture, radio and TV sets, and tyres. An earlier complaint that the Dublin Bay prawn industry would be ruined by GSP concessions on shrimps and prawns revealed after investigation that while domestic fisheries had an annual turnover worth £4m, imports from the Third World in the relevant year totalled £7 (and these were from a then non-GSP country, China).¹⁷ It is on Belgian insistence that the tariff quotas on carpets with less than 500 knots per metre of warp have been maintained. Belgium has requested reintroduction of duty at Community level on semi-sensitive products which it did not even import under the GSP, simply because it felt that its exports to the other EEC states could be damaged. Denmark, on the other hand, seems rarely to have intervened, or even insisted on product inclusion in the sensitive list.

Policy influences at Community level

Influences on GSP policy are transmitted upwards from national to Community level through a number of partial-interest bodies representing amalgams of employers or industrialists'

organisations (for instance UNICE,¹⁸ COCCEE¹⁹) labour organisations (ETUC),²⁰ and even consumers (the European Bureau of Consumers' Associations). In addition, there is a balance of policy-making interests between Community institutions proper. For instance, the GSP is formulated and proposed by the Commission, and adopted by the Council of Ministers; this involves annually the passing of eleven or twelve Council regulations and (on coal and steel products) two Council decisions, plus four regulations on rules of origin. Two other Community bodies are involved—but only in an advisory capacity—before the GSP offer is adopted; these are the European Parliament and the Economic and Social Committee.

The European Parliament has, in its resolutions as a nominated body (ie before 1979), expressed some inconsistent views on the GSP: admittedly one reason may be that the Parliament allocates time almost exclusively to consideration of the annual offer rather than to the basis and objectives of the scheme. For instance, it regretted that the 1978 offer was 'very modest' and showed 'no significant improvements', whereas the 1979 offer was considered to represent 'the maximum progress that can be expected at the present time'²¹ (on industrial products). However, some consistent threads of European Parliament thinking emerge, notably the belief that there is a conflict of interest between ACP countries and other Idcs (and that the interests of the former ought to be safeguarded); that some major Idc suppliers are appropriating excessive shares of the GSP benefits, hence that the list of beneficiary countries should be amended (ie shortened) to avoid what the Parliament calls 'a distortion' of the GSP; that the GSP offer ought to be better utilised, and that information deficiencies and the over-complex rules of operation of the GSP's *ex ante* quantity restrictions are a barrier to full utilisation; and finally, an oft-repeated wish that donors' preference systems be harmonised. The directly-elected European Parliament has not adopted any substantially different views on the subject; whether its influence in policy-making among European institutions will progress beyond the level of advice as regards the GSP is at the moment uncertain.

The role of the Economic and Social Committee is to give expert advice to the Council on Commission proposals. In practice, the annual GSP offer as proposed by the Commission comes under the scrutiny of the Section for External Relations, which also, in late 1979, had begun investigations into possibilities for the Community's post-1981 scheme. Composed of an amalgam of social and economic interest groups which break down broadly into employers, organised labour, and 'other interests' including non-governmental organisations, and assisted by

expert witnesses, the Committee depends heavily for the raw material of its investigations on the supply of information on the GSP from the Commission. ESC opinions can be important if expressed early enough to influence policy-making, but since the directly-elected European Parliament can now claim to represent public opinion at Community level, the policy-making importance of opinions expressed by a nominated body such as the ESC is considered by many to have further diminished.

Promotion of differentiation between GSP beneficiaries has been the most visible thread running through the Committee's findings. It has urged that the benefits of the scheme be concentrated on the poorer Idcs—notably by confining the GSP to countries classed as Idcs 'by their per capita income and other factors'.²² The Committee's opinions seem to take far less account of sensitive Idc interests than of domestic lobbies, this probably being a reflection of its composition and of the weighting of its experts. Its responsibility to its own members tends to be expressed in terms of viewing Idc imports as a potential threat to European employment. The Committee has also cast some healthy doubt on the advisability of allowing the comprehensive GSP offer encompassing all manufactures and semi-processed raw materials with subsequent quantitative limitations to be motivated by political factors at Community level. The ESC is keen to put substance before appearance, and has reminded the Commission that the aim of the GSP is to *help* developing countries and not just '*to demonstrate the Community's desire*' to help them.²³

All the Community institutions recognise that the mere existence of a Community GSP, apparently more generous in its initial offer than those of the EEC's main trading competitors, constitutes in itself a means of presenting the Community in a favourable light in North-South negotiations.

Set against the original economic objectives of the GSP—to provide liberal access to developing countries' exports as one means of promoting their economic growth and the world's economic welfare, there remains a range of interests outlined in this chapter which tend to act as constraints on trade concessions towards GSP beneficiaries. If any one is to be singled out, it must be said that the domestic producer/employer lobby is unlikely to become less vocal in a period when future sustained growth in the donor economies appears uncertain. Their case is taken up by many of the member states' governments, for whom the import 'burden' and unemployment may already be sensitive public issues, far outweighing any general development commitment they may have inherited or even their perceptions of mutual interests in the development of the South, particularly as

governments' time horizons may be quite short—rarely more than four or five years. It would, therefore, be unrealistic to propose a new scheme—to last maybe ten years—which fails to take into account the overriding political influences on GSP policy formulation, or a scheme lacking the reassurance of adequate safeguards. Thus one last criterion to be added to the balance of interests outlined above must be that the new GSP should represent a reasonable compromise between excessively complex operational mechanisms (which lead to administrative confusion, poor utilisation and unnecessary financial costs for exporters, importers, and governments administering the scheme) and an absence of rules or visible safeguards (which would lead to consternation among the domestic interests affected by the concessions).

1. UNCTAD, TD/236.
2. TD/232.
3. *Official Journal of the EEC*, 19 December 1977, p. 23.
4. 'Development Aid: Fresco of Community Action Tomorrow', *Bulletin of the European Communities*, Supplement 8/74, 1974.
5. COM (79) 348, p. 5.
6. T. Josling, 'Questions for farm policy in an enlarged EEC', *The World Economy*, Vol. 2, No. 3, September 1979.
7. *Bulletin of the European Communities*, Supplement 1/78 on Enlargement.
8. TD/232, p. 11.
9. See P. Tulloch, *The Politics of Preferences*, ODI/Croom Helm, London, 1975, p. 11.
10. Joint Committee (Dail and Seanad) on Secondary Legislation of the EEC, 43rd Report, on the 1977 GSP Scheme.
11. *Ibid.*, 33rd Report, on the 1979 Scheme.
12. The Confederation of British Industry supplied its members in 1979 with a guide entitled *Countering Disruptive Imports: A Guide to Instruments of Commercial Defence*.
13. First Report of the Select Committee on Overseas Development (1977/78), *Trade and Aid*, Vol. 1, p. viii.
14. A. Edwards, 'The New Industrial Countries and their impact on Western manufacturing', EIU, Special Report No. 78, London, 1979, p. 90.
15. Cf. R. J. Langhammer, 'Die Bundesrepublik als Exportmarkt Lateinamerikas', *Kieler Studien*, 1979.
16. Joint Committee 43rd Report, *op. cit.*, on the 1977 GSP offer.
17. *Ibid.*
18. Union des Industries de la Communauté Européenne.
19. Confédération des Organisations Commerciales de la CEE.
20. European Trades Union Confederation.
21. Compare the resolutions reproduced in A. Pitrone, *EEC GSP Scheme*, pp. 192 and 212.
22. CES 957/75.
23. CES 919/76.

4 Safeguards

All donors have found it necessary to include in their GSP schemes some form of safeguards which can be used to protect their domestic industries. In particularly sensitive areas, notably agriculture, textiles and clothing, iron and steel, products have simply been excluded altogether from GSP offers. The GSP coverage of agricultural products follows an entirely different approach from industrial products, known as the 'positive list' approach; only products included in this list are eligible for the GSP. (This will be discussed in more detail in chapter 7.) In contrast, all industrial products may be assumed eligible for the GSP except those in the 'negative list' which are specifically excluded. As Table 4.1 shows, this method of handling sensitive items has been favoured particularly by the USA, Canada, and Australia, with over 100 product exclusions each. Even the EEC excludes some 64 dutiable products, raw or barely processed industrial materials, largely to protect the interests of some ACP exporters. Two forms of safeguard common to all schemes are

Table 4.1: Number of dutiable industrial products excluded from GSP schemes (by 4 digit tariff headings)

	<i>No. of tariff headings wholly excluded</i>	<i>No. of tariff headings partially excluded</i>
Australia	13	88
Austria	—	7
Canada	17	112
EEC	18	46
Finland	47	16
Japan	6	4
New Zealand	17	54
Norway	30	5
Sweden	19	4
Switzerland	12	3
US	77	329

Source: OECD.

the rules of origin, which set out certain conditions that must be met before a ldc's exports can qualify for the GSP, and a general safeguard clause, which reserves to donors the right to reintroduce normal mfn duties as necessary.

Rules of origin

The rules of origin specify that products must have undergone a minimum amount of processing in the exporting ldc. In effect, they prevent developed countries from shipping their products to ldcs for repackaging in order to claim GSP treatment as ldc products when they are re-exported to other developed countries. Similar rules exist to prevent abuse of other preferential tariff arrangements, such as EFTA and the Lomé Convention. In the context of the GSP they are also designed to ensure that the GSP stimulates the development of industries in ldcs, rather than mere trading houses. It is argued, however, that these minimum processing requirements have actually prevented some of the least developed countries, whose only industries involve simple assembly operations, from using the GSP.

All GSP schemes define a product as originating in a ldc if it has been wholly produced or has undergone substantial transformation in that country and if it has been directly consigned to the importing country. There are few problems in defining a good which is wholly produced; it must include no imported materials or components, but its production may involve imported tools or machinery. The major exception is the processing of fish on factory ships, where most schemes require that the ship be registered in the exporting ldc and even that a majority of the crew be nationals.

Where products do contain imported materials, there are two types of criteria applied to determine whether they originate in the ldc, the percentage value-added and whether the tariff heading changes as a result of the production process. Seven schemes use the value-added criterion only: in some (Australia, Czechoslovakia, Hungary, Poland, New Zealand) the domestic content (ie the value of domestic raw materials plus value-added) must be at least 50% of the export's value, in Canada the figure is 60%. The US operates a slightly different system, defining the domestic content as domestic inputs plus the direct costs of processing, which must be at least 35% of the export value.

The change in tariff heading appears to be a more ambiguous criterion of whether a product has undergone substantial transformation. Nearly all of the seven schemes applying this rule (Austria, EEC, Finland, Japan, Norway, Sweden, Switzerland) have included two lists of exceptions: list A, where the change in

tariff heading is considered not to involve substantial transformation, and conversely list B, where there is no change in tariff heading but sufficient transformation to qualify for preferential treatment. The matter is further complicated by the fact that, over and above this rule, some countries also require a minimum value to have been added on certain products, or that the value of imported inputs does not exceed a certain proportion of the value-added. For example, to qualify for the EEC's GSP, articles made of semi-precious stones must have at least 50% of their value-added in the exporting country, even though they have undergone a change in tariff heading in that country.

Direct consignment is normally taken to mean that a product is shipped directly to the preference-giving country. Some schemes allow trans-shipment through third countries provided the goods remain in customs and do not undergo further processing. The EEC (amongst others) allows this only for land-locked countries. This reduces the ability of exporters to change the direction of their goods if market conditions alter; it also prevents them from shipping in bulk to one country and then subdividing the shipment for re-export to other countries. More important, perhaps, it excludes from the GSP those products which the less industrially developed Idcs in particular have to send to non-beneficiary countries for final-stage operations. An example is Afghan carpets which have to be sent to Switzerland to be washed before they can be sold, and which therefore do not qualify for the EEC's GSP.

There have been improvements in the GSP rules of origin. Donors using the processing criterion have harmonised their lists A and B to a large extent, at the same time as reducing the number of products in A and increasing the number in B. More important, in principle at least, has been the introduction of 'cumulative origin' which allows materials and other inputs from other Idcs to count in varying degrees as originating in the exporting Idc. This has long been demanded by the Idcs on the grounds that it will encourage industrial and trade co-operation between them. The most liberal schemes in this respect are those of Australia and New Zealand which allow all value added in other Idcs to be counted as originating in the country of export. Most schemes allow cumulation only in regional trading groups or customs unions, and this is partly offset by the requirement that the percentage value-added within the region be higher than for individual Idcs. For example, the US requires the minimum domestic content to be 50% instead of 35% (and a further drawback is that the US competitive need criterion is applied to the region as a whole).

The EEC rules on cumulative origin are particularly restrictive

and apply only to ASEAN, CACM, and the Andean Group. The value-added (or the change in tariff heading) within a group is not measured as the sum of the value-added (or processing) in each member. Instead a product must first count as originating in one member before it can be processed in another member prior to being exported to the EEC. Where there is a maximum percentage to the value of third-country inputs in the value-added there is no possibility of cumulation. For example, in electronics, third-country inputs cannot exceed 40% of the value-added in the export. If Singapore makes radios using Japanese inputs and the value-added is \$100, the Japanese inputs must not exceed \$40. The whole situation is changed, however, if Singapore buys some semi-manufactured components from Malaysia, which in turn are made with Japanese inputs, worth \$5. Singapore cannot continue to use \$35 of Japanese inputs, as the value-added in Singapore will fall; the total Japanese content of the final export will have to fall proportionately. One of the reasons put forward for not extending cumulative treatment to all Idcs is that their customs authorities are not linked in the same way as those within customs unions, and would be unable to verify the value-added in imports from each other.¹ But the need for verification could be reduced by simplifying the cumulative rules.

The question of whether inputs from donor countries (the 'donor content') should be counted as originating from the country of export is more contentious. This would help Idcs with small industrial bases by lowering the processing or value-added required in a ldc for a good to qualify for the GSP. But they could only take advantage of this provision in particular developed country markets, unless they were able to set up several factories, each using inputs from different developed countries. Nevertheless this idea is receiving growing popularity, particularly among certain industrial sectors within the EEC.

Many of the pressures for liberalising the GSP rules of origin are based on the fact that the EEC operates a similar but more liberal set of rules for the ACP states, under the Lomé Convention. The definition of 'substantial transformation' is less restrictive; for instance, there are fewer products in the list of exclusions. Moreover, there is a derogation procedure which allows the EEC to relax the rules for an ACP product which just fails to meet them. More important is the cumulative rule which allows any input from another ACP state or from the EEC to count as originating in the exporting ACP state, with the value-added being calculated as the sum of the value-added in each state. There is no reason why these rules should not be applied to GSP beneficiaries, unless the EEC wishes to guarantee the ACP states

a margin of rules of origin preference in the same way as they have a margin of tariff preference.

Our interviews with importers and customs officials in the EEC revealed that there are problems with the rules of origin which affect the use of the GSP for all products. These problems can be divided into three categories. First, there is the problem of complexity. Rules of origin are complex as they require an exporter to declare exactly what percentage of the value of his product has been added in his country and/or what processes the product has undergone there. This complexity is compounded by the fact that the rules for each of the 16 GSP schemes are different, though there has been some harmonisation in recent years. Often the smaller exporters are unable to fill out the forms correctly; sometimes the export authorities themselves are unable to provide the correct form or certifying stamp, with the result that the goods do not qualify for the GSP and must pay the full duty.

For the importer the complexity arises from the many different sets of origin rules operated by the EEC. What results in an Austrian product under the EEC's rules for EFTA or a Nigerian product under Lomé Convention rules may not result in an Indian product, even though the same process may have been undergone and the same value added locally to the same inputs. In each case the importer must consult a different set of rules to determine whether or not the product will be eligible for preferential treatment.

Second, there is the problem of conforming to the rules. There are certain Idcs whose exports do not meet the minimum processing requirements as their industrial base is limited. Ironically many of these countries, such as Sri Lanka and Bangladesh, have set up export processing zones as a means of increasing their rate of industrial development. But the assembly operations and simple production which processing zones involve are precisely those which the EEC aims to exclude from receiving GSP benefits. One reason is that the EEC fears multinational companies based in other developed countries will re-route their exports to the EEC via the GSP beneficiaries, thereby claiming tariff-free entry.

Third, the rules are applied with severity. Sometimes there may be deliberate cheating, if, for instance ceramic tiles made in Japan are stamped 'Korea'. But there are genuine mistakes and when importers are penalised for these, they are deterred from further use of the GSP. It is difficult to quantify the exact value-added and if it is just under a minimum limit importers can face lengthy arguments with EEC customs officials, which are referred back to the exporting authorities. During this time the goods may be held at customs. Ultimately though, the verdict rests with the

EEC authorities as the GSP is an autonomous concession. If proved wrong, the importer will be fined and charged the duty not only for that shipment but also for shipments of the same product in previous years. As a result of these difficulties some importers prefer to ignore the GSP altogether.

General safeguard clause

The general safeguard clause allows the different GSP schemes to be more flexible; without the option of withdrawing preferential treatment, several countries might want to increase the number of products wholly excluded from their GSP schemes. However, it is also argued that this introduces an element of uncertainty, as the circumstances under which preferential treatment may be withdrawn are not clearly defined. Normally some association between GSP imports and disruption of domestic industries is required, though what is meant by disruption, and whether GSP imports should be actually disrupting or merely threatening to disrupt domestic industries, is often unclear. The risk that mfn duties may be reimposed could deter ldc exporters from taking the GSP into account when planning future production and investment. What is more important, perhaps, is that these clauses do not envisage any compensation. Nor, until 1979 when a new agreement was reached in the Multilateral Trade Negotiations, was there any formal machinery for negotiation between donors and beneficiaries over GSP withdrawal. To date, however, this has not been a problem as most countries have not used the safeguard clause. But with the economic recession, on the one hand, and the growing competitiveness of some ldc's on the other, the clause may be used more frequently in the future. It is not yet clear how effective the newly established consultation procedures will be; their power will be limited as long as the GSP remains a non-binding, autonomous arrangement.

The general safeguard clause under the GSP is in total contrast to the safeguard clause under GATT Article XIX. The former can be used selectively (against any number of products from any number of ldc's) under vague conditions and without compensation, whereas the latter in principle requires import controls to be applied to all countries equally, with prior notification, under conditions which can be contested, and with compensation to affected exporters.

***Ex ante* restrictions**

Another type of safeguard is one which *ex ante* excludes particular imports from particular ldc's. As we have seen, the USA has

adopted a 'competitive need' criterion under which any ldc supplying in one calendar year more than 50% or a certain value (\$25m in 1976, adjusted annually to reflect changes in US GNP)—whichever is less—of US imports of a product, loses preferential treatment for that product in the following GSP year (beginning 1 March). Products which are not produced in the US are exempted from the 50% limit. Products which have been exempted one year may be reinstated the next if they fall below the competitive ceilings. This system has been criticised on several grounds. According to UNCTAD,² 50% of US imports otherwise eligible for the GSP were excluded by the competitive need criterion in 1977. One problem is that the narrow product definitions have resulted in several cases of the 50% ceiling being exceeded though the value of imports is very small. In 1976 of the 170 cases where the competitive criterion was applied, 163 were due to the 50% ceiling being reached, of which 80 products were worth less than \$1m. In recognition of this, a minimum value of \$1m was introduced in 1980 below which the 50% ceiling will not operate. Another problem with this system is the uncertainty for importers arising from the way in which it is administered. Withdrawal (and reinstatement) of the GSP is at the discretion of the Trade Policy Staff Committee. The Government is only required to give importers notice of deletion within sixty days of the end of the calendar year. This is to allow the collection of trade figures, but it can mean that the list of goods on which the GSP is no longer to apply is not published before February—in 1979 it was as late as 28 February, the eve of the new GSP year. In effect, importers of many products cannot rely on their goods receiving duty-free treatment and therefore they do not incorporate the GSP into their purchasing decisions.

Japan and the EEC have also chosen to restrict *ex ante* the amount of ldc imports which may benefit from GSP treatment. As we have seen in chapter 2 the EEC applies restrictions at three levels for industrial products: tariff ceilings or quotas, and, in the case of quotas, importing member state shares, and exporting country shares or *butoirs*. The rigidity with which these restrictions are applied varies according to the 'sensitivity' of the product. The EEC has classified industrial imports into four categories of sensitivity: sensitive, hybrid, semi-sensitive and non-sensitive. For sensitive products the tariff is automatically reintroduced once any of the three limits is reached. For non-sensitive products, at the other extreme, treatment is more liberal: once the ceiling and *butoir* are exceeded the tariff is only reintroduced at the discretion of the Commission, upon consultation with member states. (The effects of these various limits, and how they compare with each other, are discussed in more detail

in the following chapters.) In contrast, only five agricultural products face tariff quotas, and one a tariff ceiling. All others are covered by a general safeguard clause alone.

The value of the EEC's scheme to its beneficiaries depends on how their products are classified by the EEC. Generally speaking, the more products classified as sensitive, the lower the percentage of ldc exports which will receive the GSP. In 1972, the first full year of the GSP operation, there were 91 sensitive and even more semi-sensitive products, with the rest being non-sensitive. As the EEC scheme excludes some dutiable raw materials and semi-manufactures (mineral, chemical, metal and textile products), while some beneficiaries' exports of textiles were not eligible for GSP, only 62% of dutiable ldc imports were GSP-covered in 1972. But with such a large proportion of imports failing tariff quotas, this meant that only 50% of GSP-covered imports, less than a third of dutiable ldc imports, could actually qualify *ex ante* for GSP treatment.³

Table 4.2: Number of sensitive, hybrid, and semi-sensitive industrial^a products in the EEC's GSP

	<i>Sensitive</i>	<i>of which textiles</i>	<i>Hybrid</i>	<i>Semi-sensitive</i>	<i>of which textiles</i>
1972	91	23	—	na	na
1973	92	32	—	na	na
1974	81	30	—	85	26
1975	44	30	34	86	26
1976	42	26	29	99	29
1977	58	42	25	94	16
1978	46	30	26	95	16
1979	46	30	25	98	15
1980	46	30	24	na	na

^a Including textiles, iron and steel products.

na Not available.

Source: EEC, *Official Journal*, many editions.

It is generally argued that the EEC has greatly liberalised its GSP since 1972. One of the most important changes has been the decline in the number of products classified as sensitive, as Table 4.2 shows. If one divides all GSP-eligible imports into those which are non-sensitive (and therefore not liable to have mfn duties re-imposed on them) and all others—sensitive, hybrid

and semi-sensitive (on which mfn duties are more likely to be re-imposed)—it appears that the GSP offer has improved considerably (see Table 4.3). Taking GSP-receiving imports, however, the share of non-sensitive imports has fallen significantly. The particular issues considered in the following three chapters are first, to what extent the EEC's scheme has really been liberalised, and second, what changes could reasonably be made to it which would increase its impact on ldc exports to the EEC.

Table 4.3: Non-sensitive and other industrial imports under the GSP

	<i>GSP-eligible</i>				<i>GSP-receiving</i>			
	<i>Non-sensitive</i>		<i>Other</i>		<i>Non-sensitive</i>		<i>Other</i>	
	m ua	% ^a	m ua	% ^a	m ua	% ^a	m ua	% ^a
1974	1544	55	1261	45	970	53	864	47
1978	3157	60	2117	40	1151	36	2071	64

^a As a share of total GSP industrial imports.

Source: Various EEC documents.

1. For example, UNICE (Union des Industries de la Communauté Européenne) in their latest note on the GSP (23 January 1980) p. 4, argue 'Il faut d'ailleurs souligner les difficultés d'un contrôle effectif du fonctionnement des règles d'origine qui seraient ainsi modifiées'.
2. UNCTAD, TD/232, p. 11.
3. UNCTAD, TD/B/C.5/34/Add.1, pp. 11–12.

5 Sensitive Products

This chapter examines in detail the operation of the EEC's GSP for sensitive industrial products; GSP treatment of other categories of industrial products and of agricultural products is dealt with in chapters 6 and 7. The first section outlines the economic theory underlying tariff quotas (TQs). Following this comes an assessment of the relative importance of sensitive products in total GSP imports to the EEC, and how this has changed since 1971, to see whether the EEC has restricted or liberalised its scheme. The utilisation of TQs by product, member state, and exporting country, is also examined to see how far such GSP opportunities for sensitive products are actually taken up. We then describe the different ways in which TQs are administered in the EEC and how this affects importers, exporters and EEC producers. The chapter concludes with a summary of importers' views of the GSP for sensitive products and suggestions for change in the TQ system which would increase the benefits of the GSP for ldc exports of sensitive products while maintaining some degree of protection for those EEC industries needing it. A separate note on the treatment of textiles is given at the end of the chapter.

The theory of tariff quotas

As explained in chapter 2, the GSP is based on the principle that reducing the tariff payable on imports from ldcs, while holding the tariff on other imports constant, will increase the demand for ldc imports. If the amount of ldc imports which can receive preferential treatment is limited, however, by TQs, member state shares (MSS) or *butoirs*, this reduces the GSP's potential for stimulating trade. Following static marginal price theory, where TQs, MSS, or *butoirs* are less than the amount traded even with tariffs, the mfn tariff becomes payable on marginal ldc imports and there can be no trade stimulation.¹ In addition, where trade is restricted by quantity restrictions (QRs) as under the Multi-Fibre Arrangement (MFA), the GSP cannot stimulate trade except within the limits of the QRs. In both these cases the only economic effect of the GSP is a transfer of the tariff revenue on the intra-marginal GSP imports from the customs authorities to

importers and exporters. How these two groups share the tariff revenue between them will depend on their relative bargaining strength. There are two additional, practical, points to consider. First, the transfer may not be cost-free, ie the administration of TQs, MSS or *butoirs* may present costs to importers and exporters using the GSP, thus reducing the net revenue transferred to them. This will be discussed below. Second, the chance of a windfall gain (as many view the foregone tariff revenue) may induce importers previously unwilling to trade with Idcs (and conversely exporters unwilling to trade with the EEC) to do so. (This may mean that importers have discontinuous demand curves, or that they do not work according to marginal cost principles. Instead they may calculate the *average* tariff they will have to pay on Idc imports and, as long as this is lower than the tariff payable on other imports, they will, *ceteris paribus*, increase their imports from Idcs. Certainly we found evidence of this in our interviews.)

Our assessment of the EEC's GSP for sensitive products will therefore consider how much of the GSP potential for stimulating Idc imports is frozen by *ex ante* restrictions—in particular which products and which Idcs are worst hit; how far other factors (on the supply side, or in the administration of the GSP) reduce the amount of tariff revenue transferred; and how this transfer can be increased and directed at those Idcs most in need of it.

The relative importance of sensitive products

Superficially it seems that the importance of sensitive products in the EEC's GSP has declined. The number of sensitive products has fallen to 46, including 30 textile products, 3 iron and steel products, and 13 'other industrial' products—a mixed bag consisting of glutamic acid, cow leather, plastic and leather travel goods, leather clothing and accessories, plywood, three types of footwear, radios and parts, electronic components, chairs, and other furniture. The question is whether this means the scheme has improved, as is often implied. The answer depends partly on the treatment given to those products which have been reclassified as hybrid and semi-sensitive, the subject of the following chapter.

A more valid criterion for determining improvement in the EEC's GSP is whether the proportion of Idc imports, for which GSP treatment is restricted by their being classified as sensitive, has fallen. For example, it is important to know how large the TQ for leather shoes is relative to total imports of leather shoes from Idcs. Unfortunately the EEC does not collate its import statistics in a way which makes these figures readily obtainable. UNCTAD

has estimated that in 1972 58% of all GSP-covered industrial imports were classified as sensitive.² And in 1977 the share was still 'significant'.³ The EEC prefers instead to focus on the share of GSP-eligible sensitive imports in total GSP-eligible imports.⁴ As shown in Table 5.1 this was halved from 19% in 1974 to 10% in 1978. It does not follow, however, that if the ratio has fallen the EEC has liberalised its scheme. The difficulty in interpreting this fall arises from the way in which total GSP-eligible imports are calculated. They include the sum of ceilings for non-sensitive imports, which in turn include 5% of the value of imports from non-GSP countries, ie other developed countries. Thus ceilings on non-sensitive products are generally much higher than the total value of ldc trade, and a fall in the ratio of GSP-eligible sensitive imports to total GSP-eligible imports may reflect higher

Table 5.1: Development in the EEC's GSP (m ua)

	1974	1975	1976	1977	1978
1. Total ldc ^a industrial ^b imports	56,884	na	65,263	60,300	na
2. Total GSP—eligible industrial imports	2,806	4,533	3,762	4,939	5,274
3. Total GSP—receiving industrial imports	1,834	1,424	2,743	3,229	3,223
4. Total GSP—eligible sensitive industrial imports	545	384	482	520	516
5. Total GSP—receiving sensitive industrial imports	335	194	365	385	418
4 ÷ 2 (%)	19	12	13	11	10
5 ÷ 4 (%)	61	65	76	74	81

^a Excluding ACP, OCT, Taiwan; including Yugoslavia and Romania.

^b CCT 25–99 including non-dutiable imports.

na Not available.

Source: COM(76) 303 final
 COM(78) 470 final, Annex III
 TD/B/C.5/48/Annex I
 TD/B/C.5/60/Annex Table 3, p 8
 TD/232/Annex/ p 1
 TD/B/C.5/30/Add. 4, p 11.

developed country trade with the EEC rather than any real liberalisation. All that can be said, then, is that the EEC has chosen to direct the GSP towards non-sensitive products.

Treatment of goods which remain in the sensitive category has grown a lot more restrictive. As Tables 5.2 and 5.3 show, for the three sub-categories of sensitive products (textiles, iron and steel, and 'other industrial' products) the TQs are nearly always less than the total imports from GSP beneficiaries. (The only exceptions are a type of yarn and a type of cordage, and even these may only appear because of a statistical error.) On marginal pricing principles, therefore, the GSP has not offered any stimulation to trade in sensitive products.

If one assumes that importers take into consideration the average (rather than the marginal) tariff differential between ldc and developed country imports, there may still be grounds for including sensitive products in the GSP. But the proportion of GSP-covered sensitive products which are eligible for the GSP has fallen. This reflects the fact that TQs have not been allowed to grow as fast as GSP-covered imports. While ceilings for non-sensitive products have been increased fairly regularly, the EEC has felt it necessary in recent years, because of its internal economic situation, to freeze some TQs. There has been no growth in the TQs for the 3 footwear items and the three iron and steel items since 1976, nor for 7 'other industrial' products since 1977, while the textile TQs were frozen in 1977 and 1978. Where growth has been allowed it has usually been below the rate adopted for non-sensitive ceilings, and well below rates of inflation. As a result importers have had to pay mfn duties on a higher proportion of their imports from ldcs, ie since the introduction of the GSP the average tariff they have had to pay on ldc imports has risen, and conversely, the average tariff differential between developed country and ldc imports has fallen. For example, in the case of leather footwear the average tariff paid on ldc imports rose from 14.6% in 1975 to 17.0% in 1978, and the tariff differential narrowed to only 3% over developed country imports. Table 5.4 shows how, for the EEC as a whole, shoe imports received GSP treatment over the full year when the scheme was first introduced. But in later years, as the TQ fell in relation to total imports and as importers began to race their imports in to take advantage of the limited TQ, it has nearly all been exhausted in January. (The only imports receiving GSP treatment after January in 1977 were in Italy.)

Table 5.2: GSP-eligible and GSP-receiving imports as a proportion of GSP-covered imports (m ua)

	(1) GSP-covered		(2) GSP-eligible		(3) GSP-receiving		(2)/(1) (%)		(3)/(1) (%)	
	1975	1978	1975	1978	1975	1978	1975	1978	1975	1978
A Other industrial products										
Glutamic acid	—	0.2	—	0.2	0.2	0.2	—	99	75	75
Tanned cattle leather	29.4	100.8	15.5	19.9	20.0	20.0	53	20	20	20
Plastic travel goods	6.9	10.3	4.6	6.0	4.6	4.6	66	59	45	45
Other travel goods	69.6	139.6	9.8	13.0	13.0	13.0	14	9	3	3
Leather appagel	50.9	126.8	10.1	14.1	14.0	14.0	20	11	11	11
Plywood, etc	62.4	202.6	25.3	12.3	12.3	12.3	41	6	6	6
Rubber/plastic footwear	18.1	34.9	2.3	2.4	2.4	2.4	13	7	7	7
Leather footwear	33.8	108.6	18.9	19.8	16.6	16.6	56	18	15	15
Other footwear	39.2	75.0	10.5	11.0	11.0	11.0	27	15	15	15
Radio receivers	—	355.2	—	22.2	22.2	22.2	—	6	6	6
Diodes, transistors, etc	65.7	172.0	5.8	7.3	5.6	5.6	9	4	3	3
Chairs	22.0	42.3	15.0	22.2	18.8	18.8	68	53	45	45
Other furniture	13.4	32.8	11.1	16.7	15.1	15.1	83	51	46	46
TOTAL	411.3	1,400.5	128.8	167.1	155.9	155.9	31	12	11	11
B Steel products										
Coils	na	13.7	11.5	12.1	2.3	2.3	na	88	17	17
Bars and rods	na	12.7	7.1	7.5	3.0	3.0	na	59	24	24
Sheets and plates	na	52.0	22.3	23.4	6.9	6.9	na	45	13	13
TOTAL	na	78.4	41.0	43.0	12.2	12.2	na	55	16	16

^a TQ now fixed in volume at 282,610 m³, value estimated on basis of 43.6 eua/m³.

na—Not available

Source: EEC, Nimexa statistics, and UD475 series.

Table 5.3: GSP-eligible imports as a proportion of GSP-covered imports—textile products (1978)

<i>Product</i>	<i>(1) GSP-covered ('000 tons)</i>	<i>(2) GSP-eligible ('000 tons)</i>	<i>(2)/(1) (%)</i>
Fabric of man-made fibre	2.5	0.2	8
Cotton yarn measuring per kg:			
≤14,000m	2.5	0.7	28
14–40,000m	22.8	3.2	14
40–80,000m	20.7	1.1	5
80–120,000m	1.0	0.2	16
Unbleached cotton fabric			
<85 cm wide	2.0	0.5	23
Bleached cotton fabric <85 cm wide	0.2	0.3	136
Unbleached cotton fabric:			
85–115 cm	22.0	2.9	13
115–165 cm	31.0	1.8	6
>165 cm	7.9	0.6	7
other	14.5	0.3	2
Other cotton fabric	2.2	0.2	7
Synthetic yarn	12.4	0.3	3
Synthetic gauze	15.5	0.3	2
Woollen carpets ^a	11.6	2.7	23
Hemp cordage	22.3	1.4	6
Sisal cordage	1.4	0.3	25
Synthetic cordage	0.2	0.3	216
Other cordage	1.7	0.3	16
Synthetic stockings	3.5	0.06	2
Other stockings	0.5	0.2	39
Knitted undergarments	14.9	1.2	8
Knitted outergarments	16.3	0.4	3
Men's/boys' outergarments	31.3	0.4	1
Women's/girls' outergarments	27.9	0.3	1
Men's/boys' undergarments	18.4	0.4	2
Women's/girls' undergarments	2.0	0.1	8
Handkerchiefs	1.0	0.08	8
Corsets, etc	1.6	0.05	3
Bedlinen, etc	13.7	0.2	1
TOTAL	325.5	20.9	6

^a With not more than 500 rows of knots per metre of warp.

Source: EEC, *Nimexe* statistics, and EEC, *Official Journal*.

Table 5.4: EEC imports of footwear (CCT64.01) receiving GSP, by month ('000 ua)

Month	1973	1974	1975	1976	1977	1978
January	669	735	1,641	2,049	2,136	2,422 ^a
February	284	562	169	123	1	—
March	182	273	18	—	—	—
April	82	33	25	—	56	—
May	37	37	24	—	47	—
June	83	21	3	—	24	—
July	44	38	5	—	11	—
August	39	2	18	—	54	—
September	62	14	4	—	1	—
October	69	—	5	—	—	—
November	62	47	—	—	—	—
December	37	25	70	46	—	—

^a Eua.

Source: Compiled from EC, UD/475 series.

On the other hand, other *ex ante* restrictions—*butoirs* and member state shares—mean that many TQs are not fully utilised and thus that TQs overstate the degree of tariff-free access for sensitive industrial products. The proportion of total sensitive imports which actually receive the GSP is even lower than the ratios of GSP-eligible to GSP-covered imports shown in Tables 5.2 and 5.3. Although utilisation rates have improved steadily since 1974, in 1978 as much as one-fifth of TQs as a whole remained unutilised. Of the 13 'other industrial' TQs, six were fully exhausted in 1978 (compared to none in 1975) but for five products 15% or more of the TQ was not used. The utilisation rates for textile products were generally lower, and those for the three steel products were the lowest, with well over half of their TQs remaining unused.

The EEC gives a lot of emphasis to low utilisation rates, arguing 'there is scope for further improvement—both quantitative and qualitative—in the way it (the GSP) is utilised by the developing countries'.⁵ This may be true for non-sensitive items, but it is less likely in the case of sensitive items where total ldc imports exceed the TQs. Until the system of *butoirs* and MSS is changed by the EEC, utilisation rates will remain below 100%, no matter what ldc do. To these we now turn.

Table 5.5: Underutilisation of tariff quotas—other industrial products (%)

<i>Product</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>
Glutamic acid	NS	NS	25 ^a	23 ^a
Tanned cattle leather	23	6	4	— ^a
Plastic travel goods	44	29 ^a	26 ^a	23 ^a
Other travel goods	10	7	5	0 ^a
Leather apparel	23	22	16	1 ^a
Plywood, etc	-170	-99	40	—
Plastic/rubber footwear	14	9	—	—
Leather footwear	44	34	20	16
Other footwear	11	6	2	—
Radio receivers	7 ^a	— ^a	1 ^a	— ^a
Diodes, transistors, etc.	22	31	17	23 ^a
Chairs	39	28	21 ^a	15 ^a
Other furniture	43	24 ^a	14 ^a	9 ^a
Weighted average ^b				7

^a Products with reserve.

^b Weighted by the value of each quota.

0 Negligible.

— Fully used.

NS Non-sensitive.

A negative value means the TQ is overutilised.

Source: European Commission statistics (UD/475 series).

Table 5.6: Utilisation of preferences^a: sensitive products (%)

	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>
Industrial products	60.2	93.7	80.5	65.0	85.3
Textiles ^b	66.0	63.9	69.0	86.0	75.7

^a I.e. GSP-receiving imports as a proportion of GSP-eligible imports.

^b By value.

Source: European Commission, COM(79) 348 final, and *Practical Guide*, 1979, and COM(76) 303 final, UNCTAD TD/B/C.5/48/Annex I.

Butoirs restrict the share of GSP ceilings and TQs which may be used by imports from any one ldc. They are normally set at 50% of GSP ceilings but in the case of sensitive products are usually lower, between 15% and 30%. *Butoirs* serve two purposes: to ensure that suppliers in the more developed ldcs do not monopolise the TQs and that minor ldc suppliers also have some share of them, and to reduce the competition between suppliers in the more developed ldcs and EEC producers. In principle minor suppliers can benefit in one of two ways. If the remaining share of the TQ is more than the amount imported from minor suppliers, ie the TQ for them is open-ended, they should benefit from trade stimulation on these products, as they would on any other non-sensitive item; trade may be diverted to them from major ldc suppliers once these have exceeded the *butoirs*. If, however, the TQ for minor suppliers is close-ended, ie less than the amount of their exports to the EEC, *butoirs* should allow them to receive a larger share of the tariff revenue foregone by the EEC.

The success of the *butoir* system can be measured in three ways: first, if the number of major suppliers affected by them has increased, second, if the share of major suppliers in GSP imports has fallen, and third, if the share of minor suppliers has risen.

Since 1974 *butoirs* have been tightened on most sensitive products. At the same time the number of suppliers hit by them has increased (see Table 5.7) from 14 in 1974 to 17 in 1977, and the number of their products affected (in all categories—sensitive, hybrid, semi- and non-sensitive) from 104 to 143. Of the ten countries with the most products affected in 1977, nine were also in the top ten beneficiaries with the largest amount of GSP-receiving imports. Despite the *butoirs*, their share of total GSP-receiving imports to the EEC has fallen by only 2%, from 72% to 70%, since 1974. In other words, the remaining 51 ldc beneficiaries accounted for only 30% of GSP-receiving imports.

One reason for the failure of the *butoirs* to redistribute the benefits of the GSP is that the way in which they are administered allows them to be greatly exceeded. Import statistics are collected in each member state and sent at least monthly (or more frequently) to the European Commission where they are compiled. If imports from any ldc to the EEC as a whole are found to have reached the *butoir*, member states are asked to reintroduce the mfn duty on further imports from that ldc. There is often a delay of as much as six weeks before duties are reintroduced and even though this date has on the whole been getting earlier each year, major suppliers who export large shipments to the EEC within a short space of time can exceed the *butoirs* by as much as 200% (see Table 5.8). In 1978 all countries who hit the *butoirs* exceeded them by a (weighted) average of 66%. This degree of

slippage means that two countries alone can exhaust a tariff quota with a 30% *butoir*.

In contrast the administration of TQs, member state shares, and the special *butoirs* for hybrid products, is more tightly controlled. Member states are legally obliged to reintroduce duties as soon as their shares are exhausted, while in the case of hybrid products they have the right to do so once their imports from a single ldc amount to 50% of the special *butoir* (see chapter 6).

One way of ensuring that minor suppliers receive GSP treatment on a larger amount of their exports of sensitive products would be to reduce *butoirs* further. Alternatively, the system used for hybrid products could be adopted, to ensure that existing *butoirs* are not exceeded. It is argued that this would be unnecessarily penal on the more developed ldcs as minor ldcs are not in a position to supply all of these goods; in 1978 seven of the thirteen 'other industrial' TQs were not exhausted (see Table 5.5 above). But a closer examination of EEC import figures shows that for some products such as leather footwear, imports from other ldcs alone were more than enough to fill the TQ.

Table 5.7: Beneficiaries affected by *butoirs*

Countries	Number of products affected			
	1974	1975	1976	1977
South Korea	20	24	33	35
Yugoslavia	30	22	28	28
Hong Kong	15	19	22	24
India	12	14	13	11
Brazil	4	7	8	8
Romania	3	6	8	8
Philippines	0	1	2	4
Singapore	3	4	5	4
Thailand	0	0	1	4
Colombia	2	2	1	3
Malaysia	1	3	3	3
Mexico	3	3	2	2
Venezuela	0	0	2	2
Argentina	1	0	1	1
Kuwait	0	0	0	1
Libya	0	0	1	1
Pakistan	6	6	4	4
Bahrain	0	0	1	0
Chile	0	1	0	0
Iran	2	2	1	0
Macao	2	0	0	0
	104	114	136	143

Source: OECD, TC/GP/92, Annex p 13 and World Bank Atlas.

The reason that the TQs were not exhausted was because only a proportion of imports, as little as 20% in the case of footwear, received GSP treatment. Even in the case of other products, such as non-leather travel goods, where imports from other Idcs were not enough to fill the TQ, not all were given GSP treatment.

Table 5.8: Overutilisation of *butoirs* for 'other industrial' products (%)

<i>Product</i>	<i>Country</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>
Glutamic acid	Korea	—	—	44	53
Tanned cattle leather	Argentina	—	19	19	31
	Brazil	6	2	2	26
Plastic travel goods	Hong Kong	9	19	12	11
	Korea	—	—	—	26
Other travel goods	Hong Kong	8	43	52	15
	Korea	—	—	17	72
Leather apparel	Korea	12	34	16	75
Plywood, etc	Korea	—	62	—	19
	Malaysia	157	99	—	—
	Singapore	133	102	—	—
Plastic/rubber footwear	Hong Kong	—	100	113	65
	Korea	52	64	85	196
Leather footwear	Brazil	49	55	90	75
	Yugoslavia	20	2	19	4
Other footwear	Hong Kong	—	58	69	34
	Pakistan	31	16	—	—
	Korea	44	59	159	231
Radio receivers	Hong Kong	50	106	126	77
	Korea	23	63	167	203
	Singapore	4	2	136	—
Diodes, transistors, etc	Singapore	20	—	—	—
Chairs	Yugoslavia	66	61	107	92
Other furniture	Yugoslavia	46	61	79	75

Source: European Commission Statistics (UD/475 series).

It would seem therefore that *butoirs* do not cause underutilisation of TQs. Underutilisation may instead be caused by other problems such as member state shares or by the administrative costs involved in importers applying for the GSP for sensitive products.

Member State Shares (MSS). Since the introduction of the GSP, tariff quotas have been divided into MSS amongst the EEC member states roughly on the basis of GNP, external trade, and population. These shares are partly designed to distribute the 'burden' of preferential imports among EEC producers (in the sense that the GSP increases competition from ldc imports) and among governments (in the sense that the GSP means foregoing tariff revenue). They also ensure that importers in one member state cannot monopolise the windfall gains arising from the GSP. Once a member state's imports reach its predesignated share, it has to restore the mfn duty. In theory duty-free circulation in the EEC makes nonsense of this. An importer in a member state, which has exhausted its share of the TQ, can always import his goods via another member state, where GSP treatment is still being applied. Equally a sophisticated exporting country could arrange for its goods to be shipped to a member state charging mfn duties *via* another member state still applying the GSP. The costs involved in doing this (arising from added transport and administrative difficulties) can outweigh the GSP gains, however, with the result that imports enter some member states paying duty although others never exhaust their shares. In this way the sub-division of TQs into MSS has meant that TQs are not fully utilised. For example, in the case of leather footwear Italy's share of the TQ in 1978 was nearly four times the value of its total imports from GSP beneficiaries, while at the other extreme, Germany's share was only enough to cover 10% of its imports (see Table 5.9). Underutilisation of Italy's MSS alone accounts for 11% (ie three-quarters) of the underutilisation of the footwear TQ.

The problem would be partly solved if MSS were allocated instead on the basis of each country's share in EEC imports of sensitive products. The EEC has adopted this principle in the allocation of TQs for plywood and the five sensitive agricultural products, and as a result TQ utilisation rates for these products have tended to be higher than average. But changing trade patterns mean that unless MSS are also constantly changing there will always be a degree of underutilisation.

To increase TQ utilisation the European Commission proposed as early as 1971 that a part of each TQ to be set aside as a reserve, to be drawn upon by member states which had exhausted their shares, and to which member states would return that portion of

Table 5.9: Imports of leather footwear by each member state (1978, eua m)

	MSS	%	GSP-receiving	%	GSP-covered	%
Germany	5.3	27	4.5	27	51.2	42
Benelux	2.0	10	2.0	12	27.3	22
France	3.7	18.5	3.6	22	12.1	10
Italy	2.8	14	0.5	3	0.7	1
Denmark	1.0	5	1.0	6	6.1	5
Ireland	0.1	0.5	0.1	1	0.9	1
UK	4.9	25	4.9	30	24.4	20
Total	19.8	100	16.6	100	122.7	100

Source: EEC, *Nimexe* statistics and UD/475 series.

their MSS which they were unlikely to use. In fact reserves were not introduced until 1975 and then they were only equal to 10% of the TQ and only for two products—batteries (no longer a sensitive item) and radio receivers. Member states were able to draw upon the reserve up to the equivalent of 10% of their MSS in the first instance and 5% thereafter. By 1979 the situation was somewhat better; the number of sensitive products with reserves was extended, but only to nine, while the terms were improved—reserves are now equal to 20% of TQs, and members can draw up to the equivalent of 15% and then 7½% of their MSS. But some of the most important products—textiles, footwear, plywood, iron and steel—still have no reserve.

However, even this system is not perfect. Members do not have to surrender all of their unused shares. By law they are only obliged to 'return to the reserve, not later than 1 October, . . . the unused portion of their initial share which, on 15 September . . . , is in excess of 20% of their initial amount'.⁶ It is up to the discretion of each state whether it returns anything more. A situation could arise therefore where only one member state was a large importer of a product and each of the other eight member states chose not to return 20% of their initial shares, even though they were not going to use them, so that as much as 12% of the TQ remained unused. States which do not use their share of a TQ tend to be those producing competing goods which they want to export to the other EEC states. They are unlikely to want to increase competition for themselves by returning their unused shares to the reserve. This may be happening in the case of glutamic acid, for which only the UK exhausted its MSS in 1978;

France and Italy were net exporters to the rest of the EEC, in particular to Germany, the UK and the Netherlands.

A further problem with reserves, arising from the time lags involved before the reserve is replenished, is that the tariff payable on sensitive imports may fluctuate considerably. A member state may exhaust its MSS in January. It can automatically draw on a portion of the reserve. But additions to the reserve are not made available before October, and until then imports have to pay the full mfn duty. In Germany a complex system of administration has been set up to ensure that when the reserve is made available at the end of the year, it is given to those importers who were at the head of the queue when the GSP ran out earlier in the year. This requires a record of all importers to be kept. In member states where this does not occur, the uncertainty surrounding the extra bit of the reserve means that the tariff revenue foregone becomes even more of a windfall for importers and is even less likely to get passed forward to consumers or back to exporters, than the revenue foregone at the beginning of the year.

It seems therefore that the system of member state shares creates yet another obstacle to the full utilisation of the limited GSP opportunities available to EEC importers and ldc exporters of sensitive products. The introduction of reserves has gone some way to remedying this situation, but they are only available for one-quarter of all sensitive products, and as long as member states are not obliged to surrender all of their unused MSS reserves will not ensure full utilisation of the TQs. Finally, even if member states were obliged to do this, duty-free treatment of imports would not be continuous. Rather than extend reserves to all sensitive products, if the EEC really wants to increase utilisation of the GSP, it should abandon the entire system of MSS. This would relieve the operators of the GSP—ie governments, importers and exporters—of some of the administrative costs associated with it. These form the subject of the following section.

Administration of TQs

An understanding of the way in which the GSP is administered both in each member state and at the Community level is necessary in its evaluation. If the system is complex and creates either direct costs, such as queueing, or indirect costs, such as uncertainty, then this reduces its value. From the importers' viewpoint the average tariff paid on ldc imports is increased, reducing the incentive, which the GSP otherwise offers, to buy from ldc's. We therefore carried out interviews in various member states with customs authorities and other government representatives as well as with importers and importers' associations, to determine

how TQs, MSS and *butoirs* were administered, and whether the GSP for sensitive products was considered to be an incentive to increase imports from Idcs. Suggestions as to how the GSP for sensitive products should be changed were also put forward in the interviews and these are discussed in the following section.

There is no specification in the EEC regulations on the GSP as to how TQs, *butoirs*, or ceilings are to be allocated by the importing authorities between various importers. All that is stipulated is that '... it is necessary in particular to ensure equal and continuous access for all Community importers to the ... quotas and the uninterrupted application of the rate laid down for those quotas to all imports of the products concerned ... until those quotas are used up'.⁷ In addition, member states are legally bound to ensure that GSP treatment is applied only to the value of imports specified in their MSS (plus some proportion of the reserve).

There are three ways of allocating the GSP. The most common, used in all member states, is the 'first-come first-served' or 'greyhound' system. A second is to preallocate TQs on the basis of past import shares or other criteria. A third is to share out MSS *ex post*—importers being given back the duty on a proportion of their imports (which is equal to the ratio of the MSS to total imports).

The greyhound system, though the most simple, has its problems. As member states are committed to restricting GSP imports to their MSS, they have each set up a central office to collect the data on imports entering under the GSP at their many customs posts. Importers applying to receive GSP treatment must wait a few days, while the request is relayed to the central office, and confirmation received that the MSS has not yet been exceeded. In most countries (but not all, France being the major exception) importers can ring up the central office to determine the level of exhaustion of the MSS, though the information tends to be at least 24 hours out of date. For *butoirs*, however, which are controlled at Community level, no current information is available for importers. This is partly because there is no EEC-wide computer network through which data on GSP imports can be quickly compiled. But even two or three week old data is not readily available. Plans for a GSP information centre run by the European Commission, to provide this service, amongst others, have never materialised.

It has been argued that information on the current exhaustion of GSP opportunities is not relevant to importers, who should already have fixed the prices and volume of their imports. But this ignores the possibility of trans-shipment; for example if Germany's MSS has been filled, but not the Netherlands', a German importer may wish to trans-ship his goods through the Nether-

lands in order to obtain duty-free treatment on them. Similarly, in products where there is a short lead-time between sales contracts and delivery, an importer may change his sources of supply if he learns that imports from one supplier have hit the *butoir*.

For products where the MSS is exhausted within a few days there are special problems. Importers feel that they stand a higher chance of receiving GSP treatment if they present their claims in person to the central office. This creates costs for importers in towns furthest from the centre who must appoint agents to represent them. In recognition of this problem the Italian customs have shared out the MSS for some products in advance between four of five major regional customs posts, roughly on the basis of how important importers are in each area.

In the UK a more elaborate system has been developed for those sensitive products where the MSS is likely to be exceeded within the first week of January. This avoids the potential difficulty of large queues forming outside the customs office; it also ensures more equitable treatment of importers, particularly those in Scotland, where 2 January, a day on which many MSS would otherwise be exhausted, is a public holiday. Claims for GSP treatment for imports of these sensitive products (18 in 1979) can be made until 4 January each year. Once an importer has made his claim the goods are cleared through customs as normal, paying the full mfn duty. The claims are sent to the London office where they are aggregated and the 'banding allocation' (ie the share of each claim which is to receive full GSP duty relief) is calculated. For example, 301 claims were made by 4 January 1979 for one type of cotton cloth and the banding allocation was 20.2%; one-fifth of each importer's shipments was granted GSP and the duty which had been paid on this portion could be reclaimed from their local customs office. The major drawback to this system is the cost both to customs and to the importers. Frequently a port may deliver its GSP claims late and so the calculations have to be repeated. And for two or even three months an importer loses interest on the duty which is then returned to him. It is doubtful whether this is the most efficient method for operating the GSP, and it has been suggested that those MSS whose commercial value is outweighed by their administrative costs should be abolished. More important is the fact that it fails to introduce any element of predictability into the GSP, which is necessary if the GSP is to produce more than windfall benefits to importers, and any benefits at all to exporters.

For all other GSP sensitive imports, the UK operates a system whereby when imports reach a 'critical' level, usually taken to be 90% of the UK's MSS though sometimes it can be lower, the

importer clears his goods straightaway, ie without waiting for his GSP claim to be processed. But he must first deposit a security, with his customs office, for the full mfn duty which is payable on his imports. His claim for GSP treatment is then sent to the London office where it is ranked together with claims from all over the UK according to the exact time and date of entry. Each claim is considered in turn and if it is found that the goods entering at that time were still within the quota, the authorities at the port of entry are notified and the security is returned to the importer. This elaborate system is needed to ensure that only that value (or volume) of goods legally entitled to GSP treatment actually receives it. If this value were accidentally exceeded then customs would have to reclaim the mfn duty from the importers involved. The careful monitoring prevents importers from deliberately or unwittingly clearing goods under the GSP through different customs ports, at the same time, in such a way that the UK's MSS ceiling is exceeded. Instead they have to share what remains of the MSS on a *pro rata* basis.

Some countries have chosen to introduce special procedures for very sensitive products. In France, for some products (largely textiles), permission to import is first needed from the Ministry of Industry in the form of an import licence or a technical visa and this often leads to delays. Until recently the same ministry also allocated the tariff quotas for these products, giving preference to importers who represented domestic manufacturers. This was contrary to the policy of customs (which falls under another ministry, the Ministry of Finance) of first-come first-served and GSP allocation has now been returned to them for all but five very sensitive products (cotton cloth of 115–165 cm width, synthetic cloth, velvet, gloves and women's outerwear). However, importers argue that GSP allocation effectively remains in the hands of the Ministry of Industry: by delaying the granting of visas or licences to certain importers for two or three weeks it can ensure that the MSS is used solely by importers who represent domestic manufacturers.

In Germany, when the GSP was first introduced, 80% of all German MSS were pre-allocated to traditional importers on the basis of shares of imports over the previous three years, and the remaining 20% was allocated to new importers on the greyhound system. In principle this provided traditional importers with greater certainty that some of their imports would enter duty-free, and might have been taken into account when fixing selling prices (to wholesalers) or purchase prices (from exporters). If average tariffs were calculated, it might have led to diversion of purchases from traditional suppliers to Idcs. In practice, though, the GSP allocated to each importer only covered a small share of his

imports and so had little effect either on prices or on the volume of imports from Idcs. This system could not greatly increase certainty that GSP would be received, as importers were not informed of what their shares of the MSS would be until December each year. Moreover, the existence of *butoirs* meant that the mfn duty could be reimposed at Community level on imports from major Idcs before German importers had used up their GSP shares. Importers buying goods from these countries were still under pressure to rush their imports in at the beginning of the year to benefit from the GSP. In recognition of these problems the number of products for which MSS were pre-allocated was reduced steadily from 11972 to only five in 1979: bovine cattle leather, plywood, two cotton yarn items and footwear with leather uppers, ie the products which allegedly give German industry the most problems, and for these only half of the MSS in each case is now formally reserved for traditional importers.

In Benelux, Denmark and Ireland the GSP for sensitive products is allocated on the greyhound system. The Benelux MSS are subdivided equally between the Belgium and Luxembourg Economic Union, on the one hand, and the Netherlands, on the other, with a reserve of 20%. But this is a flexible division, to ease GSP administration. Once importers in one country have used up its share they can automatically draw upon what remains of the shares of the other two.

Importers' assessment of the GSP for sensitive products

In our interviews with importers and importers' associations we sought to answer the following questions:

- did importers of sensitive products bother to apply for GSP treatment?
- did they take account of the GSP in drawing up contracts with their suppliers or with their customers?
- did the possibility of a windfall profit encourage them to buy from Idcs?
- did the *butoir* system encourage them to buy from less advanced Idcs once the more advanced had exhausted their *butoirs*?

There are certain criticisms of the GSP which are common to importers of all sensitive products, and these will be discussed briefly here. A summary of the experiences of importers of the most important sensitive product groups: ie textiles and clothing, carpets, leather and leather goods (clothing, footwear, travel goods), and plywood is given in the Appendix.

It is the annual changes in the status of products, often not announced until the new year has begun, which cause the most worry and increase the uncertainty inherent in the allocation of TQs by the greyhound system. As UNCTAD has commented, 'Complexity is . . . a significant feature of the scheme, but the element of uncertainty is a more serious characteristic which, it will be apparent, narrowly limits the potential trade advantages. Uncertainty is inherent in the combined operation of the *a priori* limitations or constraints. For most goods where these limitations are strictly or fairly strictly applied . . . any prediction of whether a given shipment will in fact receive preferential treatment or whether the preference will be "sterilized" through reimposition of mfn duties following the reaching of the maximum amount, the Member State share, or the quota is risky, to say the least . . . a gamble at unknown odds . . . These built-in uncertainties are compounded by a lack of information on the working of the system of limitations.'⁸ Importers have responded to this uncertainty in one of three ways. Some have carefully timed their imports to arrive at customs at the beginning of the year, or even before 1 January. Others have preferred merely to follow normal trade patterns and to apply for GSP treatment if the TQ is still open. Finally, some have preferred to ignore the GSP altogether.

Uncertainty is compounded by a lack of information on the utilisation of TQs over time, either during a given year or during past years. Only in some member states is it possible to ring up the central customs office to discover how much of the MSS is left. But this information is invariably out of date. It is even more difficult for importers to determine how much of a neighbouring member state's MSS is unused without telephoning directly to that state's central customs office. Finally, it seems there is no information available on current utilisation of *butoirs*—importers can usually only learn that *butoirs* are exhausted from the EEC's *Official Journal*.

The two most frequently criticised defects of the GSP are its complexity and its uncertainty. The rules and regulations governing the scheme have been described as a 'Gordian knot'.⁹ Certainly the scheme is at its most complex when applied to sensitive products. As with all GSP products, to know the preferential tariff margin, the importer/exporter must first identify the CCT heading under which his good is classified; then he can look up the mfn tariff. Second, he must establish whether the processing contained in the product and carried out in the ldc is sufficient for it to pass the highly complicated rules of origin. Third, he must ensure he has the necessary documentation and that this is properly filled in. Fourth, he must know the status of the product,

ie whether it is sensitive, hybrid, etc, as the clearing of goods through customs will vary accordingly. Fifth, he must know the status of the Idc in which his supplier is located; if it is restricted by normal *butoirs*, special *butoirs*, or no *butoirs* at all.

The complexity of the GSP has worsened since it was introduced in 1971. Each year changes have taken place, both in the administrative procedures and in the status given to products, particularly sensitive ones. It was reasonable that in the earlier years the administrative procedures should have been modified to improve utilisation of TQs. But it was extremely irritating for importers (and exporters) to find that in the case of sensitive textile products, a product group already plagued by complicated quantity restrictions under the MFA, an entirely new system of administration and allocation of TQs was proposed for 1980.

Because of the complexity of the GSP regulations, importers often experience delays in their applications for duty-free treatment. As explained above, there is always a delay of a few days before customs know whether the application falls within the TQ. Meanwhile storage charges must be paid and these can be high, especially at airports. Frequently, when the GSP certificates (Form As) are not in order, there are even longer, and more expensive, delays.

It for this reason that *butoirs* were generally felt not to work as intended, ie to encourage buyers to seek out less competitive Idcs. Even if daily information on *butoir* utilisation were available, it is unlikely that *butoirs* would have this effect, given that contracts are fixed in advance and delivery involves time lags. Some importers, however, felt that *butoirs* had encouraged them to switch suppliers.

The peaking of imports, as importers rush in their goods to obtain a share of the TQ, has its costs. At an aggregated level the extent to which the GSP causes a peaking of total imports of sensitive products in the beginning of the year, is probably exaggerated. As TQs cover only a small proportion of total imports, there is not likely to be any evidence of peaking in the monthly returns for total trade. At an individual level, however, the costs of uneven flows of trade may be considerable. For the exporter, building up stocks to be sent off at the end of the year presents costs in the form of interest charges on the capital tied up in the stocks, storage charges, and the cost of operating below capacity for the next six months or so when there are no orders from the EEC. For large exporters with the capacity to supply other markets, this may not be a problem, however. For the importer there are also interest and storage charges. Some specialist importers have the storage facilities to cope with large volumes of goods which they may not sell immediately. But

department stores do not as they import goods for immediate sale. Further dilution of the GSP benefit may arise from shipping companies fixing higher freight charges for goods delivered by the beginning of the year. Representatives of conference lines have stated that for most products their rates are fixed and no supplement is charged for special timing of deliveries, even though this requires extra planning on their part. But in some cases, such as wood, rates are open and importers have to pay more for peak trade.

Finally, some markets have special characteristics which make it particularly costly to rush in goods to take advantage of the GSP. For instance, in markets such as wood where prices fluctuate throughout the year, there is the added risk for importers that prices in the forward market will fall below the duty-free price they obtained at the beginning of the year. In other markets such as footwear where demand is strong, importers may prefer to sell their goods as soon as they arrive in the port rather than stockpiling them until 1 January to try for some GSP benefit.

Even when importers deliberately race their imports in, however, they can never be certain that they will receive the GSP. First, there is always a risk that their shipments will be late either because of exporters' inefficiency or because of bad weather affecting shipping. Second, in the UK in particular, for sensitive products covered by the 'banding' system, even if importers are able to guarantee that their goods arrive before 1 January, they cannot know what duty reduction they will receive as this depends on the total value of GSP claims made by 4 January (as explained above). Third, even where mfn tariffs are not normally restored until the end of June for example there is still a risk that an importer shipping his goods from the Far East in mid-March may not qualify for the GSP: total imports of the same product may suddenly surge with the result that the TQ is exhausted by the end of April and the importer is liable to pay the full duty. If he has already fixed his sale price without including duty he may be faced with a substantial loss. In 1979 a UK plywood importer lost £250,000 in this way.¹⁰

Because of this uncertainty importers have generally not incorporated the GSP into their contract prices, with either their suppliers or their buyers. Prices are always fixed well in advance of delivery, between six months and a year ahead. Some importers initially fixed two sets of prices in their sales contracts—one with duty, the other without. But many customers did not accept this practice and so it was stopped.

More frequently, contract prices are fixed with duty and if importers are fortunate enough not to pay duty they may choose to treat it as windfall profit. In this case the retail price is

unaffected by the GSP and the total volume of imports remains constant. At most the GSP, by offering the chance of an extra bonus on imports from ldc's, may divert some trade away from other suppliers. Occasionally the duty relief may be passed on in the form of lower prices. For instance, this may happen where goods are for stock and no sales contracts have been fixed, or where the market is highly competitive, or where importers have a close relationship with their customers, or where retailers are aware of the GSP. In France the control on retail price margins in recent years affected the distribution of GSP benefits, but only marginally, as wide ranges of items were controlled, not individual GSP products. For example, if a mail-order company, which fixed its prices for the first six months of a year to include duty, received GSP treatment, it could use this duty relief to lower all prices for the following six months.

The GSP duty reduction on sensitive products has rarely been passed back to the exporter or exporting country in the form of higher export prices. When the GSP began, exporters in some of the more experienced ldc's such as Korea and India did try to absorb the full benefit of the GSP by increasing their prices by the GSP-mfn tariff margin. But they were forced to reduce them when they lost business. Only under exceptional circumstances, for instance where their suppliers are associates, have one or two importers split the GSP benefit with their suppliers.

In general, importers feel the GSP makes ldc suppliers slightly cheaper. But there are many other factors which make ldc's generally cheaper—particularly their low labour costs, or which could do so—such as the use of non-conference shipping lines, which can reduce freight costs by 20–30%. Furthermore, price is not the only factor determining the level of imports, ie imports may not be very price-elastic. In many cases, notably where imports are destined for a chain-store such as British Home Stores, or a mail-order firm, reliability in terms of consistent quality and punctual delivery is more important than price. For example, Pakistan produces gym shoes of a quality comparable with Taiwan but at 10% less cost and with a 20% tariff margin (at least for the duration of the TQ!), as Taiwan is excluded from the EEC's GSP. But some importers will not import from Pakistan unless their customer bears the entire risk of late delivery. Few customers are willing to take this risk and so imports are bought from Taiwan. Reference to Taiwan was often made to illustrate the insignificance of the GSP, for products ranging from textiles, clothing, and gym shoes to electronic products.

Proposed changes for sensitive products

On the basis of our interviews and analysis of the operation of the GSP for sensitive products, we conclude that there is clearly a need for major changes.

Improve information

Most important is the improvement of information on how the system is to be operated. Both importers and exporters are perplexed by the annual changes in the GSP. These are often not announced before the beginning of the year to which they are meant to apply. If they are to have any effect on importers' decisions they should be announced no less than six months, preferably nine months, in advance. Importers would prefer the practice of annual reviews to be ended altogether. But this would remove the flexibility which the EEC sees as a necessary safeguard, and could involve a loss to Idcs if in exchange the EEC felt it had to make the GSP offer more restrictive.

There is also a need for information on current utilisation of the GSP, though this need will decrease if the system of TQs, MSS and *butoirs* is simplified. Information on past utilisation of the GSP should be available, at a detailed product and country level. This would allow importers to see what opportunities remain unexploited. In addition, it would help the EEC to sell the GSP to Idcs.

Abolish the TQ system

There seems to be general agreement between all the operators of the GSP—importers, exporters and administrators—that the TQ system is not the best way of helping trade with Idcs. TQs were initially introduced because they would provide a higher degree of certainty for importers and exporters than a general safeguard clause. But this assumption is now being queried and various alternatives have been proposed to replace them, which would increase certainty.

(a) Partial tariff reductions lasting throughout the year would have a greater effect on import prices than the present system. Two proposals have been put forward. The first is that the tariff reduction be such that the amount of tariff revenue foregone is the same as under the present TQ system. For instance, in 1978 the GSP allowed a 20% duty reduction on 10.991m ua of non-leather footwear (CCT 64.02B) imports, ie the EEC was willing to forego 2.198m ua of duty on footwear imports. If instead this foregone duty had been spread over total footwear imports from

ldcs, which reached 75.030m ua in that year (see Table 5.2, p. 71), the duty reduction would have been 2.9%. In the same way that TQs (for some sensitive products) have been increased each year, so the duty reduction could be increased. On the other hand, it may be argued that this increase is unnecessary as the amount of GSP imports is likely to rise each year. Such a possibility, which is specifically excluded by the TQ system, is one of the major arguments put forward by opponents to this proposal. But the general safeguard clause could be used to reimpose full mfn duties should GSP imports increase so far that they can be shown to cause damage to competing EEC industries. Another argument is that in some cases the tariff reduction would be too small to be of any value to importers. It would seem, however, that any tariff reduction will help create trade provided there are no costs associated with it (eg in filling out special forms), though there may be some minimum tariff reduction necessary to divert trade to ldcs.

The second proposal, put forward by the British Importers Confederation,¹¹ envisages a series of stratified import duties, varying according to the sensitivity of the product (though they have no suggestions on how to measure sensitivity). There could be four categories of products; for the most sensitive the tariff could be fixed at, say 10%, for sensitive at 8%, for semi-sensitive at 5%, while non-sensitive products could enter duty-free.

One of the major differences between these proposals and the present system is that neither differentiates between ldcs. This could be incorporated by having differential tariff rates, for instance countries which have hit the *butoirs* in the past could be given a lower tariff reduction than other, minor, suppliers. But this may be seen to make the GSP too complex.

(b) *Sensitive imports from the more competitive ldcs could be administered separately.* For instance separate tariff ceilings could be established for these countries as is already happening with hybrid products (discussed in the following chapter). This would allow treatment for other ldcs to be liberalised. Alternatively, sensitive imports from competitive ldcs could be removed from the GSP altogether. There would be a problem in defining what is meant by a competitive ldc. To compensate for this all trade in sensitive products including textiles from the poorest ldcs (or from the lldcs) could be made completely duty-free. These suggestions and an estimate of the values of trade involved are discussed more fully in chapter 9.

(c) The most radical suggestion is that *sensitive products be made entirely duty-free or else be withdrawn entirely from the GSP*, on the grounds that simplicity is best. This applies particu-

larly to the case of textiles where the GSP is at its most complex and where quantitative restrictions effectively restrict imports.

Before any alternative is chosen, however, criteria should be established to determine whether there is in fact a real need to restrict GSP treatment. This question is considered in greater detail in the final chapter of this book.

Note on textiles

The details of the GSP régime for textile products are complex, as they have been frequently modified and an entirely new system was introduced in 1980. From 1977 onwards, when the negotiations on this new system began, the situation was complicated by the extension of the old one for six months at a time. This meant that the TQs were allocated in two half-yearly portions. Nevertheless it is worth briefly outlining these details, even though they are now history, as they may offer suggestions for altering the handling of other industrial products under the GSP.

Until 1980 there were four GSP categories for textile products: very sensitive, sensitive, semi-sensitive and non-sensitive. The treatment of non-sensitive textile products (numbering around 50) was similar to that for other industrial products, the major difference being that the ceilings were calculated on a much less generous basis. In 1978 the basic amount was equal to 87% of total imports from beneficiaries in 1968 (in contrast, for other non-sensitive items the basic amount was equal to 100% of total imports from beneficiaries in 1974), while the supplementary amount was equal to 5% of imports from all other countries in 1970 (1975 for other industrial items). *Butoirs* were 50%. For semi-sensitive textiles the *butoirs* were set lower, at 20 or 30%.

There were two categories of sensitive textile products. For the 30 'very sensitive' items there were two types of *butoir*—the general, which ranged from 20% to 40% of the TQ, and the special, of 10%, which applied to major suppliers. These latter were defined as countries supplying more than 6% of EEC imports of a product and with annual per capita GNP above \$300 (in 1972). They included Brazil, Colombia, South Korea, Mexico, Singapore and Yugoslavia (note that only one or two were given in each case; for nine products there were no major suppliers identified). If a country did not meet these criteria for two years running it would be reclassified as an ordinary supplier. TQs were divided into MSS on the basis of respective shares in EEC trade in textiles, GNP, and population, with no allowance for reserves. Once imports by a member state from any of these major suppliers reached 10% of its MSS, it was automatically obliged to reintroduce the duty on them. When a country's exports to the

EEC as a whole exceeded its *butoir*, the duty was reintroduced throughout the EEC.

For the other 12 less sensitive products the total preferential amount allowed was split into a tariff quota (sub-divided into MSS) for the major suppliers (defined in the same way as above, never more than 3 per product) equal to 30% of the total preferential amount with no *butoir*, and the remainder was set aside as a tariff ceiling for all other ldc's, with no MSS and a 50% *butoir*, ie for them the GSP was non-sensitive.

The major innovation of the new system is that exporting countries are each given a fixed share of the TQ for most products. This means that there is no longer any need for exporters in one ldc to race against exporters in another to secure some of the TQ. But unless exporters in the same ldc can come to some agreement (eg through the sharing out of GSP certificates of origin) they will be racing against each other.

This system applies only to MFA products and only for the 21 suppliers which have signed bilateral agreements with the EEC under the MFA. The TQs are divided between the 21 suppliers on a sliding scale, according to GNP per capita, past exports of that product to the EEC, and their quotas under the MFA. Thus a poor, minor supplier such as Pakistan will receive duty-free treatment on a high proportion of the textiles it is allowed to export to the EEC, while a country like Hong Kong will receive duty-free treatment on a very small proportion of its exports.

For the more sensitive MFA categories the exporting country shares have been subdivided between the member states using the same 'burden-sharing' formula as is applied to the overall MFA quotas. For products outside the MFA GSP treatment is open to all GSP beneficiaries. Only a few products face tariff quotas, with MSS and a *butoir*; for the majority there are ceilings beyond which duty-free treatment may be extended.

Finally it should be pointed out that all textile imports from ldc's may be duty-free (provided they meet the rules of origin) throughout the year.

1 For a detailed analysis of the operation of TQs see Michael Rom, *The Role of Tariff Quotas in Commercial Policy*, Macmillan for the Trade Policy Research Centre, London, 1979, pp. 140-151 and Tracy Murray, *Trade Preferences for Developing Countries*, Macmillan, London, 1977, p. 67.

- 2 UNCAD, TD/B/C.5/34/Add.1, p. 13.
- 3 UNCTAD, TD/B/C.5/48/ p. 23.
- 4 There is a lot of confusion in writings on the GSP over the term 'preferential imports' which can be used to mean all imports which are eligible for GSP treatment or merely those imports which actually receive such treatment. To avoid misunderstanding this book uses the following three terms: 1. *GSP-covered imports*—all imports from GSP beneficiaries which lie in those tariff headings or sub-headings included in the GSP; 2. *GSP-eligible imports*—all GSP-covered imports which come within the tariff quotas and ceilings; 3. *GSP-receiving imports*—all GSP-eligible imports which receive duty-free treatment.
- 5 European Communities Commission, Background Report, *Preferential Tariffs for Developing Countries*, ISEC B76/78, p. 3.
- 6 EEC, *Official Journal*, L324/4, Article 6.
- 7 EEC, *Official Journal*, L324/2.
- 8 TD/B/C.5/34/Add.1, p. 3.
- 9 Tran van Thinh, at the time chief of the division in the European Commission responsible for the GSP, quoted in A. Pitrone, *EEC GSP Scheme*, Editrice Commercio Estero, Rome, 1977, p. 8.
- 10 According to the UK Timber Trade Association.
- 11 In their note on the GSP, prepared for an EEC seminar in January 1980. This proposal has been supported by the UK representatives on the EEC Committee on Commerce and Distribution.

6 Hybrid, Semi-sensitive and Non-sensitive Products

In recognition of the restrictiveness of tariff quotas, the EEC has attempted to change the structure of its GSP by increasing the proportion of manufactured imports which are given hybrid, semi-sensitive and non-sensitive treatment. This chapter examines these three categories in turn, describing the principles underlying them, assessing their practical impact, and suggesting ways in which they could be modified. Where relevant, reference is made to the experiences and recommendations of importers, exporters, and customs administrators.

Hybrid products

Principles

The category of hybrid products was introduced in 1975 when there were 34 such products. All of these had been treated previously as sensitive. By 1978 the number fell to 26, with 8 products being redesignated as semi-sensitive. These 26 products are a mixed bag, including at one extreme groups of mechanical and electrical machinery, chemical and iron and steel products, and at the other odd products such as wigs and vacuum flasks. No textile products are included. In principle the hybrid category has two goals: 'to ensure a more balanced distribution of the advantages granted to all the beneficiary countries and territories' and 'to encourage the . . . balanced distribution of their deliveries throughout the Community'.¹

In order to restrict imports from major suppliers to a very small share of the total amount of Ldc imports eligible for the GSP, special *butoirs* have been established limiting major suppliers to as little as 15% of the tariff ceilings.² For each hybrid product a major supplier is defined as a Ldc which passes two of four criteria: either i) it has hit the normal *butoir* in two earlier successive years (in 1975 the years were 1972 and 1973), or ii) it has accounted for more than 40% of EEC imports of that product from all beneficiaries, and either iii) it has a per capita annual income above \$275 (in 1973) or iv) the product in question accounts for less than 10% of all its GSP-covered exports to the EEC.

Once EEC imports from a major supplier reach the special *butoir* the mfn tariff is reintroduced automatically—as for sensitive products. The same also applies for imports from any other supplier which reach the normal *butoir*. Imports from all other beneficiaries which do not hit the *butoir*, however, continue to be duty-free until the tariff ceiling is reached, when the mfn tariff can be reintroduced at any time at the request of any one of the member states—as for semi-sensitive products (see below). In order to ensure that member states are not 'over-burdened' by GSP imports a member state may reintroduce the mfn duty once its imports from a major supplier reach 50% of the special *butoir*. But at the same time, to ensure that the special *butoirs* are used fully, a member state may continue to grant duty-free treatment to a major supplier even though it has hit 50% of the special *butoir*, provided notification is given to the Commission. There is no such provision for other suppliers; member states cannot reintroduce the mfn duty before the full *butoir* has been reached.

Practice

To date the hybrid system has had a fairly limited impact. Only four countries are currently subject to special *butoirs*, as Table 6.1 shows:

Table 6.1: Countries subject to special *butoirs*

Country	No. of Products	
	1975	1978
Yugoslavia	16	15
Hong Kong	10	8
Korea	2	3
Mexico	2	1
Macao	1	0

Source: EEC, various GSP Regulations.

In terms of the total GSP offer for industrial products, hybrid products only account for some 300 m ua, ie less than 6%. (No official data are available on the share of hybrid products in total GSP-receiving imports, but on the basis of the figures in Table 6.2 we estimated it to be 4.6%.) Whether this proportion should be increased will depend on how the hybrid system has operated in practice.

The limited data available suggests that the hybrid system does not work as intended. The most important feature is that

special *butoirs* are exceeded more often than not. As Table 6.2 shows, in 1978 the special *butoirs* were exceeded in 17 of the 26 products, usually by 20%, but in four cases by over 100%. This problem partly arises from the time-lags involved in the collection, transmission and collation of import data by the European Commission (as described in chapter 5). It should be noted, however, that the slippage is not as large as in the case of sensitive industrial products. Moreover, for the other nine products, the special *butoirs* were on average only half used (by the end of October—the last month for which statistics were available). Some of this under-utilisation can be explained by the fact that the nine products were imported by one country only, usually Italy, which decided to exert its right to reintroduce the mfn duty once 50% of the special *butoir* had been reached.

Although major suppliers have been able for the most part to exceed their special *butoirs*, they have not been able to escape the mfn duty entirely. In 1975 mfn duties were reintroduced on major suppliers of 16 of the 34 hybrid products, on 22 of the 29 in 1976, and on 16 of the 26 in 1977. Only seven countries were affected—Yugoslavia, Hong Kong, Korea, for more than five products each, and Brazil, Pakistan, Thailand and the Philippines for only one product each. Whether this is a measure of success of the hybrid system or a measure of its failure, is a subject of some debate. UNCTAD has argued that this was partly responsible for the low levels of utilisation of the tariff ceilings.³ Only once in 1975 and twice in 1978 has a tariff ceiling on a hybrid product ever been reached, though the average utilisation rate has been increasing slowly from 43% in 1975 to 45% in 1976 and 46% in 1977. Table 6.2 shows utilisation rates by product to November 1978. The low levels suggest that other ldc's are unable to supply these products and that the special *butoirs* merely serve to sterilise the benefits of the GSP rather than to redistribute them. It is true that there are some hybrid products, such as lead oxide and calcium carbide, which most ldc's will never be able to produce and in these cases special *butoirs* can only protect EEC interests.

But for most products it is too early to condemn the hybrid system; it may take a few years before minor suppliers are able to respond to the improved opportunities open to them under the GSP. In this context it is worth noting that the normal *butoirs* are often not much higher than the special *butoirs*. For nine of the hybrid products the normal *butoir* is 30% or less and the margin over the special *butoir* is between 15% and 5%. This means that once other ldc's are able to supply these goods they will only benefit from the GSP by 5% to 15% more than the major suppliers. In 1977 only one ldc, Korea, hit the normal *butoir* and had to pay mfn duties on five hybrid 'other industrial' products.

Table 6.2: Imports of hybrid products (1978, m eua)

<i>Product</i>	<i>Country</i>	(1) <i>Special butair</i>	(2) <i>GSP- receiving imports</i>	(2/1)%	(3) <i>Tariff ceiling</i>	(4) <i>Total GSP- receiving imports</i>	(4/3)%
Lead oxides	Mexico	1.1	0.2	19	7.1	0.2	3
Calcium carbides	Yugoslavia	0.2	0.1	55	0.8	0.1	14
Fertilizers	Yugoslavia	0.6	0.8	121	4.3	1.9	44
Cellulose	Yugoslavia	0.4	0.2	59	2.5	0.2	10
Cellulose nitrates	Yugoslavia	0.1	0.1	100	0.6	0.1	16
Kraft paper	Yugoslavia	5.6	2.8	50	37.1	4.8	13
Wigs etc.	Korea	6.1	6.9	112	35.3	7.8	22
Refractory bricks	Yugoslavia	1.7	1.8	104	9.7	1.9	19
Glazed tiles	Korea	1.0	1.4	150	4.8	5.4	111
Glass rectangles	Yugoslavia	0.4	0.2	50	2.4	0.2	9
Glassware	Yugoslavia	0.8	1.0	121	5.5	3.4	62
Jewellery	Hong Kong	2.4	4.1	170	16.0	12.0	75
Iron/steel tubes	Yugoslavia	2.3	2.6	115	13.0	5.4	42
Copper bars etc.	Yugoslavia	1.1	0.4	34	6.3	0.4	7
Zinc plates etc.	Yugoslavia	0.7	0.6	83	4.3	0.6	14
Sewing machine parts	Yugoslavia	0.2	—	0	1.4	0.2	14
Other generators	Yugoslavia	2.8	3.3	117	18.8	8.8	47
Other torches	Hong Kong	0.9	2.2	233	6.0	2.3	39
Electric wire	Yugoslavia	1.8	2.1	121	11.7	2.8	24
Trailers	Yugoslavia	2.1	2.6	125	13.8	2.6	19
Binoculars	Korea	1.0	2.1	209	6.6	3.6	55
Tape recorders	Hong Kong	1.0	1.1	113	—	—	—
Dolls	Hong Kong	3.7	2.8	75	24.9	9.4	38
Other toys	Hong Kong	3.2	9.1	283	21.4	15.3	71
Novelty toys	Hong Kong	8.6	18.5	216	57.0	39.3	69
Vacuum flasks	Hong Kong	1.3	1.6	129	8.5	2.4	28
	Hong Kong	0.2	0.3	134	1.1	1.1	100
Total		51.3	68.9	134	320.7	132.3	41

In addition there remains the question of whether the EEC will reintroduce mfn duties when the tariff ceilings are reached. This is subject to the discretion of the member states. How they choose to use this discretion will only be known when a tariff ceiling is reached. A further problem is that of uncertainty. The tariff ceilings are not always published—only some appear in the EEC's *Official Journal* and none at all in the *Practical Guide to the Use of the GSP*. In the latter, only the percentage allotted under the normal and the special *butoirs* is shown though it is not clear what purpose this serves. Exporters and importers have to guess when the mfn tariff is likely to be reimposed, on the basis of past experience. (The implications of such uncertainty have already been discussed in chapter 5.)

Modifications

To sum up, the increased flexibility of the hybrid system represents a major improvement on sensitive products and we would hope that more sensitive products could be transferred to this category. However, there would appear to be two modifications possible. First, we would hope that the hybrid category could be liberalised for non-major suppliers, giving them completely non-sensitive treatment. One way of doing this would be to establish two separate ceilings for each product, one for the major suppliers and another for other suppliers, as happened under the old system for sensitive textile items (see chapter 5, p. 91). In this case, major suppliers were defined as those accounting for more than 6% of EEC imports of a product and with more than \$300 per capita annual income (in 1972). Other criteria for differentiating between Idcs are discussed in chapter 9. Second, where there is no conflict between major and other suppliers, and the special *butoirs* are merely preventing the full use of the tariff ceiling, we would argue that the restrictions on GSP use by major suppliers be eased. For instance, if the utilisation rate of the tariff ceiling is under 70% for two years then the special *butoir* should be increased by say, 10 or 15%. When the utilisation rate rises to 95%, say, the special *butoir* could be reduced again. Finally, more information should be published on the hybrid system.

NOTES TO TABLE 6.2

^a Figures for GSP-receiving imports only available to end-October. Assuming trade flows evenly throughout the year, this raises total GSP-receiving imports to 154.4 m eua, and the utilisation rate (4/3) to 48%.

Source: European Commission, UD/477 series.

Semi-sensitive products

Principles

There are some 95 semi-sensitive products: three iron and steel products, 16 textile products and 75 other industrial products, the latter including a wide range of products of which the largest is mechanical and electrical equipment (15 products). In principle the category of semi-sensitive products resembles the non-sensitive category more than the sensitive or hybrid. The two are covered by the same EEC law. The GSP for semi-sensitive products is restricted by ceilings and normal *butoirs*. The major difference from hybrid products is that there is no provision for individual member states to reimpose mfn duties independently. Duties can only be reimposed, and then by the EEC as a whole, when either the *butoir* or the ceiling is reached. Furthermore this is not automatic; it normally depends on a request being made by one or more member states, though the Commission may also take the initiative.

There are two other major features with regard to non-sensitive products. First, the ceilings on semi-sensitive products have not always been calculated according to the standard formula used for non-sensitive products (see below p. 105) but have been fixed, arbitrarily, at lower levels. *Butoirs* tend also to be lower than 50%. Second, the level of semi-sensitive imports is kept under surveillance. Member states must send statistics on semi-sensitive imports to the Commission every month. These are then aggregated and a total figure for the whole EEC sent back to each state. When a member state finds that its imports plus the latest EEC total reach 75% of the *butoir* or ceiling, it must inform the EEC and discussions may begin on whether to reintroduce the mfn duty. Statistics are then sent every ten days so that when the *butoir* or ceiling is actually reached, the duty may be reintroduced for one or all Idcs. As with hybrid products, there are no established economic criteria to determine when it is justifiable or necessary to reintroduce the duty. Unlike hybrid and sensitive products, however, duties cannot be reintroduced immediately; a regulation must first be passed making this legally binding on all member states.

Practice

The value of semi-sensitive products which receive GSP treatment is far larger than any other category, although the number of products is only one-sixth of the total number of GSP-covered products. The share of semi-sensitive products in total GSP-receiving industrial imports is the highest and rising, accounting

for 40% in 1976 (compared to 32% for non-sensitive products) and as much as 45% in 1978 (37% for non-sensitive products). The share of semi-sensitive goods in total EEC imports (ie GSP-receiving and non-GSP receiving) from Idcs may also be larger than the share of non-sensitive goods. Unfortunately the data to prove this are not easily available. It is important, therefore, in assessing the practical operation of the GSP for semi-sensitive products, to see whether it is more like that given to non-sensitive products or to sensitive and hybrid products.

The first point to note is that the number of products for which the annual increase in ceilings for a large number of 'other industrial' products is not calculated according to the standard formula applied to non-sensitive products, has grown from 44 in 1977 to 63 in 1978.⁴ Ceilings on the three iron and steel products have also increased less than normal but not, surprisingly, the ceilings on the semi-sensitive textile products. There are no defined rules to replace the standard formula; sometimes ceilings may be increased by as much as 50%, but more often by as little as 5%, or they may even be kept at the same level as the previous year (this happened in 16 cases in 1978).

Second, *butoirs* are much smaller. Although all iron and steel products and all but four textile products have *butoirs* of 50%, most of the 'other industrial' products (52 in 1978) have *butoirs* well below this, nearer the levels of *butoirs* for hybrid and even sensitive products, as Table 6.3 shows.

Table 6.3: *Butoir* levels for 'other industrial' semi-sensitive products

<i>No. of products</i>	<i>Butoir (%)</i>
24	50
1	45
7	40
14	30
9	25
15	20
5	15

Source: UNCTAD, TD/B/C.5/60 page 11.

As a whole it seems that ceilings and *butoirs* for semi-sensitive products have not been allowed to keep pace with the growth in imports from GSP beneficiaries. The number of products for which the ceiling is exhausted has been rising: from 28 in 1973 to 60 in 1976.⁵ In 1976 *butoirs* were also hit in 112 cases.

Third, this has partly been offset by the positive way in which the EEC has used the flexible rules for semi-sensitive products, ie it has not reintroduced the tariff in every case. In 1976 tariffs were reintroduced in only half the cases where ceilings and *butoirs* were exceeded. But it seems that increasingly the EEC is opting to reintroduce the duty. For some 15 products (phosphorous, melamine, fertilisers, rubber tyres, gloves, wood board, planed wood, sawn wood, basket work, knives, forks, spoons, sewing machines, batteries, bicycle parts) the EEC now demands that GSP import statistics are sent to Brussels every 10 days from the beginning of the year, and for five of these a regulation is passed to reintroduce the duty automatically once the *butoir* is reached. As Table 6.4 shows, there has been a steady rise over the last three years in the number of 'other industrial' products on which individual Idcs have had to pay duties. In the case of textiles, however, this has fallen.

Table 6.4: Frequency of reintroduction of tariffs

	1975	1976	1977
Other industrial products	32	37	40
<i>of which:</i>			
on individual Idcs	30	40	49
on all Idcs	10	12	12
Textiles	22	14	6
<i>of which:</i>			
on individual Idcs	1	—	—
on all Idcs	10	9	2

Note: The table overstates the restrictiveness of the semi-sensitive regime to the extent that it includes in the numbers referring to individual Idcs the cases where duties were initially charged on this group before being extended to all Idcs. This happened in 8, 15 and 21 cases of 'other industrial' products and 5, 5 and 2 cases of textiles.

Source: UNCTAD, TD/B/C.5/48, Annex II and III, and TD/B/C.5/60, Annex table 1.

Fourth, a large number of Idcs—19 since 1975—have had to pay mfn duties on some of their semi-sensitive exports to the EEC. The Idcs with the largest number of products paying duties are also those with the most hybrid products paying duties (as a comparison of Table 6.5 with Table 6.1 will show). A major difference is, however, that there are many other Idcs for whom one or two semi-sensitive products have been charged duty. In these cases, then, semi-sensitive treatment is no different from sensitive or hybrid—duties are payable at the margin and so the GSP cannot stimulate trade. The tariff revenue foregone on intra-

marginal imports tends to remain in importers' pockets as a windfall profit rather than getting passed on to consumers or back to exporters. The only real difference is that the administrative procedures involved mean that the degree of slippage may be higher for semi-sensitive products. For example, in the case of stainless steel spoons and forks the *butoir* is set at 15% (660,000 ua) of a ceiling of 4.4m ua. But in 1978 Korean imports receiving GSP treatment amounted to 84% of total GSP-receiving imports and, at 5.3m ua, were equal to 120% of the ceiling.

Table 6.5: Countries hit by the *butoirs* on semi-sensitive products

	1975	1976	1977
Yugoslavia	10 (2) ^a	10 (2)	13 (1)
Hong Kong	4	7	10 (1)
Korea	4 (5)	6 (1)	7 (2)
Brazil	2 (2)	4 (1)	5
Romania	3	3	4
Venezuela	0	2	2
India	4 (4)	1 (4)	1 (1)
Argentina	0	0	1
Kuwait	0	0	1
Libya	0	1	1
Malaysia	0 (1)	1	1
Philippines	0	1	1 (1)
Singapore	0	1 (1)	1
Thailand	0	1	1
Chile	1	0	0
Pakistan	1 (2)	0 (1)	0
Mexico	1 (1)	1	0
Colombia	0 (1)	0	0
Bahrain	0	1	0

^a The figures in brackets refer to textile products and are additional.

Source: As for Table 6.4.

Fifth, as with hybrid products, the fact that major suppliers of so many semi-sensitive products have had to pay mfn duties has not stimulated greater use of the GSP by other suppliers. In 1977 as many as 63 of the 75 'other industrial' products did not reach their GSP ceilings. This seems to be a poor performance similar to that of hybrid products, but the GSP granted to the remaining 12 products was so much in excess of their ceilings that it raised the overall average utilisation rate to over 100%, more than double that of hybrid products.

Table 6.6: Utilisation of the GSP for semi-sensitive products (%)

<i>Products</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>
Iron and steel	11	26	37
Textiles	na	53	58
Other industrial	43	108	108
Petroleum	120	217	157

Source: As for Table 6.4.

The low utilisation rates for iron and steel and textile products would appear to be due to other restraints on ldc imports rather than an inability of ldcs to supply these goods.

To sum up, semi-sensitive treatment in practice can have three sorts of results. At one extreme ceilings and *butoirs* are low relative to total imports, and are exhausted and the duties reimposed quickly. The only difference from hybrid products is that (in general) there are no special *butoirs* for major suppliers. The only difference from sensitive products is that importers in each member state are not reserved a particular share of the GSP. In the second case, which is also the most frequent, the GSP advantage is spread between the two groups: imports from major suppliers hit the *butoir* and bear duty, while imports from all other ldcs may continue to be duty-free for the rest of the year—in effect they are non-sensitive. In the third category are the few cases where duties are never reimposed, ie for all ldc suppliers imports appear non-sensitive.

Modifications

The uncertainty surrounding semi-sensitive imports is partly a result of the shortage of easily available information on what are semi-sensitive products, on the ceilings and *butoirs*, and on how these are being used or have been used in previous years. If the semi-sensitive category is to be maintained two changes are necessary. First, this information should be published in the GSP Handbook. It is argued that this would only encourage protectionists to demand that ceilings and *butoirs* be strictly observed. But if there were such protectionist sentiment over semi-sensitive products they would be reclassified into the hybrid category. Moreover, for the majority of products ceilings are not fully used. One way of encouraging minor ldcs to develop supplies would be to show what the ceilings are and how far these are under-used. Second, it would be helpful for importers and exporters if criteria were drawn up for determining when the duty will be reimposed.

The EEC itself needs to reconsider the definition of a semi-sensitive product. This would help in deciding whether to maintain or even expand the category of semi-sensitive products. Those products which are effectively non-sensitive could be redesignated as such. We would argue that the semi-sensitive category could be expanded to include some, or even all, of the hybrid products. In the few cases where major suppliers can be shown to be crowding out others from receiving the GSP, the semi-sensitive category could be modified to include some of the hybrid principles, namely that for each product major suppliers be identified *ex ante* for whom the *butoirs* will be strictly observed, while imports from all other Idcs would be duty-free throughout the year.

Non-sensitive products

Principles

Non-sensitive products benefit from the most liberal GSP treatment. They are not subject to regular surveillance, and statistics on the amount receiving GSP treatment are rarely collected. Nevertheless, they face ceilings which are composed of a basic amount (the value of EEC imports of a product from all beneficiaries in a base year) plus a supplementary amount (5% of the value of EEC imports of the same product from all other countries including those with special preferences in the latest year for which statistics are available). These are increased annually by updating the reference years. *Butoirs* are fixed at 50% of these ceilings. There are procedures for reintroducing duties, which closely resemble those used for semi-sensitive products. If a member state suspects that a ceiling or *butoir* has been reached and is worried, for any reason, by the prospect of further GSP imports, it may request the Commission to organise Community level negotiations. If other states agree to reimpose the duty a regulation is passed making this law. What is not clear, however, is how the EEC can establish that ceilings or *butoirs* have been reached given the lack of statistics on non-sensitive imports.

Practice

Since 1974 the share of non-sensitive industrial products in the EEC's GSP offer has risen to 60%.⁶ Superficially this appears to show a gradual improvement in the GSP. More than half of the duty-free opportunities available to Idcs' exports of industrial products are, in principle, without restriction. But these figures are grossly misleading.

Table 6.7: Importance of non-sensitive products in GSP industrial imports

	1974	1975	1976	1977	1978
<i>GSP offer (bn ua)</i>					
1. Non-sensitive	1.5	1.8	1.9	2.8	3.2
2. Other	1.3	0.9	1.9	2.2	2.1
3. Total	2.8	2.7	3.8	4.9	5.3
1/3 (%)	55	66	51	56	60
<i>GSP-receiving imports (bn ua)</i>					
4. Non-sensitive	1.0	na	0.9	1.3	1.2
5. Other	0.9	na	1.8	1.9	2.1
6. Total	1.8	na	2.7	3.2	3.2
4/6 (%)	53	na	34	42	36
<i>Utilisation</i>					
4/1 (%)	63	na	49	49	36
5/2 (%)	39	na	98	87	98

Source: European Commission and UNCTAD.

First, the way in which ceilings for non-sensitive goods are calculated means that they bear little relation to the value of goods which might be traded (assuming the GSP has a stimulating effect), let alone that which is actually traded. One part of the ceiling, the supplementary amount, is equal to 5% of the value of imports from all countries without GSP, ie mainly developed countries. Where the ldc share of imports is small, therefore, the ceiling will be large relative to ldc exports. In the case of some 233 products, there were no imports from ldc's at all.⁷ This is not to criticise the method of calculating ceilings, but the way in which the ceilings are included as a measure of the value of the GSP offer, since it inflates this value: between 1974 and 1978 as much as 65% of the growth in the GSP offer was due to the increase in these fictional ceilings. Second, the under-utilisation of GSP opportunities for non-sensitive imports (based on what can only be a rough estimate of the amount of GSP-receiving imports) is also exaggerated. As Table 6.7 shows, since 1974 the utilisation rate has nearly halved to 36% while for all other categories of industrial imports it has risen to 98%. A more relevant measure would be to compare GSP-receiving non-sensitive imports with an estimate of potential GSP imports (using various tariff elasticities of supply and substitution), or alternatively with total GSP-covered imports. Unfortunately, none of these figures is easily available. It is probably true to conclude, as the EEC does, that 'the economic and business

circles concerned [in Idcs] do not know enough about the Community's generalised system of preferences⁸ and that 'they neglect those [possibilities] accorded to them for non-sensitive products'.⁹

The need for more and better information about the GSP was underlined in our interviews with Idc exporters on trade missions to the EEC, roughly two-thirds of whom were almost totally ignorant of the GSP. There are also many importers, usually small ones, who according to our interviews in various member states do not know how the GSP works. One cause of difficulty is the rules and certificates of origin, dealt with in chapter 4.

Even if there is perfect knowledge about the GSP and all GSP-covered imports receive GSP treatment, trade in non-sensitive products may not grow according to EEC expectations. This may be the result of over-estimating the importance of tariffs in determining trade flows. It has not been possible in this study to produce a thorough analysis of the factors underlying growth in EEC trade in non-sensitive products.¹⁰ But we have been able to identify several reasons why the offer of GSP treatment has not stimulated trade greatly (see chapter 8 below). First, import demand may not be price-elastic. Second, effective protection may still be high. Third, differentials in other costs with developed countries, such as labour, freight,¹¹ uncertainty/risk, may outweigh the tariff preference margin. Fourth, there may be non-tariff barriers which continue to restrict trade. This list is not exhaustive. But it is sufficient to show that, in addition to improving use of the GSP, the EEC ought to be considering other ways to promote Idc imports. The GSP is not enough. A start has already been made with the EEC financing Idc participation in trade fairs and seminars. But the assistance has been restricted by the small aid budget available for GSP beneficiaries.

For those non-sensitive products which are exported to the EEC and which receive GSP treatment there are two further points of interest; first, whether the tariff revenue as a rule gets passed back or forward rather than staying in the pockets of importers as tends to happen with the three sensitive categories. Importers suggested that for non-sensitive products where the tariff is never paid at the margin the duty foregone is nearly always passed on to the wholesaler/retailer. This was supported by exporters' remarks that they do not put up their prices by the GSP margin.

The second point is whether non-sensitive products ever bear duty. In the first year of GSP operation, the fact that even non-sensitive goods could not be guaranteed duty-free treatment was revealed when tariffs were reimposed on three non-sensitive textile items which exceeded the ceilings set for

them. In 1975 ceilings were exceeded and tariffs reimposed on three other products: sodium glutamate, calculators, and projectors; in 1976 this happened only in the case of gelatin and in 1977 of projectors. Since 1975 only four countries have had to pay duties on products which hit the *butoir*: Thailand and Yugoslavia on one product each (acrylic polymers and borates respectively), Singapore on two products (calculators and projectors), and Romania on seven products (five chemicals, asphalt and iron angles).¹² In other words, for nearly all non-sensitive products no duties have ever been charged. Nevertheless there are several modifications possible in order to strengthen the impact of the GSP on imports of non-sensitive goods and to these we now turn.

Modifications

Although the ceilings for non-sensitive products are in total a lot higher than actual imports from Idcs, there may be individual products where imports are approaching the ceiling, raising the possibility that the tariff might be reintroduced. This may arise for one of several reasons, for instance that the reference years are very much earlier or that the annual increase has been limited. The method of calculating ceilings could be improved to accommodate these criticisms. An alternative would be a complete end to the use of ceilings for non-sensitive products, replacing them with a general safeguard clause such as that used for agricultural products.

A second modification could be to make the collection of statistics on GSP-receiving non-sensitive imports mandatory. In our interviews several officials took the view that the failure to collect these statistics was due to the fact that this was not so. These statistics should be made available at individual product level, together with statistics on total imports from Idcs, so that importers, exporters, and officials can monitor the use of the GSP and see how it can be improved.

Conclusions

The purpose of the present chapter has been to underline both the complexity of the GSP regulations for industrial products for all Idcs and their severity for particular Idcs. Analysis of the operation of the GSP for the three product categories—hybrid, semi-sensitive, and non-sensitive—has shown that there are various ways in which the scheme could be modified in the 1980s. The options vary according to whether the EEC aims merely to simplify the scheme, ie to ensure that better use is made of the existing GSP offer, particularly by the less developed

ldcs, or whether it wants to liberalise the scheme, for all ldcs or only a specific group.

The European Commission is clearly in favour of simplifying the scheme in order to increase utilisation rates.¹³ *A reduction in the number of different product categories* is needed in order to eliminate the different types of ceilings, member state shares (MSS), and *butoirs* which perplex all GSP users. The Commission has suggested that there be only two categories of products—non-sensitive and sensitive—with the latter including all products currently under surveillance, ie all hybrid and semi-sensitive products as well as the already sensitive ones, but only from the more competitive ldcs. For all other ldcs GSP treatment would be dealt with as non-sensitive. In effect this would be extending the treatment currently applied to the least developed to the other, less developed, countries. The sincerity of this measure would be shown by the complete abolition of ceilings (and *butoirs*), which could be replaced by a general safeguard clause, as for agricultural products, and complemented by closer surveillance of imports.

How many ldcs benefit from this change of categories will depend on the definition of competitive beneficiaries (this is taken up in chapter 8). Another problem, for the competitive ldcs, is the number of products which will be sensitive. The Commission proposes to include all existing hybrid, semi-sensitive and sensitive products. For many of these (particularly the hybrid and semi-sensitive), however, there is no evidence of the GSP causing significant damage to EEC industries, and the reasons for including them should be reassessed. Criteria for determining a product's sensitivity should be spelt out in the same way as criteria for a ldc's competitiveness.

One feature of the hybrid system could be retained for the major suppliers, namely, the special *butoirs* which would replace member state shares; individual member states could then reintroduce tariffs once their imports from a major ldc reached 50% of the special *butoir*.

The type of reform proposed by the British Importers' Confederation, as outlined in the previous chapter, would also simplify the GSP, by making the procedures for applying for the GSP the same for all categories of products for all ldcs, for all EEC importers, and for all times of the year. The only differentiation would be in the GSP tariff; the GSP-mfn tariff margin would vary according to a product's 'sensitivity', as for agricultural products. For the sake of simplicity, the GSP tariff could be the same for products falling in each of the present product categories—for example, sensitive—10%, hybrid—8%, semi-sensitive—5%, and

non-sensitive—0%. These duties would apply throughout the year to imports from all Idcs.

Ldcs themselves have called for better information on which of their products are receiving GSP treatment, but until a law is passed requiring member states to do so, these statistics will not be collected. Whatever changes take place, a major requirement is the establishment of a GSP information centre to answer queries about the rules of the GSP and to provide data on the value of GSP (and total) imports, at a detailed product and country level. Not only will this allow exporters (and importers) to assess the opportunities open to them under the GSP, but it will also allow EEC industries to make a more realistic assessment of the 'threat' which they feel the GSP poses.

- 1 EEC, *Office Journal*, Vol. 19, No. L349, 1977.
- 2 When the hybrid system started not all products had major suppliers singled out for special *butoirs*. Instead, six products (urea, nitrogenous fertilisers, protective gloves, sawn wood, basketwork and sewing machines) were given particularly low *butoirs* to be applied to all suppliers.
- 3 See, for instance, UNCTAD, TD/B/C.5/60, pp. 17–18.
- 4 UNCTAD, TD/B/C.5/48, para. 70 and TD/B/C.5/60 para. 31.
- 5 HWWA Institut für Wirtschaftsforschung, *Das Allgemeine Zollpräferenzsystem der EG und Seine Auswirkungen auf die Einfuhren aus Entwicklungsländern*, Hamburg, 1979, Table 40, p. 119.
- 6 In terms of the total GSP offer, ie including agricultural products, the non-sensitive share has fallen from 48% to 45% over the same period. As the treatment of non-sensitive agricultural products is different in principle from non-sensitive industrial imports it is dealt with separately in the following chapter.
- 7 HWWA, *op. cit.*, Table 8, p. 51.
- 8 EEC, *Practical Guide to the Use of the European Communities' Scheme of Generalised Preferences*, 1 May 1978, p. 11.
- 9 EEC, COM(79) 348 final, p. 8.
- 10 In Chapter 8 we examine the growth in trade of only three non-sensitive products, assuming (for want of information to the contrary) that they are all duty-free. In the case of handtools and clocks there is evidence of trade creation/diversion, while for electrical machinery there is not.
- 11 See, for instance, J. M. Finger and A. J. Yeats, 'Effective Protection by Transportation Costs and Tariffs: A Comparison of Magnitudes', *Quarterly Journal of Economics*, February 1976.
- 12 UNCTAD, TD/B/C.5/48, p. 10 and TD/B/C.5/60, p. 13. For Romania these non-sensitive products are subject to special surveillance.
- 13 See the European Commission's *Guidelines*, 5910/80, p. 8.

7 Agricultural Products

Background

Discussion of the GSP tends to focus on manufactured industrial goods, falling into the CCT categories 25 to 99. But nearly \$1bn worth of agricultural goods benefitted from the EEC's GSP in 1978, as much as 23% of all GSP-receiving imports. Of the ten largest GSP imports (at 4 digit CCT level) in 1976, five were agricultural goods: vegetable oils, instant coffee, tobacco, fish meal and preserved fish, and these alone accounted for 17% of all GSP-receiving imports.¹

Although when the GSP was conceived its stated objective was to promote the industrialisation of Idcs, thereby reducing their dependence on exports of primary commodities, little attention was given to processed agricultural products. One reason given for this neglect was that many developed countries were involved in domestic agricultural support programmes which they wanted to protect.² It was clear, however, that many less developed Idcs would be unable to take advantage of tariff preference schemes which precluded agricultural goods. A limited number of processed and semi-processed agricultural goods were therefore made eligible for the GSP.

Principles

The treatment given to agricultural products under most GSP schemes is in principle markedly different from that given to industrial products. First, whereas all industrial products can be assumed to be included, as there is only a short 'negative' list of exceptions, all agricultural products can be assumed to be excluded, as there is only a short 'positive' list of inclusions. Second, for most products the duties are only partially removed. Third, under the EEC's scheme, the amount of agricultural imports which may receive GSP treatment is not restricted *ex ante*, except, as we have seen in chapter 2, in the case of six products. Preferential treatment is only subject to a general safeguard clause.

Table 7.1: Coverage of agricultural products compared to industrial products: GSP-eligible imports as percentage of dutiable imports (1976)

<i>Country</i>	<i>Agricultural</i>	<i>Industrial</i>
Australia	41	55
Austria ^a	54	85
Canada	30	65
EEC	30	89
Finland ^a	22	52
Japan ^a	16	12
New Zealand ^a	81	98
Norway ^a	39	39
Sweden ^a	7	36
Switzerland ^a	16	58
USA	na	na
Hungary	96	93
USSR	na	na
OECD average (less US)	26	38

^a1977

Source: OECD and UNCTAD.

Coverage

All countries have made efforts to increase the coverage of agricultural products in their GSP schemes. But, as Table 7.1 shows, the proportion of dutiable imports covered remains below that of industrial products in all but three schemes. (The very low figure for Japanese industrial imports is due to the fact that petroleum is dutiable; if this were excluded the figure would rise to over 90%.) The EEC's scheme ranks sixth in its coverage of agricultural products in this sense, but at the same time the difference between this and its coverage of industrial products is the largest.

In terms of the number of whole CCCN (Common Customs Code Number) tariff headings, which are either covered by the GSP or duty-free anyway, the EEC ranks fourth after Australia, New Zealand and Switzerland with 40 covered out of a potential 141 (see Table 7.2). The EEC scheme also includes a large number of partial tariff headings. The European Commission does not make this distinction between whole and partial tariff headings; it is difficult therefore to assess the addition of 79 products to its scheme since 1976, bringing the total to 320 compared to 147 in

1971. According to the Commission, this corresponded to an increase in the value of agricultural goods covered by the GSP from 45m ua in 1972 (the first full year of the GSP) to 1000m ua in 1976 and 1300m ua in 1978.³ This seems a substantial improvement, but it is not clear how the value of the offer is worked out given that there are no ceilings for agricultural products. Even if one only considers the number of products included, the value of the offer may be overestimated to the extent that products are included which Idcs do not export. This point is taken up below.

Table 7.2: Product coverage — number of agricultural CCCN tariff headings included in different GSP schemes, or which are duty-free at general rates, by product group (1976)

	<i>Animals and products</i>	<i>Vegetable products</i>	<i>Fats and waxes</i>	<i>Prepared foodstuffs</i>	<i>Total</i>
Total number of 4 digit tariff headings	37	67	17	57	141
Australia	23 (4)	28 (18)	11 (3)	39 (13)	101 (38)
Austria	5 (5)	19 (10)	5 (2)	2 (10)	38 (27)
Canada ^a	17	28	10	31	86
EEC	6 (6)	8 (22)	10 (3)	16 (23)	40 (54)
Finland	— (2)	8 (17)	— (1)	12 (8)	20 (28)
Japan	3 (6)	11 (18)	8 (2)	18 (14)	40 (40)
New Zealand	7 (5)	25 (11)	9 (3)	36 (10)	77 (29)
Norway	6 (1)	11 (16)	2 (1)	11 (16)	30 (34)
Sweden	4 —	4 (9)	5 —	19 (11)	32 (20)
Switzerland	14 (3)	15 (17)	5 (7)	13 (18)	47 (45)
USA ^a	5 (17)	2 (34)	3 (7)	12 (28)	22 (86)

Notes: Numbers in brackets refer to the number of products for which only part of the tariff heading has been included.

^a Conversion of Canadian and US tariff headings into CCCN probably accentuates the number of headings included.

Source: OECD, 1977.

The most important improvement in the coverage of agricultural products under many different GSP schemes took place as a result of the Multilateral Trade Negotiations (MTN) in 1976–77. Ldcs presented requests in the framework of the Tropical and Agricultural Products Groups for tariff reductions on some 2200 dutiable agricultural product lines. Concessions were made on slightly more than half of these, of which 45% were in the form of expanded GSP coverage or tariff cuts on products already included in the GSP and 55% in the form of mfn tariff cuts. In total the GSP coverage increased by \$0.8bn or 20%. The EEC itself granted GSP treatment to 46 new products in 1977 and improved the preferential tariff margin on 70 others. In addition, it made some cuts on an mfn basis.

Nevertheless, there is some room for further action. As GATT notes,⁴ there were certain categories of importance to Ldcs where the developed countries made no concessions, such as fishery products, honey, some processed and unprocessed fruit and vegetables, vegetable oils, sugar, sugar products and tobacco.

Unfortunately, there is a feeling in the European Commission that because the Community has already brought into effect 'a generous offer on Tropical Products to honour its undertakings under the Tokyo Declaration . . . there is relatively little room for major improvements in the GSP for agricultural products'.⁵ The Commission hints at the real reasons in its guidelines for the post-1980 scheme: '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 product coverage . . .'.⁶ But a closer examination of agricultural trade flows shows that the GSP list could be extended without serious damage to significant EEC or associated interests. This is dealt with later in this chapter.

Tariff cuts

A second way in which the GSP could be improved in the 1980s would be to widen its tariff cuts. Since 1971 there has been a deepening of tariff cuts in the EEC's GSP: the average preference margin on GSP-covered agricultural products increased from 3.6% to 7.3% in 1977.⁷ At the same time the margin on industrial products fell from 9.8% to 9.6%. The depth of cut has varied between products: only one quarter of the items are duty-free and these face very low mfn tariffs anyway—5.7% on average. For the remaining items the preference margin is 7.9%; 60% of these have had tariff reductions of less than half. Some cuts are ridicu-

lously low and their impact on ldc trade is likely to have been negligible. For example, the tariff on cigarettes has been reduced from 90% to 87%, on honey from 27% to 25%, and on canned asparagus from 22% to 20%.

The tariff cuts, agreed by ten donor countries at the MTN and already implemented, appear to have given ldc's a net gain. Although the mfn cuts resulted in a fall in the weighted mfn average on agricultural products from 11.7% to 11.2%, the GSP tariff average also fell from 6.8% to 5%, ie the preference margin rose from 4.9% to 6.2% (In contrast the margin on industrial products will fall from 10.1% to 6.6%, over a period of eight years.)⁸ But it is possible to overstate the benefits to ldc's of this increased margin. GATT has estimated that of the \$4.9bn of GSP trade on which concessions were made, ldc's are already major suppliers of \$4.0bn. There was no attempt to provide larger preference margins where the ldc market share was small. In this case the tariff cuts are unlikely to result in much trade diversion from developed countries.

Differential treatment for lldcs

In 1979 the EEC introduced two major changes in the GSP for agricultural imports from the nine lldcs (Afghanistan, Bangladesh, Bhutan, Haiti, Laos, Maldives, Nepal, North Yemen, South Yemen). First, all imports from these countries were made completely free of duty, except for the five products subject to tariff quotas: cocoa butter, instant coffee, Virginia flue-cured (VFC) tobacco and two types of canned pineapple, though since 1980 they have been exempted from the TQ limits on cocoa butter and instant coffee. In effect this amounts to the same tariff treatment as given to the ACP countries, but only for the limited number of products covered by the GSP. Another major difference from the treatment given to the ACP countries is that the latter benefit from reductions on levies under the Common Agricultural Policy whereas the non-ACP lldcs do not. One problem on which neither group of countries has had concessions are the considerable non-tariff barriers which continue to restrict market access.

The second change was that two new products, raisins and coffee beans, were added to the GSP list of lldcs only. From one point of view this represents a major departure from the non-discriminatory principle of the GSP. But it merely extends further the principle of differentiation in favour of lldcs which already existed in the context of industrial products. In practice it will have only a minor impact: only two of the nine lldcs can take advantage of these concessions, Afghanistan in the case of raisins and Haiti in the case of coffee. Importers argue that the

effect on the volume of Haiti's trade in coffee is likely to be marginal as its supply of coffee is inelastic: at best it will be able to raise its prices by 4% to include the mfn duty which it no longer has to pay. For Afghanistan the concession is likely to increase its exports of raisins to the EEC at the expense of the only two other suppliers, the US and South Africa, as it can now lower its prices by a margin of 7%.

Safeguards

Only five products have tariff quotas. These operate in a similar way to those for industrial products except that there are no *butoirs*. Nor are the member state shares based on the GNP formula but instead are meant to reflect past import shares. This may explain why it was initially not felt necessary to introduce reserves. Until 1978 there was only one reserve, for sliced pineapple. But changes in trade patterns meant that some member states did not use their shares while others exhausted them early in the year, and now each product has a reserve, though they are smaller than those for sensitive industrial products (as little as 2% of the TQ in the case of tobacco). In addition there is one semi-sensitive product, a high value Burley type of tobacco (used to make cigars), for which there is a tariff ceiling.

For all other agricultural products there are no *ex ante* restrictions on the amount which may receive preferences. To some extent this compensates for the fact that (unlike industrial products) duty cuts are not 100%. Instead they are subject to a general safeguard clause which allows the EEC to reintroduce duties, in whole or in part, on products from any ldc which cause Community producers to suffer or make them likely to suffer from 'serious disadvantage'. Concessions on all agricultural products are also subject to the general provision included in all GSP regulations that they may be withdrawn should they cause any unfavourable situation to arise in the ACP states. Under these clauses the mfn duty may be reimposed on sensitive items even before they hit their TQs. Neither of these safeguards has been used to date.

The GSP in practice

Use of the GSP

According to the EEC the take-up of GSP opportunities for agricultural products has improved considerably since 1974 when it was only 24%. As Table 7.3 shows, ldc exporters of sensitive agricultural products have performed better than exporters of non-sensitive products in this respect. But compared

to non-sensitive industrial imports, non-sensitive agricultural goods have higher utilisation rates, whereas the sensitive agricultural goods have lower rates than sensitive industrial products. The utilisation rate for non-sensitive agricultural products should not be given too much weight however; in principle the GSP offer is unlimited. Moreover, the figure for GSP-receiving imports can only be a rough estimate as imports are not closely surveyed and so statistics are not collected. The low utilisation rate for the sensitive products is of more concern. It appears to indicate that member state shares are not fully used and suggests either the need for much larger reserves or for a redistribution of member state shares to reflect trade shares.

Table 7.3: Use of the GSP for agricultural products: GSP-receiving imports as a % of GSP-eligible

<i>GSP-eligible</i> (m ua)	<i>GSP-receiving</i> (%)		
	All products	Non-sensitive	Sensitive
1974 na	25	na	na
1975 na	na	na	na
1976 1000	59	55	74
1977 1230	57	55	61
1978 1300	56	52	64

Source: European Commission and UNCTAD, various documents.

There are various reasons why the GSP for agricultural products is not fully utilised. First, and most important, a large number of products are not exported by Idcs to the EEC. In the EEC *NIMEXE* import statistics for 1978 there were no imports at all registered from GSP beneficiaries for 131 products, over one third of the GSP coverage. This may reflect the way in which some products are included by the EEC as a political gesture following a request by a particular Idc which has plans to begin production of that item in the future. In some cases it is unlikely they will ever have the capacity to do so. We found that some exporters are still unaware of the scheme. Even if aware, some exporters and importers feel that the tariff reduction is too low to merit the effort needed to cope with the GSP regulations, as in completing the certificate of origin, or identifying the correct CCT number. A more general problem is that forms may be incor-

rectly completed thereby making the good ineligible for GSP treatment, or else eligible for it at a different rate. This risk may deter traders even more from using GSP. If a mistake is made in the classification and the good does not in fact receive the duty reduction expected, this can lead to disputes between the importer and exporter as to who should make up the difference. It is not possible to know precisely the extent to which the GSP is not used for these reasons as the data on GSP-receiving imports is not available at a disaggregated level.

Effect of the GSP

More important than the use of the GSP, as an indicator of the modifications needed in the 1980s scheme, is its effect on trade in agricultural products. Unfortunately this is even more difficult to assess without a sophisticated model which allows one to disentangle the effect of the GSP from changes in other factors, such as changes in costs of production or in tastes. In chapter 8, four agricultural products are examined: one GSP sensitive product (tobacco), two non-sensitive products (crustaceans and other fixed vegetable oils) and one product excluded from the GSP (rice). This is not a large enough group on which to base any firm conclusions, but the examination of trade flows from 1972 to 1977 raised a few points of interest. The EEC's imports of tobacco and vegetable oils from Idcs grew faster than imports from all countries, while for crustaceans and rice the reverse occurred. The results for vegetable oils and rice were as expected but for tobacco and crustaceans they are somewhat surprising given that the GSP for tobacco is limited, whereas for crustaceans it is not.

There are many reasons why the GSP has failed to have a significant impact on imports of a wide range of agricultural products even though they are non-sensitive. First, tariff reductions are small and, while they are generally passed on to the consumer, unless demand is very price elastic there will be little effect on trade. In the case of canned beef, for example, the effect of the tariff reduction has been offset by a recent rise in world prices; the remaining tariff on what has become a high-value item restricts demand.

Second, although the tariff on GSP imports is lower than on mfn imports, other more important suppliers may be getting even better treatment. One way of measuring the tariff discrimination which GSP suppliers still face is to work out the average tariff paid on EEC imports of a product and to compare this with the rate paid on GSP imports.⁹ In some cases, such as frogs' legs, the average tariff (4.2%) is higher than the GSP tariff (0%) and the

discrimination is in favour of Idcs (with a margin of 4.2%). In others, eg shrimps, where GSP suppliers compete with more preferred suppliers, the average tariff (4.8%) is less than the GSP tariff (6%) and there is discrimination against GSP suppliers (-1.2%). There are several examples of products where major suppliers are more preferred and the GSP has little to offer its beneficiaries: cloves and canned grapefruit, to name but two. The effect of the 12% tariff differential between ACP and GSP suppliers of cloves has been to exclude Sri Lanka almost totally from the EEC market (though once it was a major supplier to the UK when it benefitted from Commonwealth tariff preferences). This is because the tariff margin exaggerates a price differential which is already large due to the superior quality of Sri Lankan cloves. On the other hand, the effect of discrimination in favour of Cyprus and Israel for canned grapefruit, grapefruit juice, etc, of which they supply more than 80% of EEC imports, has probably been much less damaging for most GSP beneficiaries. Few of them (with the exception of Brazil) grow grapefruit.

It is also possible to exaggerate the competition (or the elasticity of substitution) between GSP imports and imports from more, or even less, preferred suppliers. There are many cases where ACP states supply only a small share of EEC imports, eg ground pimento-1%, whole pepper-4%, whole cinnamon-10%. According to importers, retaining tariffs on these GSP imports merely taxes the consumer unnecessarily; they are 'nuisance' tariffs.

A third reason why the GSP's impact may be limited is that it may not have removed the problem of the escalation of tariffs with the degree of processing. Although the GSP has reduced nominal tariffs, it may have actually increased tariff escalation, and so the rate of effective protection, by reducing the duties on raw materials proportionately more than those on the processed products. One case which illustrates this well is that of refined coconut oil. As Table 7.4 shows, the widening of the tariff escalation from 5% to 6% has raised the effective protection (measured as the difference between the value-added at domestic prices and the value-added at world prices, as a proportion of the latter) from 200% to 233%. This desire for the protection of some EEC processing industries explains why in some cases the tariff has been reduced or removed on an input but not on the finished product. Some processing industries feel that the effective protection given to them is already inadequate and are therefore campaigning against any GSP tariff reductions which would reduce it further;¹⁰ some are going so far as to ask that the more competitive Idcs be removed from the list of beneficiaries and even that the GSP tariffs be raised. An extreme example is the UK spice industry which feels it is facing unfair competition from

Table 7.4: Effective rates of protection on refined coconut oil (ua)

	<i>Value of EEC import including duty</i>	<i>Duty</i>	<i>Value of EEC import excluding duty</i>	<i>% rate of duty</i>
<i>(i) mfn</i>				
input: crude oil	1.100	0.100	1.000	10
output: refined oil	1.181	0.150	1.027	15
Value added	0.081		0.027	
	Effective protection = 200%			
<i>(ii) GSP</i>				
input: crude oil	1.070	0.070	1.000	7
output: refined oil	1.160	0.133	1.027	13
Value added	0.090		0.027	
	Effective protection = 233%			

Note: Calculations made on the basis of 1 ua of crude oil import, excluding duty.

Indian curry powder exports.

Fourth, there remain serious non-tariff barriers. Although there was some progress at the MTN in reducing non-tariff barriers facing industrial products, there were few concessions for agricultural products. Perhaps the most important barriers facing agricultural imports to the EEC are levies under the CAP and health and sanitary regulations. In particular, levies are charged on the sugar content of various fruit products (canned fruit, jam and juices). While ACP and other more preferred Idcs benefit from levy reductions, GSP beneficiaries do not. Not only do levies increase the price of GSP imports but they also require the exporter to be able to declare the exact sugar content of his goods. The problem of levies is more important for those products excluded from the GSP, notably rice and rice products (see below). Examples of health and sanitary regulations mentioned by exporters as causing difficulties include the rules on the pesticide content of tobacco, on the aflatoxin residue in groundnut and coconut products, and on the bacteriological count in shellfish. Failure to comply with these rules can mean GSP products are refused entry to the EEC and that importers are reluctant to buy from Idcs. Idcs do not feel the regulations should be removed; what they (in particular the less developed) seek is some form of technical assistance to ensure their products meet the standards and so are able to enter the EEC.

Finally, the effect of the GSP may be limited because ldc's do not produce goods of the right sort, quality or price for the EEC market. Canned food importers argue that a major constraint on their purchases from ldc's is that ldc's produce largely tropical products whereas EEC demand is largely for temperate products. However, they also point out that the GSP could do more to help stimulate demand for tropical products; the tariff cut on items such as canned guavas or canned exotic fruit juices is too small to allow supermarkets to promote them. In many cases sales remain restricted to the small immigrant populations from tropical areas.

Even if ldc's produce the 'right' goods such as canned fish, their quality may be too low or too inconsistent in comparison with competing goods from developed countries. For instance, many ldc's have not yet mastered the complex technology of fish canning. The GSP will therefore have to be extended for a further period in order to have any effect on canned fish imports, or to encourage ldc's significantly to improve their standards. Where GSP imports can compete with imports from other countries in terms of quality, they are often unable to compete on price. For example, Taiwan can supply many canned foods to the EEC at lower prices than any ldc even though it has to pay the mfn duty.

Excluded products

Despite these inadequacies of the GSP (and the need for its modification, which is discussed later), the prospects for growth in EEC imports of agricultural products currently excluded from the scheme are even more gloomy. Many of these continue to face high, if not prohibitive, tariffs of between 15 and 20%, while (according to the British Importers' Confederation) there are about fifty products which face duties of 20% or more with an additional levy payable in many cases. The reason for these high tariffs is not always clear. Some goods are not even produced in the EEC; in this case the problem may be one of tariff classification. There are many instances of fruits and vegetables where the ldc products fall under the same tariff heading as EEC, ACP or Mediterranean products, even though they are wholly different from them. Of those products which are produced in the EEC, the quantity is usually far too small to be able to satisfy the EEC market. For example, garlic faces a tariff of 18% and yet only a small amount is produced in the EEC. Sometimes the EEC may be protecting producer interests in ACP and Mediterranean states, as in the case of canned sardines which enter duty-free from Morocco and at a reduced duty from Portugal.

On top of these tariffs, many items, notably maize products, rice, sugar and their products face variable levies. For these products the rate of effective protection is often very high as levies increase with the degree of processing; it has been estimated that the effective protection from levies can be nearly 2.5 times the effective protection from tariff escalation.¹¹ For basmati rice, one of the most important products excluded from the GSP, the tariff and levy are argued to be unnecessary as it is too high a quality, ie too expensive even at world prices, for the average EEC consumer. They merely tax the Asian community resident in the EEC.

Sensitive products

In this section we shall focus on the experience of tobacco under the GSP. There are two reasons for this choice. First, although much energy has been spent in the MTN and in Brussels discussing the size of the tariff quotas and the level of the tariff reductions for cocoa butter and instant coffee, these are chiefly the concern of bilateral relations between Brazil, the major GSP beneficiary exporting these goods, and the EEC. Second, the only other two sensitive products, ie the two types of canned pineapple, experience problems which are similar to those of tobacco (competition with more preferred suppliers and the US, division of the TQ between member states, seasonal problems).

The treatment of tobacco under the GSP is particularly interesting for several reasons. It is one of the largest GSP imports (fifth in 1976 at the 4 digit CCCN level). It is unprocessed and shows that the EEC is not unwilling to extend preferences to this type of good. It is a CAP product. EEC imports come from more preferred sources (Mediterranean, ACP) and less preferred (US) as well as from GSP beneficiaries. Finally, the duty is a combination of an *ad valorem* and a specific one.

Tobacco was first included in the GSP in 1974 when a TQ of 30 m ua (equal to 20,000 tons at current prices) was opened for imports of Virginia Flue Cured (VFC) tobacco worth less than 280 ua per 100 kg (CCT ex 24.01B). The GSP duty was 11.5 %, with a minimum of 14 and a maximum of 16.5 ua per 100 kg. This concession was specifically designed to benefit the countries mentioned in the Joint Declaration of Intent, signed at the time of UK entry to the EEC, particularly India. It has since been increased to 36,000 tons in 1976 and in 1977 to 66,000 tons (at which level it has remained) and extended to include VFC tobaccos of a higher value (CCT 24.01 AI) and other Virginia-type tobaccos (CCT 24.01 AII). The duties have been reduced further to roughly half the mfn levels.

According to EEC importers the GSP has had a positive effect on their imports, although this varies between member states. Imports of Virginia-type tobaccos from GSP beneficiaries rose by 33% from 1975 to 1977 for the EEC as a whole—and trebled in the case of Benelux and Denmark (see Table 7.5).

Table 7.5: EEC imports of Virginia-type tobaccos from GSP beneficiaries ('000 tons)

	1975	1976	1977
Benelux	6.9	14.0	20.0
Denmark	1.0	2.0	3.0
France	1.9	1.0	0.5
Germany	15.5	20.0	23.5
Ireland	5.0	3.0	2.0
Italy	10.8	10.0	13.0
UK	48.9	62.0	59.0
EEC	90.0	112.0	121.0

Source: Commonwealth Secretariat, *Tobacco Quarterly*, January 1979, p. 61.

In general the effect of the GSP has been to compound the growth of the volume of imports from India, Brazil, Korea and a few other beneficiaries. These were growing anyway as a result of:

- the increasing cost of tobacco from the US, the major competing supplier, due to rising labour costs;
- the increasing production of tobacco in India, Brazil and Korea;
- the improved quality of their tobacco; and
- improvements in their marketing.

EEC imports of tobacco from the ACP countries as a whole have not increased. Malawi, however, has been able to raise its exports partly because of its duty-free status, but more important, because its production of tobacco has gone up while production in Tanzania, Zambia, Mozambique and Zimbabwe of similar tobacco types has fallen. To date, therefore, there has been little ground for Malawi to feel threatened by the extension of the GSP to tobacco. But problems may develop when Zimbabwe accedes to the Lomé Convention and re-establishes itself as a major supplier to the EEC, benefitting from duty-free access.

Table 7.6: Sources of EEC imports of unmanufactured tobacco ('000 tons)

	1973	1974	1975	1976	1977
Brazil	34.7	34.7	46.7	49.9	56.9
India	29.8	36.8	48.3	30.2	34.2
Italy	22.7	20.8	23.3	29.4	42.2
Korea	7.9	15.6	21.9	25.3	17.4
Malawi	14.8	14.1	23.3	21.0	21.8
US	155.5	108.6	125.4	123.7	83.8
Subtotal	265.4	230.6	288.9	279.5	256.3
Total imports	540.2	498.7	533.9	537.8	530.4

Source: As Table 7.5.

Production of tobacco within the EEC and the applicant states is largely of non-VFC tobacco—burley and oriental—which have very low price elasticities of substitution with VFC. Italy is the only producer of VFC and, although rising, its total output is too small to meet total EEC demand and in any case is too expensive to act as a filler.

At present, the TQ covers only 50% of total imports from GSP beneficiaries, and the rest pay the full mfn duties, which is argued to restrict demand for them. An Indian tobacco mission was told by Belgian importers that they would only increase their purchases of Indian tobacco if these could be guaranteed GSP treatment. In the UK, however, importers say that there is a limit to the stimulus which the GSP can give to demand for ldc tobacco. Trade creation is limited by stagnant tobacco consumption; trade diversion has been fully exploited—the share of US tobacco cannot fall any further as it is a crucial ingredient to 'light' cigarettes.

Since 1977 the major beneficiary of the GSP for tobacco has been Brazil, not India: in 1978 Brazil accounted for 34% of the TQ, India only 28%. This is said to be because the Brazilian crop is harvested earlier in the year than the Indian, and in most member states the TQ is allocated on the greyhound system. The Korean crop is also harvested earlier but as its prices have risen considerably in the last two years it is no longer a major worry for India.

The systems of minimum and maximum specific duties penalises the cheaper ldc tobaccos and reduces the duty-paid price differential with the more expensive US tobacco; the Indians feel that this is causing them to lose some of their market share to the US. The differential will be even more narrow when the mfn cuts resulting from the MTN are brought into effect.

The changeover in 1978 from the ua to the eua as the unit of value in which all imports are measured has meant that the specific tariff on tobacco imports to member states where the currency was previously overvalued in terms of ua (UK, Italy) has risen in terms of the local currency—by as much as a third in the UK. This will adversely affect ldc's such as India which sell largely to the UK. Other countries, however, such as the Philippines, which sell largely to Germany with its previously under-valued currency, will be benefitting from the changeover. (It should be added that countries which traditionally supply the UK and Italy with other sensitive industrial products where the TQ is expressed in value should, by the same argument, be benefitting from substantial increases in the TQs in terms of local currency. But the EEC has been unable to swallow such large increases and instead the changeover is being introduced gradually).

The TQ is currently allocated between the member states on a basis which was originally meant to reflect past trade shares. However, trade patterns have changed and some member states no longer fully use their shares. The introduction of a reserve for tobacco equal to 2% of the total TQ, while an improvement, is unlikely to provide the flexibility needed for total exhaustion of the TQ.

Finally, it should be noted that in its original proposals for the tobacco TQ, the Commission suggested it should be included in the GSP 'exceptionally' and 'for a transitional period'.¹² It is not possible to quantify the effect of withdrawing tobacco entirely from the GSP. From the above, however, it seems that this would merely slow down the rate at which tobacco from GSP beneficiaries displaces US imports to the EEC. It would not significantly increase demand for the types of tobacco grown in any of those areas to which the EEC might wish to give priority (Italy, France, Greece or the ACP states).

Modifications

There would appear to be four different categories of possible modifications of the GSP for agricultural products: first for non-sensitive products already in the scheme, second for sensitive products, third for those currently excluded and fourth for all types of product.

For non-sensitive products, we would recommend that tariffs be reduced further: ideally all tariffs should be abolished. If this is not possible, an alternative would be to extend the duty-free treatment given to the ldc's to all ldc's with per capita

incomes below, say, \$400 per annum in 1977. Another alternative would be to remove all 'nuisance' tariffs, ie all those below 5%. Where relevant, tariffs on final products should also be reduced to ensure that effective protection does not increase as a result of these cuts. Where there are levies these too should be reduced or, even better, removed. An alternative would be for the EEC to collect the levy and then to return a proportion of it, as it does in the case of beef imports from ACP states, for use by the Ldc government in, say, improving the quality control of its food exports. Finally, the enlargement of the EEC to include three states with substantial agricultural sectors may increase the possibility that the safeguard clause is used. In anticipation of these pressures and to protect the interests of the Idcs, the EEC could usefully draw up a set of criteria which would require injury to be proven before the GSP could be suspended. Failure to do this will make Ldc producers hesitate to base future investment plans on the GSP.

For sensitive products, at least four changes are needed. First, the TQs should be increased. In the case of tobacco, the TQ would have to double to cover all imports. A compromise of 80,000 or even 100,000 tons has been suggested. In this case a second change would be needed, namely that the allocation of the TQ be spread more evenly throughout the year to remove the bias in favour of those with harvests nearest to January. The same applies to canned pineapple. Third, for tobacco, the system of minimum and maximum specific duties should be abolished and the *ad valorem* duty lowered to maintain the margin with mfn imports following the MTN cuts. If the minimum specific duty cannot be totally removed it should be lowered to take this into account and also to make up for the changeover to the eua. Fourth, the member state shares for all products should be made more flexible, by the use of large reserves or by regularly adjusting the shares to reflect changes in trade patterns.

Products currently excluded from the GSP should undergo a realistic assessment of the need for the tariff. Where the interests involved are small the product should be added to the GSP list (and if necessary could be given financial compensation). Where the products are Ldc specialities, separate product categories should be created. Another way forward would be to reduce the levies on these products either wholly or in part, or to refund them to Idcs (as mentioned above). At the very least the EEC should remove tariffs on all agricultural imports from Idcs, not just those products in the GSP scheme, to give them the same terms as the ACP states.

For all agricultural products, there is a series of measures which the EEC should undertake to promote its trade with ldc's. These include the establishment of a trade information centre which ldc producers could consult to determine all the non-tariff barriers—health and sanitary regulations, etc—which their products would be expected to meet. In addition, ldc's, particularly the llc's, could be given technical assistance in meeting these standards. Ldc participation in trade fairs and missions should continue to be sponsored.

1. UNCTAD, TD/B/C.5/30.
2. Tracy Murray, *op. cit.*, p. 53.
3. HWWA, *op. cit.*, table 2, p. 29.
4. GATT, *The Tokyo Round of Multilateral Trade Negotiations*, Geneva, April 1979, p. 157.
5. COM (78) 470 final, p. 4. This was repeated in proposals for both the 1979 and 1980 schemes.
6. European Commission, *Guidelines for the European Community's scheme of generalized tariff preferences for the post-1980 period*, 1980, p. 6.
7. HWWA, *op. cit.*, Table 43, p. 135 and UNCTAD, TD/B/C.5/48, paragraph 4.
8. GATT, *op. cit.*, p. 125.
9. This is done for items of importance to South Asia in V. Cable and A. Weston, *South Asia's Exports to the EEC—Obstacles and Opportunities*, ODI, London, 1979, pp. 87-88.
10. See, for example, the paper by the Commission des Industries Agricoles et Alimentaires (CIAA), 'Prise de position de la CIAA sur le régime des préférences tarifaires généralisées et la reconduction de celui-ci', Brussels, 2 February 1979, and the submission by the UK Food Manufacturers' Federation to the House of Lords on the continuation and revision of the EEC's GSP, June 1980.
11. G. Sampson and A. Yeats, 'An Evaluation of the CAP as a Barrier Facing Agricultural Exports to the EEC', *American Journal of Agricultural Economics*, February 1977.
12. R14, COM(75) 280 final, 11 June 1975.

8 The Effects of GSP

The purpose of this chapter is primarily to try to estimate, in retrospect, what the EEC's GSP scheme has contributed to the growth of exports of developing countries since it was introduced, which ldc's have apparently benefited most, and which EEC countries have contributed most in terms of improved access. But it is not intended solely to be retrospective. An attempt is also made to look ahead to the possible implications of future changes in tariffs and preference margins with the implementation of the agreements reached at the Tokyo Round of the Multilateral Trade Negotiations.

The main objective which led to the introduction of the GSP was the stimulation of exports of manufactured and semi-manufactured goods from developing countries. This was not, of course, an end in itself. The underlying aim was to raise the rate of growth of developing countries both by fostering higher export growth and by assisting industrialisation, albeit in a manner which was likely to maximise employment benefits to the ldc's. It is difficult to measure the effect of the GSP on the growth of ldc's, since it is one very small factor amongst many, without making some precarious assumptions. We can hope, however, to isolate, at least in an approximate way, how much of the growth in manufactured (and, to a lesser extent, agricultural) exports can be attributed to the GSP.

GSP eligibility and coverage

The EEC presents the value of its scheme in terms of the sum of imports eligible for preference. Eight billion eua (roughly \$11 bn) of developing country trade, industrial and agricultural, was eligible in 1979 compared to 3.3 bn ua (\$3.9 bn) in 1974, the first year in which the EEC's GSP was operated by all nine member states. The amount of trade benefiting from the GSP has, on this measure, increased two and a half times in the course of five annual revisions of product coverage and ceiling limitations (Table 8.1). The general trend in ceilings and quotas calculated in this way is misleading and somewhat flattering to the EEC, for several

Table 8.1: EEC estimates of GSP eligible imports and utilisation (bn ua)

Year	Value of total eligible imports ^a		% increase over previous year	Utilisation ^c	Value of non-sensitive imports eligible for GSP
1971	—	0.5 ^b	—	44	na
1972	—	1.1 ^b	120	41	na
1973	2.3	1.3 ^b	14	56	na
1974	3.3		40	66	1.5
1975	3.7		13	50	1.8
1976	4.6		25	67	1.9
1977	6.7		20	63	2.8
1978	7.0		4	60	3.2
1979	7.9 ^d			na	na

^a Include both manufactures and agricultural items.

^b EEC 6 only; in 1973 the EEC 9 equivalent is calculated.

^c Utilisation defined as imports receiving GSP as a percentage of value of imports eligible.

^d In eua.

Source: Various issues of *The European Community's Scheme of Generalised Tariff Preferences (Proposals and Communications from the Commission to the Council)*.

reasons. First, the values of ceilings and quotas are substantially diminished in real terms by inflation (except for those which are fixed in volume terms as in the case of some textiles and clothing, jute, coir and sisal products, carpets, plywood, tobacco, cocoa, butter, instant coffee and canned pineapple). The EEC Commission has acknowledged not only an obligation to maintain real values but also a duty, 'along the lines of the Resolution on Manufactured Goods adopted at UNCTAD IV in Nairobi . . . that donor countries should as far as possible initiate a tangible rise in the ceilings and tariff quotas under their generalised preference schemes.'¹ While export prices of traded manufactures world-wide increased by 26% from 1974 to 1977, GSP eligible trade increased by 109%; in other words, roughly one quarter of the increase in GSP ceilings was lost through inflation.

Second, and more important in making its calculations, the Community adds together two conceptually quite different measures. One is the value of quotas and ceilings on sensitive, hybrid and semi-sensitive items; the increase in real terms in these is a genuine concession though (as explained in chapters 5 and 6) the *modus operandi* of the scheme for sensitive items in particular means that there inevitably will be some underutilisation. The other is the value of ceilings on non-sensitive industrial

items. These ceilings are invariably set at a level much greater than the value of goods actually traded so underutilisation is inevitable. This arises from the way in which ceilings are calculated (see chapter 6). Where the ldc market share is small the ceilings are large relative to existing ldc exports. Ceilings on non-sensitive industrial items rose by 1.6 bn ua from 1974 to 1978, as Table 8.1 shows, accounting for 43% of the 'growth' in the total GSP offer, and as much as 65% of the increase in the offer for industrial products only. Underutilisation also occurs for other reasons: stringency of the rules of origin, lack of familiarity with procedures in exporting countries, and the extreme complexity of the scheme. In most years, by the Community's own fairly optimistic estimates, only around a half to a third of ceilings open to non-sensitive imports are in fact utilised.

Both UNCTAD and the OECD have made their own estimates of the value of GSP eligibility and coverage in order to evaluate the usefulness and progress of the various schemes. As shown in Table 8.2 there has been a very rapid expansion of GSP coverage worldwide. \$25 bn of goods were eligible in OECD countries in 1976 (excluding Canada, Australia and New Zealand). Over \$11 bn were accorded GSP treatment in 1977 as against \$1 bn in 1972. Some of the improvement was accounted for by the introduction of the US scheme (\$6.5 bn eligible in 1976 and \$3 bn accorded preferential access), but the major element in the improvement was from increased product coverage and ceilings in the existing schemes. These are, for the most part, once-and-for-all improvements, however, and unlikely to recur. These figures do not appear to allow for inflation, nor do they allow for the considerable difference in treatment of products accorded preference. As shown earlier, about 40% of the EEC's GSP-eligible imports are 'sensitive' or 'semi-sensitive'. In the case of the most restrictive of these categories there is no trade-stimulating effect at all. What the figures show is a considerable improvement in the current value of products eligible for GSP since the schemes were initiated on the one hand, but a low rate of utilisation of these potential benefits, on the other.

From Table 8.3 some assessment can be made of the relative size of the different schemes. 42% of all imports of GSP-receiving goods entering OECD countries go to the EEC, which is roughly the same percentage (50%) as the share of the EEC in OECD imports of all ldc goods. 50% of GSP-eligible imports are also accounted for by the EEC. These figures are significantly higher than the EEC's share of dutiable OECD imports (28%) and this has been taken as evidence of the EEC's generosity. A point to note is that the different treatment of oil and oil products is crucial. In Japan, where imports of oil and oil products are dutiable, imports

Table 8.2: The GSP in the context of overall trade flows 1972-77 (bn \$US)

<i>Imports of OECD preference-giving countries^a taken together</i>	<i>Total imports from world</i>	<i>Total imports from developing countries^b</i>	<i>Imports from beneficiaries of operating GSP schemes^c</i>		
			<i>Total</i>	<i>Eligible for GSP</i>	<i>Receiving GSP treatment</i>
1972	200.5	54.2	35.0	4.3	1.0
1973	250.7	88.1	43.2	6.6	2.2
1974	365.9	162.7	102.1	12.4	4.2
1975	359.2	156.1	91.4	11.2	3.9
1976	423.2	186.3	139.7	25.0	9.3
1977	486.7	215.4	154.1	na	11.4

^a Excluding Australia, Canada and New Zealand.^b Including the 4 OECD developing countries, Romania and Bulgaria.^c 1972: } EEC (6) + Japan + Austria + Finland + Norway + Sweden +

1973: } Switzerland + UK

1974: } EEC (9) + Japan + Austria + Finland + Norway + Sweden +

1975: } Switzerland

1976: } the same as above + USA.

1977: }

Source: OECD.

eligible for the GSP rise from 12% to 54% if dutiable imports of oil and oil products are excluded from the reckoning. On the other hand, the EEC scheme looks rather better if agricultural items (CCCN 1-24) are excluded. The best schemes in terms of the value of goods eligible for and actually receiving GSP are some of the smallest; for example 93% of New Zealand's dutiable imports are eligible for the GSP and 47% of these actually receive GSP, ie 44% of all dutiable imports receive preferences (compared to only 20% for the EEC, 15% for the US, 25% for Canada).

Table 8.3: A comparison of different GSP schemes (\$m, 1976)

	<i>Total imports</i>	<i>Mfn dutiable imports</i>	<i>GSP eligible imports</i>	<i>GSP receiving imports</i>	<i>4/2 (%)</i>
	(1)	(2)	(3)	(4)	
New Zealand	618	162	151	71	44
Canada	4,589	1,204	687	303	25
Norway	1,172	95	44	22	24
Australia	2,072	768	409	179	23
EEC	78,012	21,742	13,168	4,446	20
Switzerland	1,541	1,419	635	257	18
Finland	722	128	29	21	16
Sweden	2,733	942	189	145	15
USA	27,601	21,077	6,520	3,154	15
Austria	1,328	1,123	998	126	11
Japan	36,971	29,928	3,451	1,790	6 ^a
Total	157,359	78,588	26,281	10,514	13

^a If petroleum products, which are dutiable but not covered by the Japanese GSP, are excluded, the share of GSP-receiving imports in total mfn dutiable imports rises to 28%.

Source: UNCTAD, *Review and evaluation of the generalized system of preferences*, (TD/232), May 1979, Annex p. 1.

Figures for total GSP coverage or usage do not in any sense measure the benefit to the exporting country. They measure the *total value* of trade receiving tariff reductions, not the benefit which the exporter derives at the margin from these reductions. One way of evaluating the GSP is to treat the tariff reduction as, in effect, a revenue transfer. By cutting tariffs, revenue is foregone in the importing country and this is potentially transferable to the developing country as an export subsidy of equivalent value, which might be used to cut export prices. Of course, this is a very oversimplified way of looking at the effects of the preferences. It

undervalues the benefits of the GSP to the extent that the existence of tariff preferences acts as a stimulus to trade and therefore to future revenue transfers. But for 'sensitive' items, and those subject to quantitative restrictions, such as textiles, the trade-stimulating effect is likely to be very small and the revenue transfer is the maximum measure of the benefit of the GSP to the exporter. Even this may be overstating the value of the GSP for sensitive products as explained in chapter 5, the way in which TQs are allocated means that very little of the revenue foregone is transferred back to the exporter. For these products, therefore, it could be argued that the aims of the GSP would be better achieved by directly transferring resources equal to the tariff revenue foregone as an export subsidy.

UNCTAD has calculated that in 1976 the total potential revenue transfer on ldc industrial exports to the EEC was about \$500m, about 1% of the value of total ldc dutiable industrial exports to the EEC. This is approximately equal to 9% of total EEC net aid,² \$5.7bn, in that year.

The Community has made its own estimates of its revenue loss (see Table 8.4). It is equivalent roughly to 5% of ldc imports eligible for the GSP and 3.5% of the value of dutiable imports. This puts the scheme into its limited perspective.

Table 8.4: EEC estimates of fiscal value of GSP concessions

<i>Year</i>	<i>Value eligible (m ua)</i>	<i>Utilisation (%)</i>	<i>Average duty concession (%)</i>	<i>Fiscal value (m ua)</i>
1974	3,250	65	8.3	178
1975	3,680	50	8.5	156
1976	4,600	62	9.3	287
1977	6,720	55 ^a	9.1	385
1978	6,800	55 ^a	8.5	318
Total				1,324

^a Estimate.

Source: As Table 8.1.

All of these estimates are, in their different ways, measures of the *potential* of the GSP. In order to know more about the *actual* effect we need to go beyond the coverage and the magnitude of the tariff margin to the way in which ldc exporters and developed country consumers respond to the price incentive offered.

A measure of effects

It is somewhat more difficult to identify the actual effects of the GSP on the growth of ldc exports, than the potential, since in the case of the former many interrelated factors are at work. In particular the introduction of the GSP has coincided with a major increase in the commitment of several important developing countries to outward-looking trade policies and the encouragement of manufactured exports. The business climate which generated this expansion was probably improved somewhat by the GSP but it was almost certainly a minor factor. Loosely argued claims that the expansion of ldc manufactured exports is attributable in substantial measure to the GSP must be treated with great reserve.

In evaluating the impact of the GSP we not only have to separate out the effect of supply factors from changes in market access and demand, but also the different influences in different consuming markets. As Table 8.5 brings out clearly, there is an enormous variation in the growth of preferential imports under the different GSPs. This variation is as likely to be due to changes in several other factors, notably growth of demand, and the definition of GSP coverage (whether products in excess of tariff quotas and other limitations are included or not), as much as to the change in access conditions, of which the GSP is only one component.

Table 8.5: Growth in preferential imports under various GSPs

<i>Country</i>	<i>Period</i>	<i>Average^a annual growth (%)</i>
Finland	1972-76	154
Japan	1972-76	94
Sweden	1973-76	57
Hungary	1973-75	57
USSR	1971-75	45
EEC	1974-76	34
USA	1976-77	27
Switzerland	1973-76	14

^a Arithmetic.

Source: UNCTAD, TD/232 *op. cit.*, p. 16.

Multiple regression analysis provides one analytical technique for separating out some of the independent influences on trade flows. One of the most interesting and important studies is by A. Sapir in which he uses regression analysis to interpret the growth of ldc-EEC trade.³ He works with a cross-sectional 'gravity' model,

using a dummy variable to reflect preference group membership. The sample of countries which he uses for studying annual bilateral trade flows from 1966 to 1975 is 29, including 20 exporters (10 GSP beneficiaries and 10 non-beneficiaries) and 9 importers (5 of the original EEC members and 4 other OECD countries which do not give preferences). He found that the dummy variable indicating GSP preference was statistically significant, and only in the years during which the GSP was in operation. The coefficient increased from 1.71 in 1971 to 2.73 in 1974, falling slightly to 2.33 in 1975. The results are borne out by disaggregation of the trade flows into four major groups, though the GSP coefficient is significant only for machinery and miscellaneous manufactures (SITC 7 and 8), not for chemicals (SITC 5) or manufactures, excluding textiles and metals (SITC 6 less 65 to 68), except in one year.

Although the study is neatly designed to exclude potential sources of bias, there are inevitably doubts which remain over and above the deficiencies inherent in the method (such as the possible influence of multicollinearity on the coefficients of the independent variables, to which no reference is made). Sapir acknowledges that the results are likely to be strongly influenced by the choice of countries in the sample. A much more serious point is that even if the GSP dummy variable does have the statistical properties described it can be interpreted in several ways. It may reflect the fact that at the beginning of the 1970s we began to see the full impact of the manufacturing export expansion of several major NICs such as Korea, Singapore and Brazil. This was naturally geared to supplying the major and (even excluding GSP) more open markets of the EEC and North America rather than the small, heavily protected, and peripheral Mediterranean markets. Foreign investment flows and subcontracting arrangements by EEC (and US) firms played a significant part in this. What part preferences played in assisting the process is impossible to say. The GSP dummy variable coefficients become steadily larger and more statistically significant from 1966 on, which seems to suggest a continuous influence dating from well before the advent of preferences. A more useful test might have been to have compared US and EEC experience over the period since the US must have had a similar history to the EEC in most respects except for tariff preferences, which did not become effective in the US until 1976.

While the Sapir study has to be treated with reserve, it is the most thorough *ex post* study done so far to test the effects of the EEC's GSP. What follows is far less formal, less rigorous and more impressionistic in the use of data, and is intended to supplement the Sapir work by showing how the conclusions one can

draw are sensitive to particular assumptions about product coverage, and country coverage (both donor and beneficiary). To the extent that there is some implicit theorising behind the descriptive data analysis, it is that which underlies 'constant market share' analysis.⁴ This assumes that in the absence of a specific stimulus such as a preferential trading arrangement which changes the structure of trade, countries will continue to occupy the same relative importance—in real terms—in each others' imports and exports. Thus *ceteribus paribus*,
the growth of exports from A to B (or D)

the growth of all exports to B

$$= \frac{\text{the growth of exports from A to C (or D)}}{\text{the growth of all exports to C}}$$

If a preference arrangement is introduced for product *i* in country B but not C, which benefits A but not D, then the following relationships should hold if the preference arrangement is significant:

(i) the growth of exports of *i* from A to B

the growth of exports of *i* from all countries to B

> the growth of exports of *i* from A to C

the growth of exports of *i* from all countries to C

and

(ii) the growth of exports of *i* from A to B

the growth of exports of *i* from all countries to B

> the growth of exports of *i* from D to B

the growth of exports of *i* from all countries to B

In practice, of course, the *ceteris paribus* assumptions are not met and there are many factors which influence particular trade flows. But this simple test should give us a rough first check as to whether tariff preferences are a major factor. We therefore compared annual (compound) growth rates for the period 1972–77 for major product categories, exported to the nine EEC member states, contrasting them with exports to the US, Japan and the OECD as a whole. We took Idcs as a whole as the preference group (since that was how the data were made available to us) though some Idcs (ACP and Mediterranean) qualify for special preferences in the EEC. The time period taken was also somewhat arbitrary—by 1977 some effect of the US schemes may have begun to be felt. Moreover, the US had a type of tariff

preference scheme operating before the advent of GSP—products processed in export processing zones and using US inputs qualified for duty-free treatment. Imports under this offshore assembly provision accounted for as much as 22% of US manufactured imports from Idcs.⁵ In order to compare beneficiary and non-beneficiary sources of exports we looked at Korea and Singapore on the one hand and Taiwan on the other. It seemed that a comparison of countries with close affinity, of this kind, would be more meaningful than a comparison with non-beneficiaries having quite different export product structures, export policies and recent economic history. One deficiency (among many) of these tests is that because such a small country sample is involved no

Table 8.6: Measurement of effects of preferences: percentage annual average import growth (1972–77)

		<i>EEC</i>	<i>US</i>	<i>Japan</i>	<i>OECD</i>
(1) <i>Chemicals</i>					
	Growth of imports from (i) world	22.1	22.0	21.2	21.5
	(ii) Idcs	21.4	17.5	40.8	21.4
	of which:				
	Korea	48.7	106.3	46.4	53.5
	Singapore	40.8	39.8	135.9	83.7
	Taiwan	32.5	inf.	49.7	53.5
	(ii)/(i)	0.97	0.79	1.92	100.0
(2) <i>Machinery</i>					
	from (i) world	19.5	16.0	12.5	18.3
	(ii) Idcs	38.3	29.0	39.4	33.0
	of which:				
	Korea	76.5	46.9	57.9	56.6
	Singapore	44.9	25.8	35.8	35.3
	Taiwan	48.7	inf.	76.8	79.3
	(ii)/(i)	1.96	1.81	3.15	1.80
(3) <i>Miscellaneous manufactures</i>					
	from (i) world	20.8	16.7	19.5	19.6
	(ii) Idcs	32.8	26.1	42.9	30.0
	of which:				
	Korea	67.8	33.5	59.4	44.3
	Singapore	39.1	22.0	41.0	32.3
	Taiwan	37.1	inf.	34.0	64.3
	(ii)/(i)	1.58	1.56	2.20	1.53

Notes: Growth rates are in current, not constant, prices.

SITC 6 is excluded since the major items in this category, metals and non-metal minerals, are not subject to preferences.

inf. = infinity and implies growth from a zero base.

Source: NEDO statistics.

statistical significance can be attributed to the results; the findings are impressionistic only. Nor do they enable us to know how much trade is 'created' rather than 'diverted'. For that we would need to know the relationship between trade and production in the exporting country which we do not.

Table 8.6 summarises the main results of the tests. In the case of chemicals there is, at first sight, evidence of a preference effect. Annual growth of all exports to the US (as to the EEC, Japan and the OECD as a whole) is around 22% over the period, but Idcs' exports of chemicals to the EEC grew at 21.4% per annum and to the US by 17.5% per annum. This indicates that some factor was working over this period in the EEC but not in the US to give Idcs 4% higher export growth per annum. This could have been the effect of the GSP. When we get down to looking at countries of origin in more detail (Table 8.7) there is a partial explanation for the preference effect—if that is what it is—for chemicals; roughly 40% of the EEC's imports from Idcs come from Africa and the Middle East and the most important suppliers enjoy special preferences under the Lomé Convention and the Maghreb and Mashreq trade agreements, rather than the GSP. It is from these countries, as well as Yugoslavia and Romania, that the main expansion of exports of chemicals has come. There is also evidence of a preference working on the machinery category (SITC 7). This is where one would most expect the GSP to work since there are generally fewer *a priori* restrictions. Although imports from Idcs grew twice as rapidly as from the world as a whole the GSP effect appears to be modest. If overall imports to the US had grown at the same rate as to the EEC, and had they retained the same relation to overall imports, the growth of Idc machinery exports to the US would have been 35.3% as against 29% per annum, only 3% per annum less than the EEC's 38.3%. A partial explanation can be found by disaggregation (Table 8.8). There is no evidence of a preference effect for non-electrical machinery (indeed, the opposite); it is in the field of electrical machinery, and particularly electronic components, that the growth of Idc-EEC trade is particularly strong, especially with Germany. This may have something to do with the GSP, but probably has also been stimulated by the special concessions in Germany (and the Netherlands), which have acted as an incentive to offshore activities by EEC companies.⁶ Nor is there any evidence of an effect for miscellaneous manufactures (though, again, the growth of imports from Idcs is substantially greater than from all countries). This is as expected given the extent to which the major items under this heading (footwear, leather goods, clothing) face either tariff quotas under the EEC's GSP or quantity restrictions under the Multi-Fibre Arrangement.

Table 8.7: Performance of Idcs in the EEC market by major product (%)

	Chemicals				Machinery				Miscellaneous manufactures			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
All Idcs	100.0	21.4	37.0	1.00	100.0	38.3	24.0	1.16	100.0	32.8	31.0	1.09
Asia	11.5	27.1	17.5	0.71	13.0	62.7	22.3	1.30	84.3	31.8	30.2	1.05
S. America	23.0	18.1	39.9	0.97	11.5	39.2	31.0	0.85	3.9	50.4	30.3	1.30
Subsaharan Africa	11.2	21.2	57.4	1.27	2.6	13.8	71.6	—	1.4	54.2	86.5	1.10
N. Africa	16.1	36.7	83.2	1.08	2.1	41.0	99.2	—	5.1	56.7	97.4	1.06
Yugoslavia	8.0	11.9	67.8	1.20	19.8	22.4	76.1	1.61	11.0	17.1	71.4	0.91
Rumania	8.6	12.4	46.6	1.72	5.0	29.2	50.5	1.05	6.7	22.9	70.8	0.87
Mexico	6.8	18.9	27.0	0.75	2.1	24.8	3.4	0.93	0.4	46.5	4.7	2.14
Brazil	5.6	22.9	45.5	1.14	8.9	43.2	28.2	0.83	2.1	46.6	31.7	1.48
Argentina	6.8	18.9	27.0	0.75	1.2	24.9	36.7	0.89	0.5	42.2	27.5	0.89
India	3.1	30.1	39.3	1.09	3.0	38.9	61.9	0.96	5.6	55.5	58.9	1.20
Pakistan	0.1	24.4	18.1	0.45	0.1	-11.2	56.8	—	1.1	24.5	64.0	0.96
Malaysia	0.3	43.2	21.3	1.14	4.4	121.2	17.4	1.03	1.7	63.9	48.6	1.11
Singapore	0.6	40.8	7.5	0.49	16.7	41.9	31.1	1.27	3.7	39.2	44.2	1.21
S. Korea	2.4	48.8	14.7	0.91	8.9	76.5	15.7	1.35	16.8	67.8	23.4	1.53
Philippines	0	1.2	1.3	0.02	1.3	67.2	18.0	0.55	2.2	63.9	29.2	1.10
Thailand	—	—	—	—	0.1	47.1	6.6	0.37	1.1	82.9	40.5	1.61
Hong Kong	0.2	20.6	12.2	1.40	15.6	31.8	29.1	1.33	36.6	19.5	36.8	0.92
Taiwan	1.6	12.7	11.7	0.67	11.8	48.7	15.9	0.61	11.7	37.1	18.8	0.58

(1) Share of individual Idc in exports of all Idcs to EEC (1977).

(2) Annual average growth of exports to EEC (1972-77).

(3) Share of EEC in Idc exports to OECD (1977).

(4) Growth of Idc exports to EEC (1972-77) divided by the growth of Idc exports to OECD (1972-77).

Note: Idc total does *not* include Yugoslavia and Romania.

Source: NEDO statistics.

The contrast between Taiwan, a non-beneficiary, and beneficiary countries in the Far East is revealing (see Table 8.6). Taiwan's export growth to the EEC is significantly less than Korea's in all three categories but higher in the same three groups in the US (in fact by several thousand per cent, if treated literally, since Taiwanese manufactured exports to the US in 1972 were negligible). It appears that the Taiwanese exporters (and possibly the government) made a conscious decision to concentrate on the US market, while the Koreans have concentrated on the EEC. (Even so the growth rates of Korean exports to the US and of Taiwanese exports to the EEC are still prodigious.) In contrast the position of Taiwan relative to Singapore in the EEC market is less clear cut: Taiwan's exports of machinery to the EEC have grown more rapidly than Singapore's, but its exports of chemicals and miscellaneous machinery have grown more slowly. One final point to note is the extraordinarily large preference factor which appears to be operating in the Japanese market for all product groups. Since the Japanese scheme is not noted for its generosity in according access, the cause of the phenomenon may be that it has a strong trade-diverting effect towards Idcs, while creating little trade overall in competition with Japanese import-substituting industry.

To summarise, the aggregated data give tentative support to the proposition that the EEC's GSP has promoted Idc export growth especially in machinery, and also that it has had an incentive effect on the choice of markets to be made by the more sophisticated manufacturing exporters. We have also tried to trace the effects of the GSP at a much more disaggregated level (five digit SITC as well as some two and three digit) in Table 8.8. The 20 categories are not chosen at random but are designed to bring out the experience of different kinds of products. It is also possible at this level to look at some specialised agricultural items and semi-manufactures which are part of large product categories for which preferences are irrelevant (because tariffs are non-existent or tariff cuts are very small, or because the products are, in part, not subject to the GSP). It is also possible to look at volumes instead of values, an altogether more satisfactory way of tracing trade flows.

Several products showed strong evidence of a preference effect as defined above. The most striking cases were *handtools* (a non-sensitive product) and *ceramic bricks* (hybrid). Such evidence as exists is positive also for *valves and diodes* (sensitive), *watches and clocks* (non-sensitive) and *tobacco* (sensitive). In several other cases there was no evidence at all of a preference effect (knotted carpets, cutlery, travel goods, toys) while in others it was actually negative (crustaceans, rice, radios, sports goods,

Table 8.8: Product by product survey of effects of the GSP

	A	B	C	D	E	F	G (i)	H
							(ii)	
<i>Agricultural</i>								
Tobacco (volume)	—all Idcs 49.0	Brazil 23.8 India 14.1 S. Korea 9.3	60.5 60.5 87.4	10.3 15.4 13.1	1.30 US 1.01 <i>negl</i> 1.18	1.05 US <i>negl</i>	36.7 UK	17.3 Italy Tariff quotas
Crustaceans (volume)	—all Idcs 30.1	Malaysia 51.9 Thailand 15.4 Pakistan 8.6	28.5 70.1 38.9	16.4 26.1 107.5	0.91 0.81 1.00 2.60	1.89 1.89	27.2 UK	7.2 Non-sensitive
Rice (volume)	—all Idcs 26.7	Thailand 3.3 Brazil 2.3 Pakistan 1.1	68.7 18.0 43.9	6.8 -28.9 169.5	0.68 US - <i>negl</i> 3.70	1.16 US <i>negl</i>	21.4 France	14.4 Italy CAP —no duty reduction

A = Share of Idcs in EEC imports (1977, %).
 B = Share of major Idcs in Idc imports (1977, %).
 C = Share of EEC in Idc exports to OECD (1977, %).
 D = Growth of Idc exports to EEC (1972-77, %).
 E = Growth of Idc exports to EEC relative to OECD (index) (*US index in italics*).
 F = Growth of all exports to EEC relative to OECD (index). (*US index in italics*).
 G = Major EEC market for Idcs; (i) Share—1977; (ii) Growth.
 H = Most sensitive market and status.

Table 8.8—continued

	A	B	C	D	E	F	G	H
							(i)	(ii)
Other fixed vegetable oil (volume)	—all Idcs	71.2	46.6	2.2	0.48 0.42	0.45 0.36	32.9	3.3
	Malaysia	44.3	48.9	14.4	0.83		UK	Netherlands?
	Indonesia	11.2	61.5	2.8	—			Mostly non-sensitive
	Philippines	9.7	16.3	7.4	0.97			
<i>Semi-manufactures</i>								
Calf leather (volume)	—all Idcs	13.8	61.2	-6.9	na all	na	85.9	19.0
	India	35.1	78.3	-15.2	negative			Italy
	Pakistan	40.2	99.0	-2.6				Sensitive
Plywood & veneer (inlaid) (volume)	—all Idcs	33.0	95.0	49.0	1.05 US	1.15 US	44.7	inf.
	S. Korea	32.5	94.4	178.8	1.04 negl	negl	UK	France
	Taiwan	10.4	93.3	47.1	1.10			Tariff quota
	Malaysia	17.0	97.6	86.5	1.01			
<i>Manufactures—finished</i>								
Carpets—knotted (value)	—all Idcs	77.5	79.5	16.4	1.02 1.04	1.02 0.94	71.5	14.5
	Pakistan	15.8	77.3	37.0	1.04		Germany	Belgium
	India	12.8	67.2	37.5	1.07			Tariff quota
	China	5.8	58.0	35.3	0.86			
Ceramic bricks, tiles, pipes, etc	—all Idcs	2.2	28.1	81.5	2.08 2.05	1.10 1.49	71.6	85.7
	S. Korea	76.3	55.4	84.5	1.09		Germany	Italy
	Thailand	18.0	92.4	inf.	na			Hybrid
Handtools (value)	—all Idcs	3.3	32.9	45.9	1.27 1.48	1.05 1.18	31.8	49.6
	India	33.9	53.9	44.9	1.16		Germany	Non-sensitive
	Taiwan	27.1	25.9	83.0	0.81			
	(Yugoslavia)	26.4	72.2	28.9	0.92			

Table 8.8—continued

	A	B	C	D	E	F	G	H
							(i)	(ii)
Cutlery	—all Idcs	23.1						
		S. Korea	63.3	34.5	39.0	1.20	1.47	1.16
		Hong Kong	16.6	13.9	91.0	1.60		56.1
				54.6	5.2	0.67	Germany	UK
Non-electrical machinery	—all Idcs	1.6						
		Brazil	20.8	34.0	31.8	0.82	0.87	1.02
		Singapore	10.1	34.9	49.2	0.90		1.04
		(Yugoslavia)	19.2	34.1	41.4	0.67		
				76.0	26.1	0.99	36.9	22.1
							UK	Non-sensitive
Electrical machinery	—all Idcs	5.1						
		Hong Kong	22.7	19.9	43.5	1.37	1.57	1.02
		Singapore	20.1	29.5	31.7	1.41		1.03
				29.9	42.8	1.45	34.1	51.2
							Germany	(Mixed)
<i>of which</i>								
Radios	—all Idcs	24.3						
		Hong Kong	43.8	33.4	38.6	1.35	1.94	1.30
		S. Korea	16.6	39.0	28.4	1.49		2.46
		Taiwan	14.8	32.8	95.6	1.37	36.9	44.4
				26.3	34.4	0.54	Germany	Germany?
				13.9	42.0	1.17		France?
				11.8	232.2	1.07	45.5	Sensitive
				23.0	66.6	0.84	Germany	Germany
				29.4	51.6	1.37	45.2	Sensitive
				40.3	37.8	1.98	Germany	Italy
				25.9	156.6	1.88		Sensitive
				22.8	65.8	0.97	Germany	Sensitive
Valves and diodes	—all Idcs	7.9						
		Malaysia	18.7	13.9	42.0	0.94	47.2	
		Taiwan	17.3	11.8	232.2	1.07		
Travel goods	—all Idcs	30.5						
		Hong Kong	33.0	29.4	51.6	1.37	1.53	1.18
		Korea	25.0	40.3	37.8	1.98		1.52
		Taiwan	20.6	25.9	156.6	1.88	45.2	49.3
				22.8	65.8	0.97	Germany	Italy
								Sensitive
Watches & clocks	—all Idcs	12.1						
		Hong Kong	55.3	21.0	84.9	1.11	1.01	0.99
		Taiwan	27.4	27.0	80.2	1.29		0.90
				20.0	84.5	0.73	42.0	99.6
							UK	Mostly non-sensitive

Table 8.8—continued

	A	B	C	D	E	F	G	H
							(i)	(ii)
Toys	—all Idcs	23.0						
			31.7	31.1	1.24 1.55	1.53 1.42	33.4	39.7
	Hong Kong	65.7	36.2	25.0	1.21		Germany	UK? France?
	Taiwan	16.0	28.0	43.8	0.65			Hybrid
Sports goods	—all Idcs	14.8						
	Taiwan	47.1	19.2	36.1	0.84 0.78	1.19 1.57	29.7	29.7
	Pakistan	25.0	25.2	53.2	0.74		Germany	Italy?
	India	15.1	72.0	19.3	1.10			Semi-sensitive
			63.0	38.8	0.93			
Footwear	—all Idcs	11.3						
	Taiwan	29.9	19.1	29.0	0.84 0.80	1.12 1.45	32.7	18.1
	S. Korea	23.6	15.0	38.4	0.56		UK	France
	Hong Kong	15.4	13.8	89.1	1.62			UK
	(Romania)	13.2	57.8	2.4	0.38			Italy
	(Yugoslavia)	13.1	60.1	26.1	0.86			Sensitive
	Brazil	11.9	46.7	21.6	0.89			
			20.1	60.3	2.05			

footwear). A good deal of work would have to be done at a detailed product level to unscramble the many effects at work before firm conclusions could be drawn. Our impression that both handtools (especially Indian) and ceramic tiles (Korean and Thai) have benefitted from the incentive effects of the GSP is given support by talking to importers, though they stressed that many other factors were involved, notably the supply performance of the exporting country.

Donors

One of the more persistent arguments about the GSP has been over 'burden-sharing'. The complaint from some developed countries is that they have to carry an 'unfair' share of competing imports from developing countries. From a wider economic viewpoint the whole notion that 'cheap' imports are a 'burden' is questionable, even absurd. Nor is there any particular logic in singling out imports from ldc's as representing a 'burden' which other imports do not. Even if there were, there are many possible ways of measuring the weight of the 'burden' of ldc imports—in relation to all imports, population, consumption, GNP, and the rate of growth of all of these, plus or minus exports, are but a few possibilities. The scope for complaint is almost infinite if the notion of 'burden-sharing' is given legitimacy. However, the issue continues to preoccupy EEC member states and Table 8.9 indicates the main trends in shares and growth rates for the main industrial product groupings. If the GNP is taken as a proxy for consumption, then with a constant import/consumption ratio, Germany would expect to take one-third of the EEC's imports and France, one-quarter. In fact it is likely that the smaller economies have a greater tendency to import penetration since they have less scope for internal specialisation (as long as the free movement of factors of production, envisaged under the Treaty of Rome, is not complete). This is the case with the Netherlands, Belgium, Denmark and Ireland—especially the first two. The broad picture is that Britain, whose market is about 16% of the EEC total, takes 14 to 17% of all EEC imports but about 25% of ldc manufactured imports. However, the argument that Britain carries an 'unfair' share of the 'burden' is being rapidly invalidated by a significant decline in the growth of British imports from ldc's compared to the Community as a whole. France, Italy and Belgium, absorb considerably smaller amounts of ldc imports in categories SITC 7 and 8, but not SITC 5, and only to a small degree in SITC 7 for Italy, than either their GNP or overall imports would indicate. But in the latter cases, import growth is greater than the EEC norm. The Netherlands, Germany, and Denmark are

Table 8.9: EEC countries and ldc manufactured imports

	EEC-9		UK		France		Germany		Italy		Netherlands		Belgium		Denmark		Ireland	
	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	
Chemicals (SITC 5)	(i) 22.1	14.2	21.4	19.6	22.2	24.7	24.5	12.4	19.3	12.0	21.8	11.1	22.6	3.8	19.1	2.0	22.6	
	(ii) 21.4	24.9	20.0	21.6	21.4	16.0	17.4	13.5	35.0	11.9	21.3	6.6	18.5	1.5	16.3	3.6	40.2	
Machinery (SITC 7)	(i) 19.5	17.2	21.0	18.8	18.1	23.0	20.5	10.3	16.8	12.4	20.5	12.1	18.5	4.2	20.6	1.7	21.6	
	(ii) 38.3	25.9	23.2	11.5	48.2	31.9	50.5	11.7	37.2	10.4	45.6	3.5	40.5	4.0	112.4	0.7	41.2	
Misc. Manu- factures (SITC 8)	(i) 20.8	14.7	18.8	17.7	21.9	32.4	20.7	5.3	17.2	14.4	20.9	10.3	22.7	3.6	23.0	1.4	20.9	
	(ii) 32.8	24.6	22.3	12.9	43.3	41.4	35.8	3.6	40.4	10.3	40.0	3.4	42.9	4.1	32.2	0.5	35.8	
Index of market size	100	16.1		24.9		32.9		12.2		6.2		4.9		2.7		0.6		

a Share of EEC country in imports to EEC.

b Annual growth of imports to EEC countries by value (1972-77).

(i) Share of EEC country in all imports to EEC (and in growth of imports).

(ii) Share of EEC country in ldc imports to EEC (and in growth of imports).

Source: Calculated from SITC trade statistics; ldc's exclude Yugoslavia and Romania but include Taiwan.

by contrast significantly more open to ldc imports and this is demonstrated both by the high level and growth of imports, though there are considerable variations in experience. Germany is an exceptionally large market for finished manufactures (SITC 8) but not chemicals (SITC 5), reflecting Germany's comparative disadvantage and advantage in these two product areas. There is a striking contrast between the Netherlands and Belgium, the latter having relatively modest imports from developing countries. The figures which we have quoted refer to all ldcs (excluding Yugoslavia and Romania) and do not differentiate between GSP and non-GSP products (though almost all items in SITC 5, 7 and 8 are under the GSP). Estimates by HWWA (Table 8.10) suggest that, for 1976 at least, this may have understated British absorption of GSP products.

Table 8.10: GSP imports by EEC member states (m ua)

	France	BNL	Germany	Italy	UK	Ireland	Denmark
1973	100	94	297	122	—	—	—
1974	208	179	542	287	451	14	71
1975	148	183	604	286	437	9	63
1976	265	358	902	460	956	20	75

Source: A. and C. Borrmann, M. Stegger, *Das Allgemeine Zollpräferenzsystem der EG und Seine Auswirkungen auf die Einfuhren aus Entwicklungsländern*, HWWA, Hamburg, 1979, p. 66.

The concept of 'GSP imports' is a highly ambiguous one, embracing non-competitive agricultural items (eg tobacco in the UK), and the whole range of GSP industrial products—sensitive to non-sensitive, including quantity restricted textiles. Our general conclusion is that the sense of unfairness felt particularly in the UK about the distribution of the 'burden' of GSP imports is being rendered increasingly irrelevant by trends in import growth, in particular by the increasing dominance as a market by (an apparently willing) West Germany and by rapid ldc export growth to France, especially, relative to the UK.

Recipients

It has long been a concern of those operating the GSP that the main beneficiaries are those ldcs which seem to need it least. As Tables 8.11 and 8.12 show, 10 ldcs account for over 70% of GSP imports and 17 for 86%. Most prominent amongst the major users are six middle-income newly industrialising countries:

Table 8.11: Ten most important GSP suppliers (1973, 1976 and 1977)

Share of GSP imports 1973(%)			Share of GSP imports 1976(%)			Share of GSP imports 1977(%)		
Country	Cumulative		Country	Cumulative		Country	Cumulative	
Yugoslavia	33.9	Brazil	11.8	11.8	Yugoslavia	11.3	11.3	
S. Korea	10.1	Yugoslavia	11.1	22.9	Malaysia	9.4	20.7	
Brazil	8.5	Hong Kong	8.2	31.1	Hong Kong	8.9	29.6	
Iran	6.9	Romania	7.7	38.8	India	8.4	38.0	
Argentina	5.7	S. Korea	7.5	46.3	S. Korea	7.9	45.9	
Hong Kong	5.1	India	7.0	53.3	Brazil	7.9	53.8	
India	4.9	Malaysia	7.0	60.3	Romania	6.4	60.2	
Singapore	4.1	Venezuela	4.4	64.7	Philippines	3.5	63.7	
Mexico	3.8	Pakistan	3.7	68.4	Venezuela	3.3	67.0	
Pakistan	3.8	Singapore	2.9	71.3	Singapore	3.2	70.2	

Source: HWWA Report and EEC. WP/gj Rev. 2, 15.11.78.

Yugoslavia, Hong Kong, South Korea, Brazil, Romania, and Singapore. However, there is evidence of a decline in the share of the top ten major beneficiaries from 1973 to 1977. This is mainly explained by the decline after 1973 in the importance of Yugoslavia as a beneficiary and by the influence of a small number of Asian Idcs—the Philippines, Thailand, Malaysia, Indonesia—which have cut into the share of more established exporters. But as can be seen from Table 8.12, GSP coverage of agricultural products accounts for the major part of the GSP benefits of each of these four countries, especially Malaysia. Of the other beneficiaries it is interesting that India has experienced a steadily increasing share but Pakistan's has steadily declined; similarly Korea's share has declined whilst Hong Kong's increased. Argentina and Mexico have also experienced contraction of their GSP share. It is tempting to infer that the imposition of *butoirs* has improved the distribution of benefits but this is highly improbable, as shown by the success of countries like Hong Kong, and also because *butoirs* are not strictly enforced (as explained in chapter 5). It is much more likely that the changes are due to factors outside the GSP scheme, notably the growth of new manufacturing exporters and the poor export performance of previously major exporters, notably Yugoslavia.

A second, general conclusion is that important differences emerge when we look only at non-sensitive manufactured items (Table 8.12), where the potential benefits of the GSP are much the greatest (as explained in chapter 6). The concentration of benefits is much larger than for GSP coverage as a whole; 67% of coverage is accounted for by five countries (Yugoslavia, Hong Kong, India, Brazil, South Korea) and over 90% by the top ten. This is to be expected to the extent that the more sophisticated and established Idc producers have had an opportunity to diversify into less sensitive, non-traditional manufactured exports. Countries which appear to have significantly low shares in the total GSP-receiving non-sensitive industrial items are Pakistan, Colombia, Venezuela, the Philippines, and Thailand, all countries just beginning to export manufactures.

Third, there is little apparent correlation between per capita income (a very loose proxy for under-development) and the generosity of the scheme to individual exporters. If we measure the generosity of the scheme in terms of the share of non-sensitive GSP items in all dutiable exports to the EEC, the country ranking is conversely related to per capita income. Relatively poor countries like Pakistan, Thailand, Colombia and, to a lesser extent India, do very badly from the scheme in this respect while higher income countries such as Mexico and Singapore are quite generously treated. The conclusion must be

Table 8.12: Value of exports to EEC receiving GSP by country, (1977, m ua)

Country	1977 per capita GNP (\$)	GSP-receiving exports	(% of all Idcs' GSP-receiving exports)	GSP-receiving exports which were non-sensitive:	
				Agricultural goods	Manufactures
Yugoslavia	2,100	435.8	(11.3)	12.0	185.4
Malaysia	970	360.2	(9.4)	223.1	19.6
Hong Kong	2,620	341.2	(8.9)	1.7	173.4
India	160	325.2	(8.4)	20.9	122.7
S. Korea	980	305.3	(7.9)	3.0	95.2
Brazil	1,410	305.0	(7.9)	44.5	106.9
Romania	1,530	247.9	(6.4)	4.4	62.0
Philippines	460	134.2	(3.5)	57.9	10.3
Venezuela	2,630	127.9	(3.3)	1.1	6.2
Singapore	2,820	123.9	(3.2)	5.7	37.3
Indonesia	320	120.6	(3.1)	61.7	4.6
Thailand	430	118.9	(3.1)	22.7	16.8
Argentina	1,870	113.4	(2.9)	30.0	47.7
Pakistan	200	112.5	(2.9)	15.3	3.8
Mexico	1,160	89.6	(2.3)	15.5	43.6
Colombia	760	20.7	(0.6)	1.2	2.7
Peru	720	17.8	(0.5)	13.2	1.9
		3300.2	(85.8)	533.9	960.2
% of all Idcs' GSP receiving exports		85.8		82.7	94.2

Source: EEC, WP/gj Rev. 2, 15.11.78.

drawn that there is a fundamental contradiction between the aim of the EEC's GSP to treat less developed Idcs more generously and the Community's wish to give limited concessions on the most 'sensitive' traditional manufactured items which these Idcs are likely to produce first, and in which they will have a comparative advantage. The contradiction has been resolved in part by extending GSP coverage on agricultural products but this in turn is limited in its usefulness by the reluctance of the Community to extend further the tariff quotas on major items such as tobacco and tinned pineapple. In the absence of a willingness to give substantially improved access to these countries in fields such as footwear, textiles and leather goods, a disproportionate share of the real benefits of the GSP will continue to accrue to the more industrially advanced and sophisticated Idcs.

Tariffs as a continuing access barrier

Much of the preceding section is retrospective or historical in approach. This section considers how important preferential tariff margins are likely to be in the future. The problem is considered in two parts: first the effect of tariff cuts agreed under the Tokyo Round, but not yet implemented and, second, the possible effect of post-Tokyo Round changes in the GSP.

The GSP and the Tokyo Round

The effect of multilateral tariff cuts on developing countries is twofold: first, it assists ldc exporters to the extent that it improves access; second, it erodes preferential margins accorded to GSP as opposed to mfn suppliers. A good deal of controversy was generated during the Tokyo Round negotiations as to the net effect of these two factors. Perhaps the most influential academic contributions by Baldwin and Murray, and the Brookings Institution, estimated on the basis of a full 60% across-the-board tariff cut (but excluding shoes, textiles and petroleum products) that ldc's would gain in increased exports twice (Baldwin and Murray) or three times (Brookings) as much as they could gain under existing GSP schemes.⁷ More specifically the gains from improved access would outweigh the losses from erosion of tariff preference margins by 4:1; the gains would occur mainly on products currently outside the GSP, or subject to severe limitations under it, and to countries excluded from particular GSP schemes (eg Taiwan in the EEC). But the studies also pointed out the very modest likely export gains under any circumstances (a 3% increase in annual ldc non-oil export earnings from the full tariff cut) partly because of the inability of ldc's to benefit from textile tariff cuts while they continue to face quantity restrictions. These findings were criticised both on methodological grounds (the trade 'diverted' by preferences was considered by some to be substantially under-estimated) and on grounds of interpretation (the gains would accrue to a handful of very competitive suppliers, while loss of margins would affect the less developed GSP and also ACP suppliers).⁸ This more negative view appears to have coloured UNCTAD's perception of the Tokyo Round.

In the event, the Tokyo Round cuts were less far-reaching and less helpful to developing countries than the maximum 60% cut would have been. The weighted tariff cut on ldc's' industrial exports is 25% not 60%—see Table 8.13—and on agricultural products less than that. This estimate excludes textiles, since almost all textile exports to the EEC and the US are quantity controlled, and therefore tariff cuts can have only minimal effect

Table 8.13: Mfn tariff averages following the Tokyo Round (%)

	<i>Pre-MTN</i>	<i>Post-MTN</i>	<i>Rate of reduction</i>
<i>All industrial products</i>			
Simple	8.9	6.4	39
Weighted	8.8	4.7	34
<i>Industrial products of interest to Idcs^a</i>			
Simple	9.0	6.5	39
Weighted	9.9	7.9	25

^a As defined by GATT.

on stimulating trade. Even the modest predicted effect is exaggerated for two reasons. First, the effect of nominal tariff cuts may have been to increase the degree of tariff escalation and therefore to *increase* tariff protection of final stage processing (see Table 8.14). The evidence can be taken both ways, however. The actual differential between raw materials, semi-finished, and finished manufactured products for Idcs has narrowed by 1 to 2 percentage points. Second, Idcs will lose from the erosion of preference margins, both generalised (under the GSP) and particular (such as under the Lomé Convention). For all industrial goods eligible for the GSP the weighted mfn/GSP margin will fall from 10.1%, pre-Tokyo Round, to 6.6%—a 35% cut—while for GSP non-sensitive goods without tariff quotas it will fall further from 8.5% to 4.5%—a 47% cut. In other words, the proportional cut in the preference margin is substantially greater than the 27% mfn cut on all industrial exports (including those ineligible for the GSP) which they currently export to the main OECD countries, and the 16% cut on goods ineligible for the GSP. For agriculture the cuts are much less significant—17% on products not eligible for the GSP, 29% on GSP products. However, for the latter GSP concessions were improved, as part of the tropical products offer and the GSP/mfn margin actually increased from 6.5% to 7.7%. For one third of mfn dutiable agricultural imports there were no tariff cuts at all.

Taking the tariff package as a whole, it could be argued that there is a modest net gain—but it is very modest. Most developing countries will gain next to nothing, while some will lose on balance. However, it is necessary to remember that these estimates are very preliminary, based on a number of simplifying

Table 8.14: Weighted average rate of tariff reduction on industrial goods (%)

	<i>For all countries</i>	<i>For Idcs</i>	<i>Post-MTN weighted tariff all countries</i>	<i>Idcs</i>
Raw materials	64	60	0.3	0.5
Semi-manufactures	30	27	4.0	3.3
Finished manufactures	34	24	6.5	10.3

Source: Ibid and Part I, April 1979, p. 122.

Table 8.15: Items of interest to Idcs treated with particular sensitivity by the EEC in the MTN

I. Excluded from tariff cuts:

<i>CCT No.</i>	<i>Product</i>	<i>Mfn tariff (%)</i>
27.10	Petroleum products	5 to 7
55.05 B1	Cotton yarn	4 to 6
64.01	Rubber/plastic footwear	20
64.02	Leather footwear	8
82.09 A	Knives	17
87.10	Cycles	17
92.11 B	TV sets	14

II. With less than formula tariff cuts:

<i>CCT No.</i>	<i>Product</i>	<i>Pre-MTN tariff (%)</i>	<i>Post-MTN tariff (%)</i>
42.02 A	Plastic travel goods	15	12
42.03 B	Leather gloves	10.5 to 13	10
51.04 A	Synthetic yarns	13	11
55.09	Cotton fabrics	13 to 15	10
60.01 B	Knitted fabrics	13	12
61.01 to .02	Outer garments	17	14
61.03	Under garments	17	13
62.02	Bed linen	17 to 19	13
74.03 A	Copper semi-manufactures	6 to 8	5 to 6.5
76.02 to .04	Aluminium semi-manufactures	12	10
82.09 B	Knife blades	13	12
82.14 A	Spoons/forks	19	17
82.15 B	Other cutlery	8.5	8
84.52	Calculators	14	12

Source: European Commission, List of Concessions, Nos. LXXII and LXXII bis, July 1979.

assumptions and apply not only to the EEC but also to eight other developed country markets. We have no reason to assume, however, that the broad conclusions do not hold for the EEC. In Table 8.15 there is a list of products which were subject to very small or zero tariff cuts under the Tokyo Round and these include a good many of the products on the EEC's GSP sensitive list. To that extent the Tokyo Round has not alleviated tariff access problems for these items.

Tariffs as a residual problem

If the GSP is to continue in the 1980s it might legitimately be asked what function it can now perform. In general it seems that, following the Tokyo Round, tariffs are no longer a major access barrier in the EEC (unlike Australia and the USA). Instead, the major access barriers for ldc manufactures are non-tariff barriers, notably for textiles and agriculture. Tariff measures are almost entirely irrelevant in these areas. A large proportion of other dutiable trade from ldcs enters duty-free under the GSP as non-sensitive products. Nevertheless there are one or two areas where tariffs are still significant.

First, there are several major items where tariffs remain high (over 10%) and a substantial barrier to exports. Footwear is the most important case, but here tariff barriers are giving way to quantity restrictions. Cutlery is another (albeit less important, and less sensitively handled under the GSP). Garments are the largest in terms of trade values with high tariffs but, with the Multi-Fibre Arrangement, tariff liberalisation is largely irrelevant.

Second, tariff escalation leading to high rates of effective protection is a serious problem for some items. The exact rates are difficult to compute in the absence of detailed input-output data. Some estimates are available, for instance the effective rate of protection of vegetable oil refining is put at close to 200% while the nominal rate is a deceptively low 15%.⁹ Rice milling, tobacco manufacture and fruit processing also have high effective protection rates, and there is a lower but still problematic degree of tariff escalation for some non-ferrous metal products, leather goods, and (were tariffs the operative constraint) textiles.

Since these are specialised problems and since the protective régime is often complex, it is not possible to estimate, in a simple coin-in-the-slot manner, what the effect of liberalisation might be in terms of additional trade, and in terms of the effects on employment in the EEC. However, we can give an illustration of the likely effects by working through a numerical example relating to one of the most important tariffs, that on footwear. The figures are by nature a guess-estimate and depend critically upon

the use of import price elasticities which are difficult to calculate at all precisely. The standard formula for estimating the amount of trade created by a tariff cut is

$$TC_i = M_i e_i (dt_i / (1 + t_i))$$

where TC is the amount of trade created, M is the initial level of donor country imports from beneficiaries, e is the import demand elasticity, dt is the change in the tariff rate, t the initial tariff rate, and subscript i denotes the product in question.

In order to make our own rough estimation of the output and employment effects in the EEC we made various working assumptions. We took 1977 trade values as the starting point. In that year the EEC imports from developing countries were approximately \$300m and from GSP beneficiaries approximately the same (add in \$80m from Yugoslavia and Romania; subtract \$90m from Taiwan). Tariff rates were 8% on leather shoes and 20% on non-leather. Bearing in mind that ldc imports tend to be mainly non-leather (though the mix is difficult in practice to estimate) we took a weighted average of 15%. We further assumed that at present the GSP on footwear is virtually valueless as the tariff quota covers only a fraction of imports from beneficiaries, so they would gain from, in effect, a full tariff cut.

In addition we assumed, pessimistically, that the price elasticity of demand for footwear is close to zero, hence any increase in 'cheap' imported footwear would not stimulate demand in the EEC but merely displace domestic production. Domestic production and ldc imports are, by implication, assumed to be highly substitutable. Both of these assumptions may well bias upward very considerably the effect of tariff liberalisation on domestic industry; in practice there is unlikely to be a great deal of substitution between Korean non-leather and quality Italian leather shoes, for example. We used an import price elasticity for ldc footwear of -2.05 , at the higher end of a range of estimates produced by various international studies for the medium term (up to 5 years). A recent US study of footwear imports worked with -1.5 , while the Brookings study of Tokyo Round liberalisation assumed a range of -2.17 to -2.77 for the EEC, taking into account that the effect of liberalising trade is not only on national import-substituting industries but on intra-EEC trade. Again our assumption biases the results in an upward direction. So, too, does the assumption that developing country supply is perfectly elastic; ie it can produce a great deal more at the same price to meet increased demand in the EEC.

We assumed that two imported shoes from ldc GSP beneficiaries are equivalent in value to one domestically produced shoe (roughly correct in terms of current unit values), and that the marginal productivity of labour in footwear production in

the EEC is approximately \$12,000 per annum. This is based on the fact that average productivity is around \$16,000 (UK data) but that the workers who would be displaced would be only three-quarters as efficient as the average (a very rough guess). We also assumed that productivity would not increase, which further inflates the employment effect.

Finally, we ignored the indirect effects of increased imports of 'cheap' footwear. These are many, including the effect on supplier industries in the EEC, the repercussions on exchange rates, the effect on domestic inflationary expectations, and new export orders from Idcs as a result of their increased purchasing power. The net effect of these secondary factors is unpredictable in direction let alone magnitude, and so we ignored them. We also ignored the benefits to developing countries of trade being diverted to them from other developed countries.

On the basis of these assumptions, a total stripping away of footwear tariffs under GSP would displace eventually (on 1977 prices and trade values) approximately \$175m of EEC domestic production and 15,000 jobs (5% of the EEC footwear labour force). This is a substantial figure in absolute terms but it is based on conservative assumptions which are designed to produce a pessimistic result. For contrast, it is worth noting that the Brookings study, an altogether more comprehensive exercise, estimated that a 60% mfn tariff cut would displace 2,000 workers in the EEC, though we suspect this is biased quite strongly in the opposite direction. The sum of employment displaced would, moreover, be realised over a period of years and be spread throughout the EEC which currently employs approximately 325,000 (1976) in footwear, having lost over 90,000 jobs since 1970, mainly because of productivity improvements. We would not realistically expect the Community to remove all protection at once to all GSP beneficiaries; a concession to low-income countries would have a much smaller effect. There are, in any event, no other products, for which tariffs are the main access barrier, and which could produce comparable employment displacement.

Summary

Analysis of the effects of small tariff changes in trade flows is inevitably an unsatisfactory exercise when many other factors are at work. Nonetheless a few conclusions have emerged which bear repetition:

- (i) Although GSP coverage appears to be impressively large and has increased substantially over time, the benefits

derived by the exporter are much less significant because of generally low mfn tariff levels, poor utilisation of GSP ceilings, and, over time, quotas and ceilings barely keeping pace with inflation.

- (ii) There is little evidence that the GSP has made a major impact on ldc exports to the EEC. But there is some support for the proposition that GSP has promoted ldc export growth especially in SITC Category 7 (and, within that, electrical goods), and has acted as an incentive for the more sophisticated manufacturing exporters.
- (iii) Import growth of GSP-eligible products is being spread fairly evenly through the EEC with the most rapid growth occurring where there is currently low import penetration. This levelling out owes little or nothing to the Community's member state share system since it is occurring mainly in items not subject to it.
- (iv) The benefits of the GSP are heavily concentrated upon a small number of middle-income newly industrialising countries, though the ASEAN group has recently cut into the share of the six main suppliers. The *butoir* system does not appear to have contributed discernibly to a spreading of GSP benefits. This spreading is most likely to occur if low-income ldcs are given liberal access for the most sensitive traditional manufacturing items such as footwear and clothing where their low wage costs give them an advantage over newly industrialising countries as well as EEC competitors.
- (v) The successful conclusion to the Multilateral Trade Negotiations (at least on tariffs) has considerably reduced the scope for offering further meaningful preferential tariff advantages to ldcs. Tariffs now constitute a serious access barrier for only a small number of manufactured items and some processed agricultural items. The adjustment costs to the EEC of reducing these remaining barriers will not be large.

- 1 COM (76) 303, 30 June 1976, pp. 3-4.
- 2 That is to say, member states' individual contributions plus EEC aid.
- 3 A. Sapir, *Trade Benefits Under the EEC's GSP*, University of Wisconsin, 1978 (mimeo).
- 4 As, for example, in C. Young, 'Association with the EEC: Economic Aspects of the Trade Relationship', *Journal of Common Market Studies*, 1972.
- 5 J. M. Finger, 'Tariff Provisions for Offshore Assembly and the Exports of Developing Countries', *Economic Journal*, June 1975, p. 366.
- 6 *Ibid.* These provide duty-free entry of German or Dutch produced components which have been assembled abroad, ie mfn tariffs are only charged on the value added abroad, provided that the German or Dutch company which exports the components is also the one which reimports the final product.
- 7 C. Baldwin and T. Murray, 'Mfn Tariff Reductions and Ldc Benefits Under the GSP', *Economic Journal*, March 1977; and W. Cline, N. Kawanabe, T. Kronsjö and T. Williams, *Trade Negotiations in the Tokyo Round: A Quantitative Assessment*, The Brookings Institution, 1978.
- 8 J. Ahmed, 'Tokyo Rounds of Trade Negotiations and the GSP', *Economic Journal*, June 1978.
- 9 G. Sampson and A. Yeats, 'An Evaluation of the Common Agricultural Policy as a Barrier Facing Agricultural Exports to the European Economic Community', *American Journal of Agricultural Economics*, February 1977.

9 Proposals for Reform, and Conclusions

The basic options

The choice facing the Community is essentially between:

- (i) abandoning tariff preferences after 1980,
- (ii) giving Idcs completely tariff-free access,
- (iii) maintaining the GSP scheme in its present form, but continuing to raise ceilings so as to keep or increase the real value of the scheme,
- (iv) making substantial reforms in the areas of product or country coverage and the operation of 'safeguards' under the scheme.

In advising on the choices to be made we have to make clear our awareness that political factors seem to be by far the most important influences on the Community. The present scheme is only tangentially concerned with economic efficiency considerations, and the attempt to influence the distribution of gains from trade according to economic or social criteria is erratic in the extreme. Not only in the EEC and not only in the context of the GSP, trade policies, especially on tariffs, are negotiated according to conventions which appear to have little to do with the economic effects of international trade. The results of small tariff changes are usually greatly exaggerated and the distribution effects appear to be judged largely according to arbitrary rules of 'fairness' rather than from gains and losses materially calculated. Recommendations that are 'politically acceptable' are, therefore, likely to be very far from optimal from other standpoints. We have tried to take political constraints seriously into account in framing our conclusions, though we would stress our own—politically unfashionable—conviction that a more liberal trade policy, towards Idcs and more generally, would be very much in the Community's own interests.

The first option, *abolishing preferences*, could be justified in the following way. The underlying rationale of the GSP is one of infant-industry protection of developing country export industries. The scheme should therefore be finite and should be phased out as infant-industry exporters grow up. The counter

argument is that only a few developing countries have 'matured' to the point where their manufactured exports no longer need support, and that 'graduation and differentiation' would be a more logical development than the scrapping of the GSP in 1980. We have encountered support for phasing out or terminating the scheme from two other, largely contradictory, standpoints. The first is that, in their present depressed state, the European economies cannot cope with GSP-induced developing country competition. As we hope to have made clear (especially in chapter 8), the role of the GSP in stimulating ldc exports has probably been modest in relation to other factors and will continue to be so. As to the more general effects of ldc competition there is now a voluminous literature which brings out the mutuality of interests as between importing and exporting countries and the extent to which the negative adjustment costs—notably in displacing jobs in EEC import-competing industries—have been greatly exaggerated and are largely unavoidable even if imports from ldc's were to be excluded. Moreover, much current GSP trade occurs in products not regarded as sensitive and enters member states, notably Germany, which see generous access for ldc 'low-cost' imports less as charity than as a factor contributing to their own inflation-free growth.

The other, contradictory, argument is that, far from being dramatic in its effects on trade, the GSP is of so little value to developing country exporters that it would cost them little if it disappeared. To the extent that the existence of the GSP undermines the pressure for multilateral, non-discriminatory, tariff cuts on products of interest to ldc's it might actually damage their interests. We have some sympathy with this point of view and suspect that ldc's in general might have done better in the Tokyo Round negotiations if they had been less concerned with the maintenance of GSP benefits. However, that is now largely water under the bridge; any further tariff improvements coming to ldc's in the early 1980s are now likely to come through the GSP. We also discount the excessively pessimistic evaluations of the effects of the GSP. The evidence does suggest some trade stimulation, albeit modest, and in mainly non-sensitive items. Moreover, direct effects apart, a continuing and improving GSP contributes indirectly to maintaining the confidence of ldc exporters at a time when fear of protectionist barriers is causing growing doubts about future access to developed country markets.

In practice, the GSP is likely to be retained for other, political, reasons. An implicit commitment to continuing the GSP was made in the course of the Tokyo Round when it was agreed to give preferences a firm legal basis. The GSP serves a political purpose for the Community in the context of the 'North-South'

dialogue, helping to present the EEC in a somewhat more flattering light than the US, and deflecting some of the criticism which otherwise would be directed at the EEC's trade barriers on textiles and agriculture in particular. It was unanimously agreed at UNCTAD IV that the GSP should be extended and then reviewed at the end of the 1980s.¹ Having extended Lomé preferences for a further period it is now barely conceivable that the GSP would be withdrawn.

The other, extreme, option is to enlarge preferences to the extent of *eliminating tariffs* altogether, ie to abolish all ceilings and *butoirs* on preferential treatment. This would be less revolutionary than it sounds. Nearly all non-sensitive items enter duty-free and only a minority, probably quite small, of semi-sensitive and hybrid imports actually pay duty. Of the remaining, sensitive, products for which the GSP covers on average one-tenth of imports the largest group paying duty—textiles and clothing—is also subject overwhelmingly to quantity controls; to remit duty on these items would do virtually nothing to stimulate trade. We are, essentially, talking about tariffs on a small number of items, of which shoes and leather goods are probably the most important.

We do not expect this to be seriously entertained as an option, however, mainly for political reasons. The Community was at its most expansive mood in the 1973–75 period after the accession of Britain, Denmark and Ireland and before the advent of serious economic difficulties which have weakened the momentum towards trade liberalisation and the commitment to assisting ldc's through trade and in other ways. There were, even at that stage, strong forces resisting further GSP liberalisation and these have now intensified. The change in attitude of the British Government was a major factor in this, though the present Government may prove more flexible on trade matters than its predecessor. In fact, it is highly improbable that tariff liberalisation on such products as leather garments or oriental carpets would create any discernible impact on the EEC economies, but the prevailing climate of protectionism has affected the willingness to give ground even when products are minor or where the demands for sensitive treatment are almost entirely spurious.

In particular, there is greater resistance to preferential liberalisation which favours the more competitive and industrialised ldc's. The most sensitive products are, for the most part, those subject to greatest competition between ldc's and also most easily produced in ldc's in the first stages of manufactured export growth. If these countries are to be given improved tariff access for sensitive items it will almost certainly have to be at the expense of the more established and developed ldc exporters.

The *status quo* always has its attractions. Renewal on broadly present terms would greatly offend neither ldc exporting interests nor those EEC industries which feel, rightly or wrongly, most threatened by ldc competition. The present arrangements have evolved, year by year, and could be said to represent as much as the EEC is likely to be able to give in GSP terms. We suspect that something like the *status quo* will finally emerge from the negotiations. There are two main criticisms of the scheme, however, which have emerged in the course of this report and which should be seriously addressed:

- certain aspects of the scheme are so complex as to create a *significant bureaucratic impediment* to trade and to deprive the less sophisticated ldc exporters of any real financial incentive. In particular, the treatment of sensitive items, with extremely small tariff quotas, and the complicated apparatus of EEC-member state shares and reserves is highly unsatisfactory to a point where it defeats the whole purpose of the scheme.
- the 'self-election' principle for admission to GSP benefits is open to serious criticism. The largest users of the GSP have been a small number of the richer ldc's. This has tended to weaken political support for the scheme in the EEC.

There is a danger that by seriously confronting these issues, and others, the Community will open a can of worms: demands for more liberal treatment of ldc exports could excite a strong protectionist reaction from those who do not appreciate the likely modest effect on trade; attempts to force the pace on the question of 'graduation' could create serious political difficulties with 'graduating' ldc's and with the 'Group of 77' as a whole; radical changes could open up substantial differences of interest between EEC member states which currently view the GSP with varying enthusiasm. While we appreciate the force of inertia we feel it is worth considering various ideas for reform.

The main proposals for *reforming the GSP* have been in the following areas:

- 'graduation and differentiation',
- conditionality, eg tariff reciprocity and a 'social clause',
- product coverage and classification of products by sensitivity,
- administrative simplification.

Each will be considered in turn, though all are in fact inter-related. The notion that some ldc's should 'graduate' is implicitly tied up with the idea that they should offer the EEC reciprocal trading advantages or observe commonly accepted labour

standards. Although questions of product coverage should logically be separated from country coverage, in practice they are linked. And changes introduced under the first three heads will have implications for the system of administering the GSP.

Graduation and differentiation (G & D)

General principles

By 'graduation' we mean a process by which individual Idcs progress to a point where they negotiate trade terms on a basis of equality with developed industrial countries: offering (and receiving) reciprocity, surrendering special non-reciprocal preferences and offering preferences in turn to less developed countries. By 'differentiation' we mean a process by which Idcs are offered different degrees of preference or reciprocity according to their level of development. These concepts mean different things in different contexts. Hong Kong, as a dependent territory of the UK, has 'graduated' in the context of the Multilateral Trade Negotiations, since it maintains no trade barriers at all (indeed it has none left to reduce in formal 'offers'), but expects preference under the GSP.

A reasoned case for greater resort to G & D in trade negotiations has recently been made by Isaiah Frank.² The main elements of his argument are:

- a gradual and differential response to developmental needs is part and parcel of an enlightened aid policy. Why should trade operate according to entirely different principles?
- differentiation (but not graduation) involves compromising the principle of non-discrimination in trade. But the GSP already involves discrimination writ large. Why not extend the principle to promote wider development objectives?
- in the absence of graduation there will be 'a permanent two-tier trading system' undermining 'the current efforts to strengthen international trade policies and to foster the kind of open markets in which all countries (especially Idcs) have a stake'.³
- improved access to the markets of middle-income Idcs (and less competition from these countries under the GSP) might be of particular value to the 'least developed'.
- middle-income countries might find that external discipline would be a useful form of pressure to use against domestic pressure groups who are resisting trade liberalisation which is in their own national interest.
- evidence that these countries are 'graduating' might

lessen protectionist pressure from those in industrialised countries who consider ldc competition 'unfair'.

The form of GSP for which the developing countries have campaigned, through UNCTAD primarily, is 'generalised, non-reciprocal and non-discriminatory'. This has meant in practice that ldc's have sought to avoid discrimination as between themselves, while insisting on their right, as a group, to 'special and differential' non-reciprocal trade measures. Although ldc's have, as a group, pressed for special measures for the 'least developed', they have regarded with some concern all other manifestations of 'graduation' and 'differentiation' as representing 'a unilateral and arbitrary manner of discrimination among ldc's'.⁴ Their objections can be broken down into several separate concerns:

- fear that G & D is designed to split the Group of 77 and weaken their negotiating unit;
- a belief that even the more industrialised ldc's are not yet in a position to accept the full rigour of international competition under GATT rules (though some do maintain very open economies and others are moving in that direction);
- a suspicion that G & D is a device, conceived of in bad faith, to support the existing country limitations and exclusions which serve primarily as an additional protective device from preferential imports in general';⁵
- a fear that 'graduation', in particular, could not in practice be achieved without greatly complicating the existing complex arrangements, raising further administrative barriers to trade.

Despite these reservations, the Multilateral Trade Negotiations concede a loosely worded 'graduation clause' which allows preferential treatment to be adapted 'to respond positively to the developmental, financial and trade needs' of the respective countries.⁶ But in return the ldc's have won a strongly implied commitment to consultation rather than unilateral action by donor countries.

To summarise, there is an intellectual case to be made for more explicit attention to mechanisms for graduation and differentiation. Unfortunately the context for such experiment is not auspicious. In particular, there is a strong suspicion amongst ldc's that 'graduation' is likely to be a cover for penalising efficient ldc exporters who are seen as a threat to EEC producers, and 'differentiation' is a cosmetic formula for assisting non-competing ldc's but not other very poor countries. A great deal therefore depends upon what criteria are used and what mechanisms are proposed.

Criteria for G & D

Most European policy makers have their favourite candidates for 'graduation' based on casual observation or prejudice. In the UK, for example, Brazil and Korea have frequently been singled out. The problems arise when attempts have to be made to rationalise the process. 'Self-election' has produced anomalies but any other criterion seems likely to produce more. An attempt has been made by the Dutch Ministry of Development and Co-operation to formalise an index based on a 'balanced combination of three criteria': GNP per capita, as a rough indicator of development; the percentage share of manufacturing in GNP as an indicator of industrialisation; and the export performance by product group of each ldc relative to all ldc exports.⁷ Table 9.1 attempts to summarise the first two of these (the last raises separate issues, covered below, about the appropriate level of product aggregation) together with various other indicators.

Per capita income, as a proxy for the level of development, is the most obvious criterion. As Table 9.1 shows, a fairly modest application—to apply the graduation test that no beneficiary should be 'richer' than the poorest EEC member state—would take out the most prosperous OPEC countries and, marginally, Singapore. A deeper cut to the level of the poorest applicant state would take out Hong Kong, Argentina, Romania and other oil states, namely Venezuela and Iraq. It would quickly be objected, however, that GNP is not a good proxy for levels of development if applied to border-line cases. GNP measures *flows* of income, not the *stock* of assets (private and social), and it is the latter as much as the former which determines living standards. It would require a singular insensitivity to reality to ignore the evident gap (still) between, say, Ireland or Greece and Hong Kong. GNP measures are also flawed by conversion to dollars at the current, official (often arbitrary) exchange rates and by wide international variations in the prices of non-traded goods and services (especially for large closed economies such as India). This latter combination of problems can be allowed for by utilising the work of Kravis and colleagues to assess purchasing power parities.⁸ It can be seen that one effect of correcting for 'real' rather than 'nominal' GNP is to make the poorest ldcs seem relatively 'less poor' (though, of course, the gap between EEC and, for example South Asian incomes is still vast). It also complicates the ordering of countries if a graduation test is to be applied. Singapore, as a small open 'city state' economy, has a much closer degree of assimilation to an international price structure than even Ireland or Greece and falls behind not only them but also Venezuela in 'real' GNP. Brazil, on the other hand, moves up ahead of Iraq and

Table 9.1: Some criteria for judging GSP eligibility

	<i>Per capita income 1977 (\$)</i>	<i>Real GNP ÷ Nominal GNP</i>	<i>Share of manufactures in all exports</i>	<i>Share of manufactures in GNP</i>	<i>Annual growth of exports 1970-77 (volume)</i>	<i>Current account balance, 1977 (\$ bn)</i>
<i>Low-income EEC states</i>						
UK	4420	1.21	82	25	5.8	+0.60
Italy	3440	1.18	84	34	6.8	+2.28
Ireland	2880	1.29	53	na	7.6	-0.26
<i>Applicant members</i>						
Spain	3190	1.23	69	30	10.4	-2.06
Greece	2810	1.31	49	19	13.8	-1.11
Portugal	1890	1.47	68	36	-2.1	-1.40
<i>GSP beneficiaries</i>						
Kuwait	12270	0.91	0	na	-10.9	+5.48
Libya	6680	1.67	0	3	-8.5	+2.91
Saudi Arabia	6040	1.34	1	5	-8.0	+12.80
Singapore	2880	1.15	46	25	9.8	-0.42
Venezuela	2660	1.51	0	na	-10.5	-1.83
Hong Kong	2569	1.30	97	26	6.5	+0.32
Iran	2160	1.47	1	13	-0.2	+5.37
Yugoslavia	1960	na	70	na	5.4	-1.43
Argentina	1730	1.27	25	37	5.5	+1.59
Romania	1580	na	na	na	na	na
Iraq	1550	1.67	0	7	-0.5	+1.21
Uruguay	1430	1.69	34	29	5.5	-0.01
Brazil	1360	2.04	25	na	6.5	-3.79
Mexico	1120	1.57	31	28	1.9	-0.55
Malaysia	930	1.71	16	18	5.2	+0.67
Korea	820	2.24	88	25	30.7	+0.45
Philippines	450	1.92	24	25	5.0	-0.72
Thailand	420	1.98	19	20	12.1	-1.04
India	150	2.80	53	16	6.4	+1.87
Bangladesh	90	2.00	61	7	-7.3	-0.26
<i>Others</i>						
China	390	na	na	na	na	na
Taiwan	1170	na	85	37	16.7	+1.16
Turkey	1110	1.82	24	20	0.8	-3.16

na = not available.

Source: World Bank, *World Development Report*, 1979, and *Economic Journal*, June 1978.

Argentina. The artificiality of exchange rates in Communist countries makes it extremely difficult to apply any kind of test to

Romania. Another complication is that a GNP per capita test is likely to bear hardest on OPEC countries, some of which, while rich, have very unsophisticated economies which are not able to make any use of the GSP. They could, of course, easily finance comparable export subsidies in efforts to diversify their economies but under the recently strengthened GATT rules this would expose them to the threat of countervailing duties.

Largely because of the anomaly of 'rich' raw material exporters being penalised in a per capita income graduation test, it has been suggested that a measure of the degree of industrialisation of the economy, or of exports, be included. The GSP was originally conceived of primarily in terms of helping to promote manufactured exports but its objectives have—sensibly—widened out to embrace agriculture, and the concept of diversification in general. There is no reason to assume that there is in some sense a 'normal' or 'reasonable' level of industrialisation. Controversy abounds in Europe, let alone in Idcs, as to whether countries are 'overindustrialised' or suffering from 'deindustrialisation', and as to whether greater attention should be given to promoting manufacturing, agricultural or services trade. A mechanical application of a numerical coefficient for the share of manufactures in exports would lead to the utterly bizarre result that Bangladesh and India were more 'developed' and less deserving of preferences than the US, Canada or Australia. On the other hand, it is difficult to see how Hong Kong and Singapore could possibly become major raw material and farm product exporters. The share of industrial value-added in GNP is only a little more meaningful; in our list in Table 9.1, Portugal, Argentina and Taiwan are more 'industrialised' than Britain and Italy. These statistical coefficients depend very much on arbitrary definitions of what constitutes 'manufacturing'; Bangladesh gets into the list of major manufacturing exporters because its one major raw material export, jute, is partially processed, while Venezuela's oil products are treated as raw materials. Moreover, price structures can be very misleading; Argentina appears highly industrialised largely because its industry is heavily protected (ie by other sectors of the economy). It is possible, of course, to poke fun at all figures but we suspect that administrators, unfamiliar with the problem, will not have the healthy degree of scepticism necessary for sensible use of these data in particular.

We have also set out two other indicators in Table 9.1 which might be thought to be relevant. One is an index of recent export performance: the 1970–77 real annual growth rate of exports. There is something inherently unsatisfactory about penalising Idc exporters for being successful when the purpose of the GSP is to give them an incentive to improve their performance. But

sustained rapid growth could indicate that the country's export performance has the momentum to need no further support. The only beneficiary which appears to come unequivocally in this category is Korea with over 30% real annual export growth in the 1970-77 period. Interestingly enough the next most impressive performer is a NIC outside the preference scheme (Taiwan), suggesting that supply factors are much more important in determining performance than GSP incentives. Reference is also made to recent current account deficits by country. Those who set considerable store by the notion of a 'balance of payments constraint' (such as the British 'Cambridge school') have argued for a closer integration between trade policy and balance-of-payment adjustment mechanisms and might well regard this as a legitimate linkage for the GSP. Balance-of-payments returns fluctuate, however, markedly from year to year. In this sample the largest non-oil surplus accrues to India which in 1974/5 was sufficiently seriously affected by the oil crisis to be classified as a 'most seriously affected' country and is again (in 1979/80) heading for a major trade, and probably current account, deficit. On the other hand, Brazil in particular, could claim special dispensation on balance-of-payments grounds.

Whatever the problems of using these various indices in isolation, they are minor compared with those of making an overall assessment of country eligibility on a quantitative basis. Any combination of indices would have an implicit weighting. The Dutch Ministry of Development has combined its three indices in such a way as to give each equal weight. There is, however, no *a priori* reason whatever why this should be so. Our own preference would be to give a far higher weight to GNP per capita ('real' rather than 'nominal') than to trade performance or the degree of industrialisation. Whatever weighting is used there is a danger that an entirely arbitrary combination of indices, which are themselves inherently unsatisfactory, will be used to give a gloss of pseudo-scientific precision to what is really little more than guesswork.

The problems described above apply mainly to identifying candidates for graduation. They also apply to differentiating categories of Idcs for special treatment. In practice this presents far less difficulty since there is an accepted and not particularly controversial UN categorisation of countries into *ldcs* ('the least developed') and *msas* ('most seriously affected' by oil price increases). The World Bank has also established a dividing line between 'low' and 'middle' income countries (\$320 per capita in 1977) which serves as a basis for determining eligibility for soft loan financing. Any of these could be justified on developmental and political grounds.

The G & D mechanisms

There is already a certain degree of G & D implicit in the EEC's GSP scheme. This operates through a) *butoirs* and special *butoirs*; b) extension of duty-free access to the Idcs; c) exclusion of some countries from some product areas, such as Hong Kong from leather shoes and textiles (until 1980); d) special attention to agricultural items of interest to poorer countries. An extension of G & D could take the following forms:

- total exclusion of some 'graduating' countries from the GSP,
- application of a product-level formula for ensuring greater G & D.

Let us consider each of these in turn.

Exclusion. Cutting out 'graduating' economies from the GSP is the neatest solution and will undoubtedly find favour amongst some politicians in the EEC. Unfortunately for simplicity, this is unlikely to be acceptable in practice. First, we have already explained the considerable difficulties involved in constructing a set of criteria for graduation which is reliable and would attract general consensus amongst member states and exporting countries. Second, any formal exclusion would be politically charged. It is highly unlikely that the EEC would be willing to incur, gratuitously, the annoyance of the more friendly OPEC oil states (while leaving Iraq in the scheme). The position of Yugoslavia in the past, Romania, and now China has been governed by overriding geopolitical considerations. Singapore, the most obvious candidate for graduation from the Far East, is in most respects a model commercial and political partner for the EEC, and is a constituent member of ASEAN with which the EEC is trying to build closer links. It would take considerable umbrage at being singled out, while its main competitors such as Korea were left in. But on per capita income terms, Korea is not in the top league of Idcs and to drop the per capita income to a level which would take in Korea would involve eliminating almost all the main beneficiaries and a good many others. Third, any graduation going beyond the minimal (ie OPEC oil-rich countries, possibly plus Singapore) would substantially reduce the overall value of the GSP. As can be seen from Table 9.2, even the most generous of the likely differentiation schemes—giving unrestricted tariff access to all low-income countries—would affect a little more than 400m ua of trade (1977 trade values), while options (2) or (3) in the graduation exercise would exclude GSP trade of around 1500m ua. Any such exercise would be interpreted by Idcs as negative in its overall intention and effect.

Table 9.2: Various options for reform and value of trade affected

	(1) Exclude Idcs with per capita income > lowest EEC member	(2) Exclude Idcs with per capita income > \$1500 in 1977	(3) Exclude Idcs with per capita income > \$500 and with manufactured exports > 25% of total
	United Arab Emirates S. Arabia Libya Kuwait Singapore*	as in (1) <i>plus</i> Venezuela* Hong Kong* Iran Yugoslavia* Argentina* Romania* Iraq	Singapore* Hong Kong* Yugoslavia* Argentina* Uruguay Brazil* Mexico* Romania*
Value of EEC trade affected (1977; m ua)			
(i) all	123.9	1340.0	1714.1
(ii) sensitive, hybrid, semi-sensitive	59.0	833.0	900.3
(iii) sensitive only	24.8	122.5	303.0
	(4) (5) (6) Complete tariff-free access for Idcs	Complete tariff-free access for Idcs with per capita income < \$320	Complete tariff-free access for 'most seriously affected' Idcs
	Afghanistan Bangladesh Bhutan Haiti Nepal Maldives N & S Yemen	As (1) <i>plus</i> Indonesia* India* Pakistan* Sri Lanka Burma Laos Vietnam	As in (2) <i>plus</i> El Salvador Guatemala Honduras <i>less</i> Indonesia* Bhutan Maldives Vietnam
(i) all	Negligible	558.4	437.8
(ii) sensitive, hybrid, semi-sensitive	—	400.5	346.1
(iii) sensitive only	—	117.9	116.9

* only asterisked countries counted

However, we are conscious of the need not to run away from the issue of graduation, which may become highly embarrassing in the 1980s if some beneficiaries continue to grow at recent rates, relative to the weaker members of the EEC. The situation could be handled by means of a general graduation clause in the new GSP to the effect that if the international community generally accepts that a GSP beneficiary can no longer be regarded as a developing country, after due notice GSP will no longer be applied. Thus, if Singapore or Brazil were invited to join OECD and accepted the privilege and obligations of the organisation, or if the IBRD/IMF group determined that one or other country should no longer be considered eligible for terms different from industrialised countries, then the graduation clause could (but not necessarily would) be invoked. It is important that the whole graduation procedure should be handled with care, however, after adequate consultation with the affected country and other donors.

'Graduation' at a product level. Another approach, extending the concept of *butoirs*, would be to apply a graduation formula at the level of particular products. In its most extreme form this would involve designating which countries are eligible for preferences for particular products (in effect making the special *butoirs* equal to zero for some Idcs). Product level restrictions imply that a test of competitiveness, for that product, by part of the graduation criteria. We have already made clear our dislike of bureaucratic measures which penalise exporters for being successful (and, even more, penalise them because they have been successful with the product in the EEC, or in a particular EEC country). The only justification for such intervention could be that less developed Idcs were being squeezed from under ceilings, a phenomenon of which we have little evidence. We would be strongly opposed to extending, in the name of 'graduation', the *butoir* mechanism into what is currently the mercifully free and unrestricted area of non-sensitive (and, for the most part, semi-sensitive) trade. This is implied by the Dutch proposals, which are no doubt intended in a helpful and positive spirit but could open the way to a vastly bureaucratic and cumbersome GSP.

If it were felt necessary to go beyond the present mechanisms we feel that the most sensible approach would be the pragmatic one already employed in the case of Hong Kong. Hong Kong is excluded from the GSP for leather footwear, and until recently clothing and textiles. A group of the most advanced Idcs, perhaps the group identified in column (3) of Table 9.2 could simply be excluded from the most sensitive items in the main groups of products in which less developed Idcs are likely to find their main

future comparative advantage (footwear and leather goods; garments and textiles). In fact this broadly corresponds to the present sensitive categories as a whole. The 'graduating' group would be free, however, to take advantage of other GSP benefits—in the non-sensitive, semi-sensitive, and hybrid areas. We acknowledge that such an approach is very crude and somewhat arbitrary. But it has certain advantages over the others which have been considered. First, it is a good deal less damaging to the 'graduating' countries than outright exclusion, and therefore the rather arbitrary classification of the countries is likely to be far less controversial. Second, it is simple and involved no new complex mechanism for administering the scheme. We would also strongly urge that if the kind of adjustment which is suggested could be enacted, it would no longer necessitate retaining the present complex sensitive system—designed almost entirely with a view to catching exports from the designated countries—and the products could revert to non-sensitive or hybrid status with considerable administrative saving. Finally it would permit a good, across-the-board, offer to be made to a differentiated group of poorer countries. We estimated, very roughly, that approximately 300m u.a. of GSP trade would be affected by removing the nine specified countries from the sensitive categories (see column 3). This is roughly the same amount of GSP trade as would be affected by extending complete tariff-free access (in currently semi-sensitive or sensitive categories) to all very poor countries (less than \$320 per capita) or all 'msas' (columns 5 and 6). This balancing out would help to make a genuine and positive form of differentiation more acceptable to protectionists within the Community.

Conditionality

We shall give rather scant attention to questions of conditions since they do not seem to us appropriate to what was originally conceived of as an entirely autonomous scheme. Ldcs do not bargain for GSP concessions. The EEC's GSP is not, like the Lomé Convention, a signed agreement entailing rights and obligations on both sides. It is plausible (and probably correct) that Ldcs could have achieved more in terms of market access generally if they had chosen to bargain positively either multilaterally in the context of the Tokyo Round or, possibly, bilaterally. But that has not happened and the GSP has emerged instead, based on different assumptions from those in a negotiated agreement. It is, in theory at least, designed to be a non-reciprocal offer of generalised preferences, i.e. the degree of preference is not a function of reciprocal concessions by individual Ldcs. We suspect that

demands for the GSP to include 'greater tariff reciprocity', in particular, are based on a misunderstanding of what the GSP is about. Other demands for greater conditionality—such as a linking to ILO standards—would be technically easier to achieve, but would also strike at the 'generalised' nature of the scheme. However, since there is political pressure in the EEC for these conditions in particular to be attached to the GSP we do give them more extended treatment.

Tariff reciprocity

The concern about lack of tariff reciprocity in dealings with Idcs has been voiced particularly strongly in Britain by the employers' federation, the CBI, and the shoe and textile industries. It has surfaced in evidence given to the House of Commons Select Committee on Overseas Development⁹ and in preliminary papers submitted to the European Economic and Social Committee study group on the GSP. The complaint, essentially, is that it is 'unfair' to, say, the European footwear industry to offer liberal access to footwear from Korea and Brazil which themselves maintain high tariffs on imported shoes. In part this is the graduation argument in a different guise and we have already suggested how graduation should be dealt with. But there is the additional twist that the more protectionist NICs should be dealt with more harshly in judging criteria for graduation than those which are more open. The corollary is that the EEC should be more liberal to those liberal Idcs such as Hong Kong and Singapore; it is far from clear, however, that this is actually what the EEC textile and footwear industries have in mind.

Quite apart from the basic point that tariff bargaining has no part in the GSP, there are several other arguments for trying to separate the issues, both fundamental and practical. First, the main damage done by protectionist policies in Idcs, as in the EEC, is to the protectionist countries themselves. This particular penny dropped some time ago in most of the NICs, including Korea and Brazil, which are overhauling their import régimes to make them more liberal; Korea is phasing out its clothing and textile industry as part of a more systematic process of adjustment. Second, while the disparity in protective levels may be very irritating for European producers it is far from being a measure of the overall distribution of gains from trade between the EEC and these countries. The EEC runs an overall, visible and invisible, trade surplus (and a larger one in manufactures) with Brazil, for example, and it could certainly be argued that European producers as a whole benefit considerably as a result of measures which increase the willingness of Brazil to trade with the EEC. Third,

there would be insuperable practical problems in grafting a 'reciprocity' provision on to the GSP. Suppose Korea (and Brazil) were to respond positively to complaints by offering, say, a 50% cut in their footwear tariff. Would this then entitle them to a bigger *butoir* in the GSP, or lower GSP tariffs, or both? The sensible EEC response might be corresponding reductions in the bound mfn tariff, if the offer were a meaningful one. Would Idcs be offered different GSP conditions depending on the degree of reciprocity accorded for each product? How would quantity restrictions in Idcs be taken into account? Would Idcs (like India) be given marks for trying as well as for achieving high levels of liberalisation? If so, how much weight would be given to each? The problems of incorporating 'reciprocity' into the day-to-day operations of the GSP are mind-boggling and we suspect that those who have pressed for changes along these lines have not seriously considered what is involved. Perhaps the industry lobbies are merely registering a general grievance and this is as good a debating point as any other. But Idcs might well be advised to note that their insistence on complete non-reciprocity in trade dealings is creating political difficulty for those in the EEC who are trying to ensure that they do receive better access.

'Social clause' and labour standards

A rather more substantial issue is that presented by the demand for a 'social clause' in the GSP, tying eligibility for GSP benefits to observance of ILO labour standards. The fact that no headway was made in the Lomé Convention does not mean the subject will not be raised again. The demand for a social clause to combat 'unfair labour practices' has not only been made by the International Confederation of Free Trades Unions (ICFTU), its constituent European affiliates, and the European Trade Union Confederation, but has also been taken up by influential figures in Europe.

It is perhaps fair to start by saying that the present formulation of the demand for a social clause, at least by the ICFTU, is more enlightened and sympathetic than Idcs might initially suspect. The argument has moved some way beyond a crude resistance to third world 'cheap labour' and 'social dumping' and is set in the context of alternatives to, rather than the rationale for, protectionism. Moreover, it would be churlish to try to deny that human rights, both in the broadest sense and in the narrower sense of workers' rights, should be seen as an integral part of 'development' which the GSP is designed to promote. There are, however, strong objections to including within the GSP a provision for sanctions—withdrawal of preferences—against errant

governments. The first is that it would be manifestly unfair to insist that Idcs should ratify and observe a series of ILO conventions in return for trade access, since their ability to observe the conventions is generally dependent on the level of economic development, and penalising trade is likely to obstruct this development. It is no coincidence that the Far Eastern NICs often criticised for their level of workers' standards (Korea, Hong Kong, Singapore) have in recent years made striking advances in real wages and conditions, albeit from a low level, as a result of their export expansion.

Second, even in countries where labour conditions are generally bad, it is far from obvious that penalising manufactured exports is a relevant recourse; 'the worst offences are usually found in plantations and mines, construction industries and small service firms working entirely for the domestic market . . . action directed against conditions in manufactured export industries would therefore be a very inefficient way of dealing with inequitable treatment of workers'.¹⁰ Moreover it might create considerable distortions in the wage structure of low wage countries by creating an artificially high wage in the manufactured export sector for the purpose of satisfying external standards.

Third, there is a genuine problem in deciding which are the relevant ILO conventions for the application of standards. Some of these conventions were designed with developed industrial countries in mind. It is questionable whether trade union recognition and organisation (conventions 87 and 98)—the most important for Western unionists—are always relevant. Seers and Streeten, for example, have argued that trade unions in Idcs 'often have considerable political power (in the small industrial sector) . . . and by creating and perpetuating . . . privilege they impede the movement of labour from low to high productivity employment . . . the repercussions on the rest of the economy can be disastrous'.¹¹ Of the 19 conventions which are of particular relevance to working conditions, only 6 have been ratified by all EEC member states which greatly reduces the scope for applying any of the others.

Fourth, even if a list of 'relevant' and generally ratified standards could be agreed, it is extremely difficult to see how, without the co-operation of the offending state, any effective monitoring and enforcement of standards could take place. The Soviet Union and other Communist countries, for example, have solemnly ratified most of the Conventions including those relating to free trade unions and would no doubt vigorously deny that their trade unions are in any way constrained. On the other hand, the most publicised abuses of workers' rights have occurred in Idcs, such as Hong Kong, which is among the few to keep and publicise

honest but awkward statistics on child employment and industrial injuries.

Were the demands of the European unions clearly disinterested, then some way could be found of attaching them to the GSP, even if the practical difficulties were great. Unfortunately the Idcs may well suspect that the demands are not made in wholly good faith but as a form of disguised protectionism.

Most of the ILO conventions and standards themselves had their origin in the 1930s and were (Seers and Streeten) 'at least partly inspired by the desire of advanced industrial countries to check industrialisation in the (then) less advanced countries ... (The ILO's) role was parallel to that of the craft unions which attempted to assert differentials for skills and to fight the erosion of their privileged position that resulted from growing competition'. Even in the more sophisticated contemporary presentation of the 'social dumping' arguments there is still considerable reservation about the notion that Idcs should compete in international trade on the basis of their comparative advantage, which for the poorer and more prosperous Asian countries is likely to be based for a very long time on abundant low wage labour; eg (the British TUC) 'an additional argument in favour of a close linking of trade and aid measures to social progress contains the underlying cause of "disruption" in trading patterns ... As the economies of Idcs develop it might also be expected that the gap in labour costs would narrow, thus reducing the threat of disruption'.¹² The implication that their manufacturing exports are 'disruptive' or more 'disruptive' than other forms of trade is unlikely, for good reason, to be acceptable to developing countries. Our judgment therefore is that a 'social clause' in the GSP will not only be extremely difficult to implement but would almost certainly be interpreted by Idcs, in the present climate of trade policy, as being 'protectionism with a human rights face'.

While we reject the idea of a GSP 'social clause', important issues have been raised by the controversy which should be pursued, but in a different context. The most promising seem to be:

- (i) A much more active role for ILO in monitoring and supervising the most basic of labour standards but in a way which is not restricted to export or manufacturing industries. The question of which are the most 'relevant' criteria begs, as we have explained, important questions but some labour standards could have near universal application, in particular those relating to the health and safety of workers, to child labour in non-family enterprises, and to racial and religious discrimination. Even these would present great difficulties of

monitoring and interpretation, which is all the more reason for proceeding by consensus and gradually, rather than by rushing headlong into trade sanctions.

- (ii) For the EEC, probably through its Employment and Social Affairs or Development directorates, to fund the training and running costs of organisations in developing countries trying to improve workers' standards: embryonic workers' organisations, labour inspectorates, and research bodies trying to establish a data base. It would have to be accepted, though, that this might be strenuously resisted in the countries which are the worst offenders and the Community would have to be prepared to face the controversial implications of supporting opposition and possibly illegal organisations in other countries. It would also be legitimate to ask European unions who are so concerned to make a matching financial contribution.
- (iii) It is possible that in some instances the abuse of workers' rights could become so gross (slavery in Equatorial Guinea, 'apartheid' in South Africa, the committal of Soviet mineworkers' leaders to mental institutions) that more is required than moral indignation. Economic sanctions of some kind could be a last resort measure. But this would be a high level political decision by the Council of Ministers and does not require the imposition of a 'social clause' in the GSP.

Product classification

We have, in earlier chapters, endeavoured to summarise the kind of change which we envisage as being necessary to adapt the scheme to the 1980s. In this chapter we have made further recommendations regarding the problem of 'graduation and differentiation' and it is appropriate therefore to bring this together with the discussion of products. Our main hope is that it will be possible to liberalise the GSP system substantially and to remove most of the present *a priori* restrictions which mean that there is virtually no incentive to additional trade for many products, which penalise efficient export performance, which distort Ldc trade away from products in which they have a comparative advantage, and create a great deal of unnecessary bureaucratic complication in the exchange of goods. We realise however that there are strong political forces in Europe (and in competing Ldcs with more preferred status) working in the other direction and that across-the-board liberalisation is likely to be unacceptable, however modest its effect would be and despite the net welfare gain likely to accrue in the EEC.

The major priority for reform should be the *sensitive* products list. The Community deserves credit for having tried to reduce the list substantially in the mid-1970s and the current revision should be an opportunity to complete the exercise. The major general features of the present sensitive list of products which need to be addressed are:

- the items on which tariff quotas are so small as to produce a 'rushing in' of imports in the early weeks (or days) of the year. We have found no evidence that this annual lottery does anything to stimulate ldc trade as a whole. Though it may produce extra profits for particular importers or (less likely) exporters, this is not in a way which will persuade them to realign their trade on a permanent basis.
- the system of member state shares is not only restrictive for the exporters (alleviated only marginally by Community reserves), it also undermines the whole concept of free flows of goods within the Community itself. The Treaty of Rome is being compromised in one of its most essential respects for what is, by contrast, a trivial objective. We have also tried to show that the so-called 'problem of unequal burdens' between member states is considerably less serious than generally imagined—especially in Britain—and is being corrected by market forces which have, in recent years, directed the greatest growth of ldc manufactured exports to countries which were previously low absorbers in the Community (notably France and Italy).
- there is needless duplication of machinery for administering tariff quotas and quantitative restrictions particularly in the textiles field, although this has been partly reduced by the alignment of product categories in the 1980 GSP (as discussed in chapter 5). We have been struck by the sharp contrast between the great emotion expended on the subject of textile tariff quotas and the complete lack of any relationship between these tariff quotas and trade flows. Clearly, if there is a fixed quantitative ceiling for imports (under the MFA) then tariff manipulation cannot increase the volume of trade beyond this level. GSP 'concessions' on textile tariffs are, for flows already regulated by quotas, largely meaningless in any other than a revenue sense.
- the product coverage of sensitive products is arbitrary. The validity of the claim of some product groups for special protection, for example Belgian mock 'oriental' carpets, seems dubious. What is more important is that there is no machinery for determining in a systematic way why certain products are classified as 'sensitive' and how long

this situation should remain.

Our recommendations for improving the situation are as follows:

- (i) Ideally, the remaining sensitive products should now be transferred to the hybrid (or semi-sensitive) list. By reclassifying the products as 'hybrid' the member state share system would automatically disappear.
- (ii) We appreciate that this may be politically difficult, but we would judge that the political problem is very much bound up with the question of 'supercompetitive' suppliers. If our 'second-best' solution to the graduation problem is accepted—that relatively high-income countries, advanced in manufacturing exports, cede their right to duty-free access to the main sensitive product areas—there should be no further need to continue with member state shares and highly restrictive ceilings for the remaining countries. ('Most seriously affected' and low income countries would be exempted altogether from sensitive and any other ceilings.)
- (iii) We see no reason why products admitted under QRs—mainly textiles—should not be admitted duty-free up to the limit of the individual country quota. EEC consumers and LDC exporters would benefit from the duty reduction but trade flows would not be affected. Textile items falling outside quota control could then be dealt with in the normal way through hybrid or semi-sensitive ceilings or as non-sensitive products. This kind of reform has been achieved for jute and we see no reason why it cannot be extended to textiles generally. Since the GSP is autonomous, duties could be reimposed if quotas were lifted; the EEC textile industry has no reason for arguing that its interests would be threatened.
- (iv) If the above proved unacceptable two other possible mechanisms for dealing with sensitive products could be considered though we are not enthusiastic about either. Both are aimed at increasing the degree of certainty for exporters and importers. One is to offer, as with agriculture, reduced but not zero tariffs to GSP suppliers (though if agriculture is any guide there would be pressure to superimpose, as with tobacco, tariff quotas even on tariffs partially reduced). Another, is to develop the principle of the new GSP scheme for textiles, to offer guaranteed specified tariff quotas to specific LDC exporters. Such an arrangement could offer a genuine incentive to new and small suppliers provided their quota was greater than what they would otherwise have supplied. But it would have the

effect of helping to freeze trade patterns by also guaranteeing a minimum tariff quota to existing but increasingly inefficient suppliers. How the quotas would be distributed raises enormous political and administrative problems which seem to us to outweigh the advantage of a little more certainty.

- (v) We should like an independent EEC-level body to be established in order to make recommendations for the treatment of individual products. The scope of such a body—which would be modelled on the Australian IAC (Industrial Assistance Commission, formerly Tariff Board)—would be much wider than the GSP and take in all aspects of trade policy, and possibly industrial assistance. Its role would be to make enquiries and to report—in published documents—to the Council of Ministers, making recommendations both on general trade policy measures and on particular cases. Protected or potentially protected industries, under the GSP or otherwise, would be asked to produce evidence of material injury and of any other justification for special treatment. Consideration would be given to the time period, as well as to the degree of protection being offered and to the need for parallel adjustment mechanisms. Membership of any body of this kind would have to be independent of vested interests and member state governments but sufficiently expert to consider—with the help of permanent staff—detailed investigations of particular cases.

We have relatively little to recommend about *hybrid*, *semi-sensitive*, *non-sensitive* and *agricultural* items since these create far fewer problems for importers or exporters than items on the sensitive list. The *hybrid* system would presumably become more important if sensitive products were to be liberalised. Our assessment of the hybrid scheme is that while it is a considerable improvement on sensitive treatment it does not achieve its objective of redistributing GSP benefits from major suppliers; rather it sterilises the tariff ceiling for these suppliers while doing little to help other exporters. It would help if normal *butoirs* and tariff ceilings could be increased in the same way as for non-sensitive items and if full details could be published. Publications of ceilings and *butoirs* would also be an advance for *semi-sensitive* products which are, in general, treated liberally but which are affected adversely by uncertainty. As with any remaining sensitive items, it would be desirable if those industries benefitting from tariff protection, even of this residual kind, could be made to justify the treatment. The independent trade commission which we envisage would be relevant here.

For *agricultural* items, the main issue is how far coverage can be extended to cover products which still face tariff barriers: eg vegetable oils, marine products, spices. This has been dealt with in chapter 7. We support the general approach of offering partial tariff cuts rather than ceilings and hope that the remaining tariff quotas can be speedily discontinued. We also support the basic principle that agricultural tariff benefits should be directed as much as possible to the poorer Idcs but note that in some areas the GSP treatment is still highly unsatisfactory; Indian tobacco, for example, suffers not only from tariff quotas but, as from 1979, from the greater protective effect of specific duties on VFC tobacco of low unit value.

Administrative reforms

One major criticism of the existing GSP arrangements is that they are so complex as to create a significant administrative non-tariff barrier to trade. Moreover, every attempt to reform the GSP mechanism appears to be governed by a kind of Law of Increasing Complexity. There are now (at least) six entirely different sets of rules and principles under the EEC's GSP; for textiles, other sensitive, hybrid, semi-sensitive, non-sensitive and agricultural products. There also appears to be an inexorable tendency for a 'three-tier' system to emerge with different types of treatment for the more advanced Idcs, the poorest, and the rest. Our contribution has been to suggest how the top tier be dealt with in a way which actually simplifies the system, and to argue that the bottom tier should be as large as possible. But we would also emphasise the considerable disservice which is being done to Idcs and trade in general by proliferating bureaucratic devices to allocate tariff preferences of modest worth.

There are two main practical ways in which utilisation of the GSP could be improved within the broad framework which we have sketched. The first is that the Community should honour its long-standing undertaking, never fulfilled, to re-establish an information and advice centre for GSP users. The problem has so far been a political one—at the level of the European Parliament—but the launching of a new period of the GSP would be an opportunity for the Commission to retake the initiative. The second is that practical measures could be taken to help increase the degree of utilisation of the GSP by improving the terms of the 'rules of origin' which are somewhat less generous than to Lomé countries. We appreciate the anxiety that the GSP would be used to import, say, Japanese or US goods which have enjoyed 'final touch' assembly in an Idc. There is no reason, however, why EEC content should not be permitted to count under the GSP and we urge that this small change be made.

General conclusions

We have been conscious in this study of the danger of losing sight of the wood in the trees; of ignoring the wider issues of access and trade policy in the detailed modalities of the GSP. In conclusion we should like to return to the wider issues.

We have come to the conclusion that the GSP is of some, modest, use to ldc exporters but it is of minor importance in relation to other factors governing trade performance—for several reasons. First tariffs—especially after the Tokyo Round—are generally low, presenting relatively little by way of an access problem and giving little scope for preferential trade diversion. But there are important exceptions where tariffs still remain high even under the GSP and other cases, mainly agricultural, where effective rates are high even if nominal rates are not. Since these are mainly products which are largely of interest to ldc and not developed country exporters it would be just as desirable to attack the tariff through mfn cuts as through the GSP. Second, there has been a tendency to replace tariff restrictions by non-tariff barriers. This is no help to ldc's at all. A great deal of time and negotiating energy is currently being wasted in discussion of tariffs under the GSP on some developing country exports, notably textiles. It makes no sense to discuss tariffs in isolation from these other barriers. Third, the main factors determining ldc export performance are those internal to the countries themselves. Developing countries which have adopted exchange-rate and other policies to maximise the growth of manufacturing exports have generally flourished whether they benefit from tariff preferences or not. But the GSP *does* perform a useful function in contributing to the general climate of confidence, encouraging particularly the late developers to move away from inward-looking economic policies. We hope, however, that the period of reconsideration of the GSP will be one in which the message can be communicated to ldc's and to import-competing industries in the EEC that both the potential benefits (to exporters) and the potential threat (to import-competing industries) are modest and do not merit the strong emotion which has been generated in the past.

Finally, thought has to be given to the eventual need to return to normality, when mfn rules will apply and ldc's will be expected to observe, and benefit from, generalised non-discriminatory 'rules of the game'. Since the EEC is first in line to reconsider the GSP for the 1980s it carries a particularly heavy responsibility for ensuring that it does not contribute to protectionist forces and, moreover, that it does make some contribution to forming a common approach—to questions such as graduation—with

other countries. We hope the EEC will resist the temptation to go it alone at the expense of consultation with other donors, and recipients, on how to deal with what is now a modest, residual tariff problem.

1. As claimed in UNCTAD TD/232 (Review and Evaluation of the GSP) January 1979, para. 78.
2. I. Frank, *World Bank Staff Working Paper No. 334*, June 1979.
3. *Ibid.*, p. 2.
4. Declaration of Group of 77 on the MTNs at UNCTAD V, Part II, No. 5.
5. UNCTAD TD/232, para. 83.
6. GATT, *Framework results*; topic paragraph 3c.
7. Dutch Development Co-operation Information Department, *Development Co-operation and the World Economy*, 1979, pp. 40-42 (and working papers).
8. I. B. Kravis, A. Heston and R. Summers, *International Comparisons of Real Product and Purchasing Power*, Johns Hopkins University Press, 1978.
9. First Report of the Select Committee on Overseas Development, *Trade and Aid*, Vol. II (CBI Evidence), HMSO, 1977.
10. G. Edgren, 'Fair Labour Standards and Trade Liberalisation', *ILO Review*, Vol. 118, No. 5, September-October 1979.
11. P. Streeten, *The Frontiers of Development Studies*, Macmillan, London, 1972, chapter 9.
12. TUC, *Annual Report*, 1979.

Appendix: Report on interviews with importers of sensitive products

Textiles and clothing

All the importers interviewed began by criticising the quantity restrictions (QRs) under the Multifibre Arrangement (MFA) which affect all sensitive textile imports except carpets. QRs, and not tariffs, are the effective constraint on their purchases from Idcs. Tariff reductions under the GSP merely provide a modest wind-fall profit.

QRs increase the price of textile imports directly and indirectly. At the exporting end, prices have risen with the trading in export licences. For example in Hong Kong in 1979 a licence for a dozen blouses cost HK\$24. Some governments have imposed minimum export prices: in India in January 1979 the price of T-shirts was reported to have been raised by 50%. At the importing end, permission to import has to be cleared by the relevant ministry, and in some Member States this can take many weeks. Certificates of origin are carefully examined, and classification may be questioned. For instance items classified as ladies' suits may be refused entry on the grounds that they are really skirts and shirts, for which the QRs are exhausted. These costly delays make it difficult for importers to apply for GSP treatment. More important, they make nonsense of the GSP. Importers do not understand why some EEC import regulations are intended to discourage imports while others encourage them.

Even without QRs however, importers would not attach much importance to the GSP. Price is only one factor affecting their purchasing decisions. The reliability of the exporter in producing goods of a consistent quality and in keeping to delivery dates, are often more important. Many importers feel the GSP is unable to compensate for their frequent experiences of goods delivered late and of a lower volume and quality than specified in their contract. As a result of these problems some importers prefer to deal only with large exporters, or even with export agents who tend to be subsidiaries of multinational trading companies (for example Dodwells, a subsidiary of Inchcape; Samy, a Japanese firm; and Kause Libermann, a Swiss company).

Because GSP treatment is not central to textile import prices and because price is not central to importers' decisions, many large importers do not bother to race their textile goods in at the beginning of the year. But as mfn tariffs on textiles are fairly high they always apply for GSP treatment. If there were no GSP, however, it would not affect their trade.

The fact that one or two items, such as bed-linen, have particularly high tariffs, is said to have benefitted smaller importers, who can raise their profit rates substantially if they arrange for a shipment to be delivered in December. Non-textile importers and even non-importers are said to have been encouraged by the GSP to trade in these items, and are called 'footloose' or 'sleeping-room' importers. This trend would seem to be exaggerated, in the light of the uncertainty of the GSP and also of the QRs on textile trade.

Textile importers made various proposals for reforming the GSP as it affects them. Two extreme alternatives were either total abolition of duties, or total abolition of the GSP, both on the grounds that QRs effectively control the volume of trade and tariffs are irrelevant. Another suggestion was that an export tax (equal to the mfn tariff), together with duty-free trade, would ensure that the tariff revenue foregone remained in the hands of the exporter. The most realistic proposal was for a less than total, say 25%, mfn tariff reduction lasting the whole year.

Carpets

The treatment of carpets under the GSP merits separate comment for several reasons. Carpets are one of the few sensitive textile imports which do not face a QR. They are also one of the largest GSP imports (at the two digit CCCN level) coming fifth with 5% of GSP imports in 1975.¹ They are an important source of employment, especially in rural areas, for some of the poorest Idcs (half a million in Pakistan, 150,000 in Afghanistan and 100,000 in India).

In the context of the GSP, the EEC has tried to be as generous as possible by differentiating between carpets which are likely to be competitive with EEC carpet production and others which are not. Thus only woollen carpets with less than 500 rows of knots per metre of warp are classified as sensitive and face a TQ of 2704 tonnes, above which mfn duties of 24% with a maximum of 4ua/m² are payable. All other woollen carpets are semi-sensitive, while all non-woollen ones are non-sensitive, and the mfn tariff is rarely imposed on either category.

Nevertheless this system is felt to have major drawbacks, both by EEC importers and by Idc exporters of carpets. These are the

result of the GSP being devised with little, if any, consultation with traders. The most criticised aspect is the distinction between carpets on the basis of the number of knots. This, it is argued, is both arbitrary and unnecessary. It is arbitrary because the number of knots does not reflect the quality of a carpet. For instance, Pakistani carpets are of a fine weave (ie have many knots per metre of warp) yet they are cheap. Carpet traders never use the number of knots as a criterion for determining the value of a carpet. Many other factors are taken into account such as the quality of the wool, the design, the colour. Moreover the number of knots varies within a carpet and this can lead to disputes with customs over whether or not a carpet falls into the sensitive category. The final straw for importers is that, although the GSP only distinguishes between two categories of woollen carpets, when they are cleared through customs they must be separated into three categories: less than 350, 350-500, and more than 500 knots per metre of warp, and their weight must be given. This additional administrative work is time-consuming and costly.

The distinction between cheap carpets and others, even if it worked, is argued to be unnecessary as there is no substitution between cheap hand-made and machine-made carpets. Production of machine-made carpets in the EEC is largest in the UK, followed by Germany, Belgium-Luxembourg and the Netherlands. It is only the Belgian industry, which makes copies of Oriental carpets, that feels threatened by imports of genuine ones. Yet, according to importers, the high quality machine-made carpets of Oriental design are a lot cheaper than the low quality hand-made imports, and so tariff protection is unnecessary. This is the reverse of the situation with other textile products, where the problem is that labour-intensive (if not actually hand-made) ldc imports are a lot cheaper than machine-made EEC output.

The second criticism is that the TQ only covers a small and decreasing proportion of total EEC imports (23.4% in 1978) which means that the GSP can have little, if any, stimulating effect on carpet imports. Even if there were no TQ, however, there is some debate as to how far the GSP would stimulate trade. First, Idcs are already major suppliers of this type of carpet. Duty-free treatment only gives Idcs an advantage over minor suppliers including Romania, Russia and (until 1980) China, while it puts them on equal terms with Tunisia. As hand-made carpets are no more substitutable with each other than they are with machine-made ones, it is unlikely that duty-free treatment would divert trade from these less preferred countries to GSP beneficiaries. Second, other factors are already constraining carpet supplies. For

example, many carpet importers on purchasing missions do not visit India as India cannot offer them a sufficient variety and quantity of carpets; importers may buy 6 or 7 lots of 500 carpets at a time. Production in India is limited by wool shortages. In recent years some Indian weavers have begun to blend synthetic fibres with wool, but importers do not like this. In general it is a sellers' market; exporters could raise their prices and still increase their sales. Third, demand for carpets in the EEC is increasing because of growth of income and changes in fashion rather than because of changes in price. The effect of duty reductions under the GSP on retail prices is marginal. The average tariff preference margin on carpets falling within the TQ is nearer 5% than 24%, as there is a maximum specific duty.² In contrast, the VAT duty ranges from 15% to 35%.

The third criticism coming from non-UK importers is that the TQ is unfairly divided between the nine member states. The division follows the shares applied to textiles, but the UK's net imports are a lot smaller than those of Germany, or the Netherlands. Thus, Germany exhausts its share by midday in January 2nd and the Netherlands by January 3rd, but in the UK it is not even exhausted by the end of the year. It seems that this has encouraged some diversion of trade within the EEC. The UK carpet trade has always had a large component of re-exports but this had increased in recent years as UK importers can offer carpets at prices marginally below other EEC importers. Although there are added freight costs these are outweighed by the GSP tariff margin.

To sum up it seems that the GSP has had little positive effect on sensitive carpet imports. It has merely redistributed some of the import business away from the Germans and the Dutch to the British importers. Importers would like fundamental changes in the system. First, the artificial distinction between carpets on the basis of knots should be abandoned. All handmade carpets should be treated alike. If necessary, to protect the EEC machine-made carpet sector, a separate tariff heading could be reserved for machine-made carpets. Second, there should be no TQ (and certainly not one expressed in tons). Instead carpets should bear either a flat rate tax per carpet, or a fixed, less than 100%, duty reduction lasting throughout the year, or, ideally, they should be made entirely duty-free.

Leather and leather goods (and their non-leather substitutes)

These products form the largest group of non-textile sensitive products. With the exception of plastic travel goods, they enjoy

only very limited coverage under the GSP (less than 20%), while tariffs are quite high (8–20%) and, in the case of footwear, the *butoirs* are particularly low. Despite this, imports from Idcs have been rising. This trend is due to the increasing differential in costs of production between developed and developing countries as well as to an improvement in quality, expansion of supplies, and other factors.

Because the TQs cover such a small proportion of imports and because this proportion falls every year, thereby increasing uncertainty as to when the mfn duty will be reimposed, the GSP margin is rarely passed on. Most importers view the system as a joke. For some products, such as tanned leather and leather shoes, where member state shares last for a longer period, the GSP margin, if received, is sometimes passed on. But in the case of tanned leather this is unlikely to affect consumer prices of the final product as the manufacturer will have already fixed them well in advance.

Tariffs are not relevant to the demand for tanned leather. There is a world shortage of leather currently and prices are rising. This shortage is made worse for the EEC by Idcs preferring to export leather goods (rather than raw skins or semi-tanned leather). It has also been suggested that Idcs will be unwilling to export skins to the EEC as long as the EEC is not prepared to buy Idcs' meat. There may be scope here for a trade-off between improved access for Idc exports of manufactured leather goods (and meat) and guaranteed supplies for the EEC of semi-tanned leather.

Tariffs seem to be more important for leather goods than tanned leather, and importers feel improved GSP treatment would increase their purchases from Idcs. Three points bear this out. First, imports of leather shoes from Hong Kong have fallen as they do not benefit from the GSP.³ Second, shoe imports from Portugal, which benefit from a complete 'duty holiday', are said to be increasing at the expense of Idcs, in particular Brazil. Third, as a result of the *butoir* system, there has been some diversion of trade, eg from Korea to Malaysia, in the case of gym shoes (though this has been exaggerated by the imposition of QRs on imports from Korea).

But tariffs are not always crucial. For example, complete duty-free treatment for shoe imports from the ACP countries has not led to a surge in imports from these countries at the expense of other Idcs, as they do not have the capacity to supply leather goods of an adequate quality. Taiwan remains an important supplier of footwear and travel goods, despite the fact that its exports face tariff discrimination, but its share of EEC imports from Idcs has been falling, except in the case of plastic travel

goods where it has risen, and shoes with leather uppers where it has remained constant.

Some firms, particularly in France and Germany, had been encouraged by the GSP to initiate trade with the Indian sub-continent, but the goods were of such poor quality that they had reverted to Italian suppliers. Importers also complained about the 8% anti-dumping duty which is still being imposed on industrial footwear from Brazil, although Brazil is alleged to have removed the offending subsidy many years ago. This has caused some importers to stop importing Brazilian shoes.

To sum up, importers were highly critical of the present GSP system and recommended two changes. First if the duty reduction is to be passed on to the consumer in the form of lower prices, or back to the exporter, there should be a fixed tariff reduction of at least 5%. Anything less than this would not make much difference to the retail price, given the high mark-ups in the trade.

Second, if this were not possible, then a two-tiered tariff structure should be introduced with a high reduction lasting throughout the year for the less competitive Idcs and a low reduction (or even none) for the more competitive. This would probably result in some trade diversion from the more competitive Idcs to other Idcs, but it would also create trade as retail prices would fall. A third view was that the GSP for leather products should be disbanded entirely; this would have little effect on current trade patterns but would simplify importers' administrative burdens as they would no longer be worried about racing goods in at the beginning of the year.

Plywood

The case of plywood illustrates the way in which the need to protect different and conflicting interests—in France, Germany, Italy, and the ACP states on the one hand, and in the UK and other Idcs on the other—has produced a complex GSP. Plywood is a sensitive product with a TQ, of which the UK has the largest share at 84.5%, and a *butoir* of 30%. The TQ covers only some 6%⁴ of total imports, and the remainder must pay a duty of 13%.

Most criticism is voiced by the UK importers through the (British) Timber Trade Federation, though they are increasingly being supported by importers in other member states. Their argument is fairly simple and convincing. The first point is that EEC, not just UK, imports of plywood from Third World countries are rising despite efforts to protect the EEC and ACP industries. The development of the French and Italian plywood industries has only been possible behind high tariff barriers as the freight costs

on log imports to produce the same quantity of plywood are double and the labour costs a lot higher. The cost difference between EEC-produced plywood and, say, ACP-produced plywood has been increasing; in 1978 it was estimated by the Timber Trade Federation to be in the region of 30%. As a result, EEC output has been falling from its peak in 1973, and an increasing proportion of the demand for plywood has been met by imports, but not from the ACP states.

Production in the ACP (Gabon, Nigeria, Ghana, Ivory Coast and Cameroon) has been growing but even if it were all exported to the EEC it would still only be able to supply one-tenth of EEC imports. In fact in recent years the proportion of ACP production exported to the EEC has been falling. Nigeria has banned its exports since 1976 and has become a net importer, diverting supplies from neighbouring ACP states which would normally go to the EEC. Ghana, for instance, has preferred to supply Nigeria even though this has meant breaking some of its contracts to the UK. UK imports from the ACP states have fallen from 61,200 cubic metres in 1968, to 4,800 in 1977.

The UK is a special case in the EEC; in contrast to the other member states it has not encouraged the development of a domestic plywood industry. Plywood imports were traditionally duty-free or paid a low duty (5%). Net imports amount to 98% of consumption, compared to only 3% in France and 36% in Germany, the two other major markets. In recognition of the UK's historical dependence on imports, it was given the largest share of the TQ—84.5%.

But UK importers argue this is not enough, as it covers only 75% of the UK's imports from Idcs. The 13% tariff payable on the remainder is an unnecessary tax on the UK consumer and it may even be encouraging the development of substitutes for plywood. There is no advantage to other EEC producers as their output is fully absorbed by domestic demand, and their specifications are often different from those used in the UK. Whether a tariff of 13% is payable or not, UK imports from Idcs, in the Far East in particular, will continue to grow. Because the TQ does not cover the whole year's imports, and also because the tariff margin is so high—especially relative to standard profit margins of 3–4%—importers are forced to race against each other in clearing their goods through customs. This involves added trading costs (higher freight rates, storage costs), and the risk that plywood prices might fall, which must be added to the risk of not getting GSP. Importers in the Netherlands and Germany have also complained that their shares of the TQ are inadequate; some plywood is imported to the UK to take advantage of the GSP, before being re-exported to the rest of the EEC.

To sum up, importers feel that the GSP treatment of plywood is based on the assumption that because there is a plywood industry in the EEC and in the ACP, this will be both suitable and sufficient to meet the EEC's consumption needs. This assumption has proved itself no longer to be true. Various changes have been suggested. One is that plywood imports should be entirely duty-free, ie the TQ abolished. The EEC industry could protect itself by moving into more specialised plywoods. Alternatively separate tariff sub-categories could be created for the types of plywood which are not produced by the EEC—eg multi-ply types—but which are in strong demand in the UK. Or the UK's share of the TQ could be increased to cover its entire import needs, though it would be impossible to restrict the use of this share to UK importers alone. A more realistic proposal is that the tariff reduction be less than 100% and constant throughout the year, to cut the trading costs and the uncertainty of the GSP. It has even been suggested that if the TQ system is maintained then the timber trade federations may introduce their own system of ensuring that all importers receive a share of the GSP benefits in proportion to their share of imports from Idcs.

1. TD/B/C.5/30/Add.4, page 12, and fourth with 5% at the 4 digit level in 1976—falling from 1st place with 9% in 1973 (HWWA Tables 15 and 16).
2. The average value of a carpet is taken to be £60–£70/m².
3. *Shoe and Leather News*, 5/4/1979.
4. By value—the figures for imports in terms of cubic metres are unavailable.

£5.00

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