The Impact of the Generalized System of Preferences on Imports

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Although the EC's Generalized System of Preferences has been in force since July 1, 1971, vagueness still prevails with regard to the question to what extent the system has contributed to the lowering of tariff barriers and of what service it has thus been as a tool for the promotion of exports from the developing countries. Now that EC statistics on preferential imports in 1973-1976 are available, it is for the first time possible to undertake a detailed evaluation of the GSP in the light of more germane and comprehensive evidence than the general foreign trade statistics and a few incidental figures at hand previously 1.

Being the largest trading unit in the world, the European Community has often come under attack. The USA and Japan are not alone in finding fault with its increasingly protectionist policies. For years past the developing countries have felt aggrieved by the obstruction of their access to the EC, which is their most important market, by a large number of restrictions. The Generalized System of Preferences (GSP) was introduced by the European Community in order to parry these charges.

Preferential tariff systems have been established in most western industrialized countries 2, and in several socialist states as well, with the object of

- increasing export earnings,
- promoting industrialization and
- hastening economic growth

in the developing countries. As divergent economic and political interests have hitherto prevented the elaboration of a uniform system for all the states which grant trade preferences to developing countries, each system is trying to achieve these objectives in its own way.

The design of the EC system shows a very clear intention to allow only a controlled preferential trade. This is manifest in the choice of beneficiaries, the product coverage, the depth of the tariff cuts, the methods of surveillance and, above all, in the quantitative and formal limitations with a bearing on the import potential.

In 1978 the GSP operated to the benefit of altogether 115 independent and 27 dependent countries and territories. The system thus covered almost all developing countries except four in Europe (Portugal, Spain, Greece and Turkey). The preferences for the semi-finished and finished industrial products of chapters 25-99 of the EC's common customs tariff (CCT) were applied with a measure of differentiation, especially in regard to Romania, Yugoslavia and the group of dependent territories.

In 1976 the GSP covered 241 selected processed agricultural items (chapters 1-24 CCT) and almost all semi-finished and finished industrial products (chapters 25-99). The principal exceptions in the agricultural sector were goods subject to market regulation and agricultural raw materials; in the industrial sector raw materials and non-precious metals processed no further than into bars which can in any case be imported duty-free or at very low tariff rates are the principal items left outside the GSP.

The GSP preference for imports of agricultural products takes mostly the form of reduced tariff rates. Of altogether 241 agricultural products falling under the GSP 61 only were free of duty. Since 1979 the poorest developing countries have as a general rule been exempt from duties on agricultural products covered by the GSP. The industrial GSP products of

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2 The preference systems of various western industrialized countries have been in force since the following dates: EC – July 1, 1971; Japan – August 1, 1971; Norway – October 1, 1971; Finland, Sweden, New Zealand – January 1, 1972; Switzerland – March 1, 1972; Austria – April 1, 1972; Australia – July 1, 1966 and January 1, 1974 respectively; Canada – July 1, 1974; USA – January 1, 1976.
chapters 25-99 CCT may all be imported into the EC free of duty but are subject to quantitative limitations; in the agricultural sector these are applied to five product groups only. The limits are based on general maximum import amounts for the whole of the EC (Community quotas, ceilings). Calculated anew every year for each kind of goods, they are made up of a basic amount equal to the total of imports from beneficiary developing countries in the base year and a supplementary amount equal to 5% of the EC’s imports from other non-EC countries. The base year is usually an annual period three or four years before the year to which the maximum amounts apply.

Quantitative Limitations

Within the general limits as calculated in this manner there are other upper limits in the form of “butoirs” and member state shares. The butoirs (maximum country amounts) serve the purpose of regulating the competition between the developing countries: they set a limit of 50% to the imports from any single supplier country but actually restrict them mostly to an even smaller proportion of the overall ceilings and EC quotas. The member state shares on the other hand have the purpose of dividing the general maximum amounts for imports among the individual EC member countries prorated so as to “share the burden”. In the course of time these basic components have become more and more interlocked, with the result that the system is by now very complex indeed.

The intensity of the application and supervision of these limitations depends upon the degree of sensitivity of the imported goods (sensitive, hybrid, quasi-sensitive, non-sensitive) and the competitive conditions in the individual markets.

The external tariff of the EC is re-introduced automatically for sensitive goods when the upper limits are reached; quasi-sensitive goods are only under surveillance and may be re-subjected to the most-favoured-nation rate on application; the imports of non-sensitive goods are in general neither supervised nor limited. Since 1979 the imports of industrial products (other than textiles) from the least developed countries have been free from quantitative regulation. These countries are therefore now enjoying what amounts almost to free-trade conditions in their commerce with the EC but this is at present of relatively moderate benefit to them because of their low development level.

The EC has reserved for itself a general right to invoke an escape clause: the preferences may be rescinded in the event of severe disruption of the internal market of the EC or significant impairment of the export interests of associated or other countries to which special preferences have been granted (ACP, Maghreb, Mashrek, etc.).

Rules of Origin

The GSP stipulates certification of the origin of GSP goods so as to prevent misuse of the preferences by other countries. It has to be stated that an appropriate amount of the working or processing has been carried out in the beneficiary developing country and that the goods in question were sent directly to the EC area. This rule probably militates against the efforts of the developing countries for increased economic cooperation. Exempted from it are only the ASEAN, Andean Group and Central American Common Market (MCCA) as integration areas which may certify what is known as “cumulative origin”, which means that goods may be worked or processed in several member states of these groups without impairment of their preferential status.

A comparison of the GSP with similar systems of other industrial countries shows no scheme to be beyond question superior to the others. From the point of view of the developing countries the EC scheme has probably advantages in this product range, especially because it includes textiles, shoes and mineral oil products. The depth of the tariff cuts seems also to be fairly generous, particularly if the continual growth of the preference margins in the agricultural sector is taken into account. There is on the other hand no other preference system with comparable quantitative limitations. Of importance is also the proviso concerning preference and association treaties, e. g. for the Maghreb and Mashrek countries, Spain and Greece, and the ACP states which have been given a higher preferential rank; agreements of this kind do not play such a large role in other industrial countries.

GSP Imports

The development of the EC’s preferential trade from 1971 till 1976 is shown in a tabulated form. There have been many special events in this period which make it difficult to interpret the data: the preferential trade statistics begin with a half-year figure for 1971; the