

Kühn, Jürgen

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# The EEC Tariff Preferences for LDCs

by Jürgen Kühn, Bonn \*

**The Council of Ministers of the European Communities decided on March 30, 1971, to put into effect on July 1, 1971, a system of general tariff preferences favouring the exports of manufactures and semi-manufactures from developing countries. By taking this decision the European Communities have reaffirmed their leading role among the western industrialised countries.**

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**T**he European Communities have from the outset strongly supported the principle of general tariff preferences for developing countries. As early as May 1963, the Ministers of the member states of the European Communities and the associated African states argued at the GATT ministerial meeting in favour of preferential tariff treatment for developing countries. A general departure from the traditional concept of the most favoured nation clause was thus for the first time introduced into the international discussion in order to give to the developing countries advantages which would not automatically be extended to the industrialised countries as well.

The developing countries seized on these ideas when the ground was prepared for the first United Nations Conference on Trade and Development in the spring of 1964. They urged that all industrialised countries should unilaterally grant general tariff preferences to all developing countries without requesting anything in return. The reactions of the industrial western states to this demand differed. The USA, Switzerland and several Scandinavian countries rejected preferences in general. They defended the most favoured nation clause and referred to the general tariff cuts of the Kennedy Round. France, Belgium and Italy advocated a selective preference system: Each industrialised country would decide for itself whether to grant tariff preferences to a developing country or not; the tariff preferences would vary, according to the competitive nature of the merchandise in question, possibly from minor tariff cuts to full exemption from duty. Germany, the Netherlands and the United Kingdom supported the principle of a uniform preference system for all developing countries but called for effective arrangements for exceptions and escape clauses. Faced with these differences of opinion, the first United Nations Conference on Trade and Development had to resort to a compromise. The resolution on preferences

noted that all developing countries and most industrialised countries recognised the principle that tariff preferences should be granted to developing countries but added that some industrialised countries continued to adhere to the most favoured nation clause. The problem of preferences should therefore be examined further, and a committee of governmental representatives of industrialised and developing countries was set up for this purpose.

## Decisions of the Second UNCTAD

In the time which elapsed between the first and second United Nations Conferences on Trade and Development, i.e., from 1964 to 1968, the western industrialised countries centred their discussions about preferences on the OECD. Since, on pressure from the Latin American countries, the USA had principally ceased resisting preferences in April 1967, it was possible to achieve concrete advances in coordinating to western points of view. In consequence of these efforts the western industrialised countries adopted a coordinated attitude at the second United Nations Conference on Trade and Development which was held in New Delhi from February 1 to March 29, 1968. They now unanimously advocated a non-discriminatory preference system favouring all developing countries without requesting concessions in return. The preferences should extend to all industrial manufactures and semi-manufactures under chapters 25–99 of the Brussels tariff nomenclature with as few exceptions as possible. Ten years were suggested as the time-limit. The aim in principle was full exemption from duty or a considerable reduction of tariffs, with tariff quotas to be considered in appropriate instances. In the event of markets being dislocated the industrialised countries reserved the right of autonomously applying escape clauses which were to be the subject of subsequent consultations. Insofar as differences of opinion still existed between the western industrialised countries on points of detail, they agreed not to discuss them in front of the developing countries.

\* Federal Ministry of Economics and Finance. The article represents the author's views only.

The developing countries insisted in New Delhi that the tariff preferences should be given effect immediately, on January 1, 1969, and that they should remain in force for twenty years. They urged the inclusion of processed and semi-processed agricultural products. Escape clauses should be applicable only according to objective criteria and after international examination and determination. Equivalent advantages should be provided for developing countries which were already enjoying tariff preferences in the framework of the Commonwealth and the association conventions of the European Communities.

The discussions between the industrialised and developing countries failed to reduce the gap. The developing countries had to acknowledge that in the negotiations there was only limited scope for concessions by the western industrialised countries. The resolution, which was adopted after protracted discussions, recorded agreement on a few principles only. The Conference noted that the general preference system should be put in force as soon as possible. Some essential problems however remained unsolved. A special Committee on Preferences was instructed to expedite clarification of these issues in 1968 and 1969 so as to fulfil the hope of many countries that the preferences might be put into effect in 1970. Thus for the first time there was agreement in principle on a temporary departure from the most favoured nation clause in order to encourage the export trade of the developing countries in manufactured goods and semi-manufactures.

#### Adoption of General Principles

The international discussions about the practical arrangements for preferences were intensified after the New Delhi conference. Nevertheless it was impossible to adhere to the original timetable. It proved equally impossible to prepare a uniform preference scheme for all western industrialised countries. It was only in October 1970 that the final preference systems of 18 western industrialised countries (six European Community members, four Scandinavian countries, United Kingdom, Ireland, Switzerland, Austria, the USA, Canada, Japan and New Zealand) were presented.

At a special meeting of the UNCTAD Trade and Development Board the industrialised and developing countries reached agreement on a number of general principles. The preferences as a rule apply for ten years. The grant of preferences is an autonomous act which does not constitute a binding obligation. The preferences may be withdrawn at any time, wholly or in part. A GATT waiver is required for the grant of the preferences. They were to be put in force as early as possible in 1971.

The European Communities faced special difficulties when elaborating their offer of preferences. The six countries of the European Communities are members of a customs union but their economies have not yet coalesced in an economic union. In view of the short time available for preparations, it was not possible to adopt a Community preference system that makes allowance for the economic situation in each of the member states. This would have required lengthy negotiations within the Community similar to that of the Kennedy Round. In the existing circumstances the European Communities had no choice but to design a preference system as general and uncomplicated as possible. They had consciously to do without exemptions and special arrangements for individual industries or certain regions so as to avoid jeopardising a speedy agreement between the member states of the European Communities. There are reservations in their preference scheme only with regard to the balance between the offers of all donor countries and the repercussions of general preferences on the associated African states. If significant changes ensue in these two fields, the European Communities may subsequently modify their offer of preferences.

#### Basic Elements of the Preference Scheme

The European Community's preference scheme has the following basic features:

- ☐ The imports of developing countries are in principle immediately exempt from duty. The tariffs will thus not be lowered in stages.
- ☐ The exemption from duty applies to all industrial manufactures and semi-manufactures. In contrast to the offers of all industrialised countries, there are no exception lists. The average tariff charge—on the basis of the import figures for 1967 and the tariff rates to be actually levied on January 1, 1972—was about 9 p.c.
- ☐ The tariff preferences in the industrial sector apply to certain quantities only. These quantities are in principle calculated from the 1968 statistics by the formula of "imports from developing countries plus 5 p.c. of other imports". In 1968 the Community imported dutiable manufactured goods and semi-manufactures at the value of about \$ 488 mn from the favoured developing countries. The additional 5 p.c. of other imports amounted to about \$ 542 mn. The favoured countries will therefore in future be free to import goods to a total value of \$ 1,030 mn. free of duty into the European Communities. There is thus a chance of these countries obtaining nil tariffs on more than twice their exports to the Community in 1968.
- ☐ There are varying tariff cuts for 150 kinds of agricultural products. These cuts apply to im-

ports valued at about \$ 30 mn. In lieu of a quantitative limitation agricultural products are liable to an escape clause permitting the imposition of normal tariff rates in the event of market dislocation. In addition to their offer of preferences in the agricultural sector the European Communities unilaterally lowered their tariffs for important tropical products—like coffee, cocoa and palm oil—of a commercial value exceeding \$ 1,000 mn. when the second Yaoundé Convention came into force.

- Cotton textiles enjoy preferential treatment only in commerce with countries participating in the International Cotton Textile Agreement and up to October, 1973. Non-participants must accept obligations analogous to those of participants in order to obtain the benefit of the preferences. The conclusion of special preferential agreements with the main exporting countries is envisaged for jute and coir goods, and such questions bearing on the general market structure as export imposts and subsidies are to be settled in conjunction with them.
- The favoured developing countries in the initial phase are 91 countries which at the United Nations Conference on Trade and Development agreed to form the so-called "Group of 77". Dependent territories, like Hongkong and Macao, are likewise granted preferences but not for textiles or shoes. A special arrangement applies to developing countries in a strong competitive position. In principle no single developing country may use up more than half the preference "ceiling". In especially difficult markets this maximum proportion is reduced to 30 or even 20 p.c. Developing countries with a lower export potential are thus to be ensured of sufficient scope for participation in the preferential imports.

A decision on the subsequent granting of preferences to other developing countries, e.g., Spain, Portugal, Greece, Turkey, Israel and Malta, is to be taken by the middle of 1972. In the meantime this question is the subject of consultations in the OECD. Besides, the Commission of the European Communities has been instructed to examine the economic repercussions stemming from the inclusion of these countries in the Community preference system.

#### **Internal Arrangements for the Preference Scheme**

As regards the internal arrangements for the preference scheme, Community tariff quotas are envisaged for sensible goods. The term "sensible" applies to products which may give rise to dislocations in the internal markets of the European

Communities. It covers about 60 p.c. of the offered preferences. It was agreed to divide the tariff quotas inside the Communities approximately in proportion to the average distribution of population, GNP and trade with third countries. The individual members participate in the Community tariff quotas as follows: Germany 37.5 p.c., France 27.1 p.c., Italy 20.3 p.c., Benelux countries 15.1 p.c. This arrangement is based on a recognition of the principle of a fair distribution of burdens. As preferences are an instrument of development policy, it was appropriate that the distribution of the commitments between the member states should involve a sharing of the burden and avoid a concentration of duty-free imports in certain markets. The proportional distribution now agreed upon is in the first instance applicable for two years only. It does not provide for a Community reserve. Whether a Community reserve should be considered or not is to be examined later for each case separately.

The quasi-sensible goods, accounting for about 10 p.c. of the offered preferences, are subject to statistical surveillance only. The member states will periodically review the import trend and take decisions on the re-application of the normal customs tariffs when the preference ceilings have been used in full.

No difficulties are anticipated in the case of a third group of goods enjoying preference which account for about 30 p.c. of the offers. The customary statistical returns will suffice for a subsequent review of the import trend.

#### **Assessment of the Community Tariff Preferences**

The tariff cuts which have been unilaterally effected by the European Communities are of greater importance to the developing countries than the results of the Kennedy Round. The political and psychological effect of the preferences is even more important than the economic value of these benefits. For the first time in the history of international trade policy measures have been taken unilaterally in favour of the developing countries. Heretofore such action has been the subject of protracted negotiations on concessions and counter concessions. The achievement of these preferences is the greatest success of UNCTAD since its establishment in 1964.

An attempt has been made in the preference scheme of the European Communities to strike a balance between the development policy aim of increased industrialisation of the developing countries and the interests of the manufacturing industries of the member countries of the European Communities. The outcome is a harmonious system the effects of which are unequivocal and can be assessed beforehand. The cautious beginning of

the preference scheme will facilitate further advances in future.

The general tariff preferences will tend gradually to reduce the importance of existing regional preferences. In conjunction with the second Yaoundé Convention, the associated African states have been given an option to remove the reversed preferences which they conceded to the European Communities. This will improve the prospects for a solution of a problem which has long encumbered the relations between the European Communities and the USA.

The Federal Republic of Germany has been persistent in its advocacy of general tariff preferences ever since 1964. The Federal Minister for Eco-

nomics Affairs and Finance, Professor Schiller, supported the proposal for the grant of tariff preferences explicitly at the second United Nations Conference on Trade and Development in 1968. The policy declaration of the Federal Government of October 28, 1969, stressed the importance of tariff preferences as an instrument for promoting the exports of the developing countries. The policy of the Federal Government has contributed to the opening of a new phase of international cooperation in trade policy by the European Communities. Even though the tariff preferences are not a solution for all the problems of the developing countries, they are a sound basis for more progress in the second United Nations development decade from 1971 to 1980.

## Critical Notes on German Development Strategy

by Karl Fasbender, Hamburg

**The United Nations' first development decade has not come up to expectations in its results: neither did developing countries succeed in achieving a minimum growth rate of 5 p.c. of their GNP, nor did industrialised nations use for aid the equivalent of 1 p.c. of their GNP. U Thant called this decade a decade of frustration.**

The start of the second decade afforded an opportunity to the nations and international organisations taking part in development aid for thinking over once more their development aid strategy. This was also the case in the Federal Republic of Germany, whose net aid, during the period 1960-70 totalled DM 44.2 bn (DM 5.1 bn in 1970 alone). Of this total, aid from public funds amounted to DM 22.5 bn (1970: 2.7 bn) and private aid to DM 21.7 bn (2.4 bn)<sup>1</sup>. This means that the Federal Republic has become one of the most important donors of aid to the Third World although, it must be admitted, Germany has not developed a general concept of its development policy in the past. In February, 1971, the Federal Government has overcome this lack of overall planning by publishing a general concept for the new decade, which has just started<sup>2</sup>. This does not only list the principles, the intended objectives, and

the priorities for future development policies but also overall financial planning and the description of its main organisational instruments.

### Principles and Aims

The Federal Government gives broad support to the objectives set out in the Document on Development Strategy of the United Nations as to quality and quantity. The fundamental aim of this document is "to create the conditions of general stability and prosperity in the whole world, and to secure a humane minimum standard of living through social progress and development"<sup>3</sup>. The aim of interpreting its policy in this way is to consolidate the international position of the Federal Republic, to lay the foundations for trade growth, and in the long term, to improve the chances for a safe peace. This means that German development policy is to become an integrated part of its general policy. However, it is stated that development policy is not a short-term in-

<sup>1</sup> Press Releases of the Federal Ministry of Economic Cooperation (hereafter abbreviated as BMZ).

<sup>2</sup> Cf. here and below: BMZ, Entwicklungspolitische Konzeption der Bundesrepublik Deutschland für die Zweite Entwicklungsdzade (Concept for Federal Republic of Germany's Development Policy in the Second Development Decade), in: Bulletin of the Press and Information Office of the Federal Government, Bonn, No. 25, Feb. 17, 1971, pp. 263 et seq.

<sup>3</sup> UN, Internationale Strategie für das Zweite Entwicklungsjahrzehnt der Vereinten Nationen (International Development Strategy for the Second Development Decade of the United Nations), in the BMZ publication of the same title, Bonn, 1971, p. 7.