



UNITED NATIONS  
 CONFERENCE ON TRADE AND DEVELOPMENT

Distr.  
 LIMITED  
 TD/B/C.5/L.51/Add.5  
 10 May 1982  
 Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD  
 Special Committee on Preferences  
 Geneva, 3 May 1982  
 Agenda item 9

DRAFT REPORT OF THE SPECIAL COMMITTEE ON PREFERENCES  
 ON ITS ELEVENTH SESSION

held at the Palais des Nations, Geneva,  
 from 3 to ... May 1982

Rapporteur: Mr. A.-A. Al Duaij (Kuwait)

ADDENDUM

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B. Statements by preference-receiving countries (concluded)India

1. The representative of India endorsed the statement made on behalf of the Group of 77. He welcomed the steps taken by preference-giving countries to simplify or liberalize their schemes, although the objectives of the GSP were far from being achieved. The concerns of the developing countries in that regard had been spelt out in the statement by the spokesman for the Group of 77.
2. Referring to the secretariat document TD/B/C.5/81, he noted that improvements had been made in several schemes, but pointed out that imports under the GSP represented only one quarter of the preference-giving countries' dutiable imports from beneficiaries. The percentages of GSP-eligible imports to dutiable imports given in annex II to that document also indicated that the coverage of the various schemes was still far from being adequate. It was significant that although, in some cases, more than two thirds of dutiable imports were covered by the schemes, the imports actually benefiting from GSP treatment amounted to much less. There was therefore considerable scope for improvement in the schemes through the expansion in product coverage, the removal of limitations and competitive need exclusions in some schemes and the simplification and harmonization of the rules of origin.
3. He welcomed the decision taken by several preference-giving countries to continue their schemes beyond the initial period of validity. Such a decision had not, however, been announced by all the preference-giving countries. Assurance that all the schemes would indeed be continued would lend the required predictability to the GSP.
4. He also drew attention to the need for ensuring stability of GSP schemes, a point that had been emphasized by the spokesman for the Group of 77. Optimum utilization of GSP benefits was often rendered difficult because of uncertainties about the continued availability of the tariff advantage. In this connection it was important to recall the GATT enabling clause, which called for prior consultations before withdrawal of GSP benefits in respect of any product.
5. It was gratifying that the Working Group on Rules of Origin, which had met the previous week, had been able to reach positive results. While one of the outstanding issues had thus been sorted out, further progress had to be made in simplification and harmonization of the rules.

6. He stressed that availability of up-to-date information on a regular basis regarding the utilization of the GSP would contribute to optimize the utilization of the schemes. However, such information was not available from all preference-giving countries. He appealed to all of them to make arrangements for supplying such information to all preference-receiving countries.

7. He welcomed the fact that it would now be possible to continue the UNCTAD/UNDP technical assistance project till the end of 1983. Appreciation was due to UNDP for making that possible and also to the preference-giving countries for their assistance to the project. Stressing the project's importance, he expressed the hope that funds would be available for its continuation after the end of 1983.

#### Indonesia

8. The representative of Indonesia expressed his gratitude for the efforts made by the preference-giving countries to improve their schemes over the past year. He also welcomed the intention of EFTA countries to grant regional cumulative treatment to a number of countries in South East Asia (ASEAN), including his own, and hoped that such an arrangement would be made operational as soon as possible.

9. Stating that almost all his delegation's concerns had already been covered by the spokesman for the Group of 77, he nevertheless noted with appreciation that improvements, albeit minor, had been made in some schemes such as the inclusion of several products in them. In that connection, he proposed that the preference-giving countries should supply preference-receiving countries with a list of products eligible for preferential treatment on a country and commodity basis at least once a year, as the United States did. Preference-receiving countries could then examine the magnitude and potential of export products to be developed under the existing schemes. He also proposed that duty-free entry should be extended to all products covered, as in the United States scheme. Moreover, non-tariff measures, such as quotas, ceilings and competitive need exclusions, which restricted full use of the different schemes in respect of products of special interest to the developing countries, should be phased out and all preference-receiving countries should be notified as soon as possible of any exclusion of products from product coverage.

10. On the subject of origin rules, he emphasized the importance of immediate implementation of the agreed conclusions of the eighth session of the Working Group on Rules of Origin, particularly the extension and liberalization of the arrangement for cumulative treatment with a view to achieving similar treatment on a full and global basis as in the Australian and New Zealand system.

11. With regard to the improvements to the notes on the certificate of origin Form A, his delegation expressed its appreciation to the preference-giving countries which had made every effort to simplify the notes in question at the ninth session of the Working Group. Its appreciation was also extended to the socialist countries of Eastern Europe which had taken steps to harmonize and simplify their notes on Form A. The practical difficulties often faced by developing countries in using the certificate of origin should be taken fully into account and gradually eliminated.

12. He appealed to the preference-giving countries, in providing technical assistance, to pay particular attention to improving access to their markets, as had been done by the Import Promotion Institutes of CBI and SIDA in the Netherlands and Sweden respectively. Such assistance should also cover: (i) market studies of products with an export potential included in the product coverage of the GSP; (ii) improvements in market design, packaging and packing; (iii) continued technical/financial assistance to enable the GSP Project to maintain its function as a "focal point" for the dissemination of GSP information; and (iv) seminars and workshops for officials and exporters.

Malaysia

13. The representative of Malaysia said that, to a certain extent, the GSP had undoubtedly been instrumental in increasing the exports of developing countries but that, in doing so, it had created a strong relationship of interdependence for better or for worse. Referring to the introductory statement made by the representative of the Secretary-General of UNCTAD at the opening meeting, he said that the fact that the trade of developing countries had grown in absolute terms seemed to have led to the misleading conclusion that market access had improved. In relative terms, however, the trade figures were not as impressive as they might appear to be. The situation would be ideal if, given those preferences, exports of developing countries were allowed to compete fairly without having to face quantitative restrictions and other non-tariff barriers, but preferential tariffs were given, on the one hand, while, on the other, tariff quotas, tariff escalations and other non-tariff barriers were increasingly used to "regulate" the market access of developing countries' products. He pointed out that recent developments showed an increase in the use of safeguards measures, which included voluntary export restraints, and orderly marketing arrangements; bilateralism in trade relations and anti-dumping moves by certain developed markets. For instance,

plywood and footwear products, though granted preferential tariffs, were subject to quotas, although those very products were the results of an industrialization policy based on his country's comparative advantage in an abundance of raw materials.

Escalating tariffs faced by Malaysia's palm oil products constituted another measure that limited GSP benefits. Clearly, the impact of the GSP could not be fully realized unless fewer non-tariff measures of that kind were applied. Apart from such measures, differential treatment, and the concept of graduation, or their "refinements", which the representative of the Secretary-General had dwelt on at length, had undermined the foundations upon which the GSP was built. He therefore emphasized the need for greater objectivity and discipline based on multilaterally agreed rules in the wider context of international trade, with which the GSP should be dovetailed.

14. As regards rules of origin, he expressed appreciation to those countries that had facilitated or improved procedural and other aspects of such rules, and to those that had given recognition to regional economic groupings by way of cumulative rules. Cumulative rules were a positive step in encouraging self-help among developing countries, and he urged the preference-giving countries to accelerate their harmonization of the rules. A harmonized system in respect of rules of origin would undoubtedly facilitate exports, while the use of cumulative rules would promote closer economic co-operation among developing countries.

#### Pakistan

15. The representative of Pakistan endorsed the statement made on behalf of the Group of 77. He expressed appreciation for the extension of GSP schemes for a further ten-year period, thus eliminating a very important element of uncertainty in the minds of the beneficiary countries. It was an important evidence of the will of the developed countries to assist the developing countries to expand their exports.

16. He was concerned, however, that over the years there had been no substantial expansion in the product coverage. If ceilings and quota restrictions were taken into account, the marginal increase in product coverage would become negligible. The main manufactures of export interest to his country, such as textiles, leather and leather products, were either excluded from the schemes or were subject to tight quota and ceiling limitations. Some important agricultural products (e.g. Basmati rice in EEC) were excluded from preferences. Similarly, other items like fish and fish preparations

and tobacco were subject to import duty, though at preferential rates. Individual country ceilings had also been fixed in EEC for small products such as footwear with an outer sole of leather. There were no indications that such quotas and ceilings were being liberalized. If the factor of inflation was taken into account, the preferential entitlement had actually declined in the case of industrial products for which quotas or tariff ceilings were fixed in value terms. He suggested that quotas and ceilings should be fixed in terms of quantity and be gradually relaxed rather than expanded. The quotas and ceilings should also be widely publicized so that exporters would know whether their products were entitled to preferential treatment.

17. He added that much was to be gained through further harmonization and simplification of certain provisions of the schemes. In that connection, the rules of origin should have priority attention, and the work done recently by the Working Group on the rules of origin was a step in that direction.

18. Developing countries were further handicapped by lack of ready statistics on the extent to which the goods exported had received GSP treatment. The only source of statistics available to the beneficiary countries was the record of issuance of Form A by the competent organizations. The figures related to GSP certificates issued, and it was impossible to know whether the goods exported had actually received preferential treatment. He suggested, therefore, that ways and means should be devised to ensure that this information was made available to the beneficiary countries so as to enable them to make an objective analysis of their **performance** under the GSP.

19. The uncertainty of the schemes was further complicated by their inability to influence changes from year to year. He was glad to see, however, that consultations between the preference-giving and the beneficiary countries had now been recognized as an important element in the proceedings of the Special Committee, and hoped that they would be further strengthened.

20. It was widely recognized that tariff concessions under the Multilateral Trade Negotiations had eroded the margin of concessions available under the individual schemes. So far as his country was concerned, tariff erosion had taken place in respect of 92 items of export interest to it. However, such erosion could be compensated for by further deepening the tariff cuts provided under the schemes.

21. In conclusion, he expressed appreciation for the technical assistance extended by UNCTAD, UNDP and the preference-giving countries, particularly EEC, which had organized two seminars in Pakistan for the benefit of officials and the business community, and stressed the importance of further strengthening technical assistance activities.

Romania

22. The representative of Romania, endorsing the statement by the spokesman for the Group of 77, stated that, although between 1976 and 1980 total exports under the GSP had more than doubled, from \$12 billion to \$27 billion, if account were taken of inflation and of the modest initial share of GSP imports in total imports the increase was not so impressive.
23. The policy of graduation was causing increasing concern among the developing countries. It was contrary to the principle of generalized, non-reciprocal and non-discriminatory preferences embodied in the GSP and it was dangerous because it created the false impression that by withdrawing the benefits of the GSP from certain beneficiaries which had become overly competitive, a preference-giving country would be in a position to grant greater benefits to other, less competitive developing countries. It led to the belief that the developing countries were competing among themselves, when, in fact, through graduation the preference-giving countries were trying to eliminate imports from those developing countries whose exports were considered to be a threat to their own producers. Graduation was thus a form of discrimination and of protectionism and as such it was alien to the concept of the GSP.
24. She also referred to the various quantitative limitations provided for under many of the schemes, and stated that they should be eliminated since they greatly reduced the advantages of the scheme. Moreover, since the ceilings and quotas were expressed in value terms, given the rate of inflation and fluctuations in exchange fluctuations, preferential imports could actually shrink from one year to another in volume terms.
25. She added that her country had been affected by various restrictive measures (lists of exceptions, quantitative limitations, etc.) which unfortunately were applied by some of the major trading partners.
26. In conclusion, she expressed satisfaction that the Working Group on Rules of Origin had made progress towards the simplification and harmonization of rules and welcomed the role played by the UNCTAD/UNDP technical assistance project on the GSP.

Sri Lanka

27. The representative of Sri Lanka stated that the decision to establish the GSP had been a landmark in trade relations between the developed and developing countries, because for the first time the developed countries had agreed to grant tariff concessions exclusively to developing countries without seeking reciprocity from them. After the experience of the past 10 years, and in spite of its weaknesses, the GSP remained a milestone in trade relations between the two groups of countries. He therefore welcomed the extension of a number of schemes for a further period of 10 years. In that connection, special appreciation was due to the Nordic countries, which in general had not set a time-limit to their schemes.

28. As the Secretariat report TD/B/C.5/81 indicated, the role of the GSP in improving market access for developing countries had not been negligible. The report had also pointed out that, though the amount of trade carried on under the GSP was impressive, it nevertheless represented only one quarter of the preference-giving countries' dutiable imports from beneficiaries. There was therefore considerable scope for improvement in the system through expansion in the product coverage, the removal of limitations and competitive need exclusions, and the simplification and harmonization of the rules of origin. GSP margins had undoubtedly been eroded as a result of the Tokyo Round, and the benefits accruing to GSP beneficiaries from MTN tariff cuts on products not covered by the GSP would not compensate them for such erosion. More effective compensation to beneficiary countries was therefore needed through a substantial improvement in product coverage and in the depth of tariff cuts where necessary, and through the harmonization and simplification of the rules of origin. He supported the request that developing countries be accorded full and global cumulation, and welcomed the steps taken by the Governments of Australia and New Zealand - and soon to be taken by Canada - to grant full and global cumulation in their schemes.

29. It was well known that, as a result of the general exclusion of agricultural products from the various schemes, and the exclusion of dutiable raw materials from certain schemes, trade advantages under the GSP were limited from the outset for the majority of developing countries, which relied heavily on exports in those two product categories. Beneficiary countries with a broader industrial base and diversified industrial exports, on the other hand, had more likelihood of benefiting from the GSP. It was necessary therefore to improve GSP product and trade coverage so as to rectify the imbalance that existed, although certain steps had already been taken in that respect.



30. His delegation also believed that technical assistance to beneficiary countries had played a significant role in the increased utilization of the GSP. Since there was still considerable work to be done in that respect, he would support the extension of the Technical Assistance Project even beyond the end of 1983.

Philippines

31. The representative of the Philippines supported the statement made by the spokesman for the Group of 77 and joined other developing countries in their endeavours to find all possible ways of maximizing benefits from GSP, such as the expansion of product coverage, deepening of tariff cuts and simplification, harmonization and liberalization of the rules of origin. In view of the protectionist policies increasingly adopted by the developed countries, his country noted with serious concern that greater use was being made of the differential application of preferential treatment, which was bound to impede attainment of the GSP objectives. He associated himself with other preference-receiving countries in opposing all the forms of graduation and differential treatment currently imposed under some GSP schemes.

32. He added that his country had derived great benefit from the UNCTAD/UNDP technical assistance project, and looked forward to the provision of further assistance to his country and to other ASEAN member countries in their efforts to make maximum use of GSP advantages and thereby enhance regional economic co-operation and development. In that connection he endorsed the request made to UNDP to extend the necessary financial support to the Project to enable its activities to be continued beyond 1983.

33. He expressed satisfaction that the Working Group on the Rules of Origin had been able to harmonize the text on the reverse side of the certificate of origin Form A. Agreement on the revised version was a positive step towards the achievement of maximum uniformity and simplicity in origin rules. He agreed with the representative of Austria on the importance of using Form B prior to the issuance of the certificate of origin, and endorsed his suggestion that the UNCTAD secretariat should gather information on the extent to which Form B was used by the beneficiary countries. His country did make use of that form which had been found to be helpful especially in matters related to certification and subsequent verification.

Thailand

34. The representative of Thailand endorsed the statement made by the spokesman for the Group of 77. He stated that in the first 10-year operation of the GSP, developing countries, including his own, had benefited to varying extent from its advantages. He appreciated the good will of the preference-giving countries in their efforts to adapt and improve further the benefits of their schemes.
35. With the extension of the schemes by many preference-giving countries, the international community had embarked on a new decade and a new generation of the GSP. The time was therefore ripe to examine closely the past operation of the system and to improve it in such a way as to achieve its declared objectives. The suggestions made by his delegation in this respect at the last session of the Special Committee were still valid. At this session, however, his suggestions for improvement would be addressed to some specific schemes.
36. He noted that Japan had extended its scheme for another 10-year period but had made only few improvements. He urged that the product coverage be expanded to include products of export interest to his country, that the preferential margins be further increased, that the flexible administration of imports be extended to other products and that products previously excluded from the scheme should again become eligible for preferential treatment.
37. He also suggested that products of export interest to his country should be added to the United States scheme. In general, he considered that this scheme should be progressively expanded to cover all industrial products and all handicrafts. Because of the unique tariff nomenclature of that country, exporters in his country had difficulty in determining whether or not the product was in the eligible list. He added that the policy of graduation under that scheme was bound to pose difficulty for intra-ASEAN trade and industrial co-operation if only one member State was to be affected. For this reason, he urged that graduation should no longer be pursued. Also the competitive need provisions should be substantially liberalized, in particular the de minimis provision.
38. Finally, he recommended that the EEC scheme should be improved to include products of export interest to his country, that the preferential margins be increased and that sensitive products be transferred to the non-sensitive list.
39. He added that the details of this specific recommendation would be further pursued in the framework of bilateral consultations.

40. Another aspect which had a direct impact on GSP benefits concerned the results of the Tokyo Round negotiations. His assessment was that the MTN had resulted in an erosion of those benefits to developing countries as a whole and to Thailand in particular. In the case of EEC, GSP-covered products worth \$128 million (73 per cent of total imports covered) were affected by the MTN tariff cuts. For GSP-covered industrial products, the average pre-MTN trade weighted preferential margin was equal to 11.2 percentage points. In the post-MTN period (i.e. 1987) the margin would fall to 8 percentage points, or an erosion of the preferential margin equal to 28.4 per cent. For GSP-covered agricultural products, the corresponding preferential margin would fall from 7.5 percentage points to 7.1 percentage points or an erosion of 2.8 per cent. Prior to the Tokyo Round 80 per cent of imports into EEC from Thailand enjoyed a preferential margin of up to 16 percentage points. In the post-MTN period, the preferential margin for the same share of trade would not exceed 10 percentage points. Consequently, the erosion of the preferential margin had affected a significant proportion of trade.

41. In the case of the United States, GSP-covered products worth \$21.2 million (83.5 per cent of total imports covered) were affected by the MTN tariff cuts. For GSP-covered industrial products the average pre-MTN trade weighted preferential margin was equal to 6.9 percentage points. In the post-MTN period this average would fall to 4.3 percentage points or an erosion of 37.1 per cent. For GSP-covered agricultural products the corresponding margins would fall from 5 to 2.4 percentage points or an erosion of 52.2 per cent. While in the pre-MTN period, 80 per cent of trade had enjoyed a preferential margin of up to 6 percentage points, in the post-MTN period the same share of trade would benefit from a preferential margin of up to 4 percentage points only.

42. Improvements should therefore be made in order to redress the erosion of GSP benefits resulting from the MTN.

Cuba

43. The representative of Cuba recalled that resolution 6 (IX) adopted by the Special Committee at its ninth session had recognized that the GSP played a positive role in improving access to preference-giving country markets and had agreed that the system should be extended, since its objectives as spelt out in Conference resolution 21 (II) had not yet been fulfilled. However, the two years since the adoption of this resolution had seen the increased application of restrictive measures in the schemes, which, added to those already in existence, could not help but limit the effectiveness of the GSP as an instrument for promoting the economic growth of developing countries. Consequently, she supported the statements made by the spokesman for the Group of 77 and by the representative of the Secretary-General.

44. Her country, which had a centrally-planned economy allowing for a rational use of resources, attached importance to the inclusion in the various schemes of products that had an export potential for its developing economy. Although basically an agricultural country, Cuba had been striving over the years to diversify its economy and to make better use of its sugar resources. As a result of its efforts, new products had been developed which her country had hoped would be included under the GSP. For three consecutive years, her country had participated in the consultations which took place parallel to the plenary meetings of the Special Committee, but had been unable to achieve any concrete results. Furthermore, the erosion of the preferential margins resulting from the Tokyo Round tariff reductions and the protectionist policies introduced by some preference-giving countries, had had a particularly acute effect in the case of Cuba because of the economic blockade that limited access to the important market of a neighbouring country, which was the only preference-giving country to deny beneficiary status to Cuba.

45. Her country associated itself with other beneficiary countries in rejecting the concept of differential application of preferential treatment aimed at reducing the volume of preferential imports from developing countries. That concept was impeding the fulfilment of one of the GSP objectives, namely the promotion of the export earnings of developing countries.

46. In conclusion, she expressed appreciation for the assistance given to her country through the UNCTAD/UNDP Project in training specialists to make more effective use of GSP benefits.

Chapter III

ORGANIZATIONAL MATTERS

(a) Opening of the session

47. The eleventh session of the Special Committee on Preferences was opened on 3 May 1982 by Mr. Adel El Gowhari (Egypt).

(b) Election of officers

(Agenda item 1)

48. At the 111th meeting of the Special Committee on 3 May 1982, Mr. F. Grünwaldt (Uruguay) was elected Chairman. Also at that meeting, Mr. D. Jayasekera (Sri Lanka), Mr. I. Sy (Senegal), Mr. J. Goodman (New Zealand), Mr. G. Mazal (Austria) and Mr. R. Daniel (Poland) were elected Vice-Chairmen, and Mr. A.-A. Al-Duaij (Kuwait) was elected Rapporteur.

(c) Adoption of the agenda and organization of work

(Agenda item 2)

49. Also at that meeting, on 3 May 1982, the Special Committee adopted as its agenda for its eleventh session the provisional agenda approved at its tenth session (TD/B/C.5/30). Accordingly, the agenda for the session read as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences
4. Consultations on harmonization and improvement of the rules of origin
5. Other questions related to the implementation of the generalized system of preferences
6. Technical assistance in connection with the generalized system of preferences
7. Provisional agenda of the twelfth session of the Special Committee on Preferences
8. Other business
9. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

50. At the same meeting, the Special Committee broadly endorsed the organization of work of the session proposed by the secretariat (TD/B/C.5/L.50).

(d) Attendance<sup>1/</sup>

51. The following States members of UNCTAD were represented at the session: Algeria; Argentina; Australia; Austria; Bangladesh; Belgium; Bolivia; Brazil; Bulgaria; Burundi; Canada; Chile; China; Colombia; Cuba; Czechoslovakia; Denmark; Dominican Republic; Ecuador; Egypt; El Salvador; Finland; France; German Democratic Republic; Germany, Federal Republic of; Ghana; Greece; Hungary; India; Indonesia; Iran; Iraq; Ireland; Israel; Italy; Ivory Coast; Japan; Jordan; Kenya; Kuwait; Lebanon; Libyan Arab Jamahiriya; Madagascar; Malaysia; Malta; Mexico; Morocco; Netherlands; New Zealand; Nicaragua; Nigeria; Norway; Pakistan; Peru; Philippines; Poland; Qatar; Republic of Korea; Romania; Saudi Arabia; Senegal; Singapore; Spain; Sri Lanka; Sudan; Sweden; Switzerland; Syrian Arab Republic; Thailand; Trinidad and Tobago; Tunisia; Turkey; Union of Soviet Socialist Republics; United Arab Emirates; United Kingdom of Great Britain and Northern Ireland; United Republic of Tanzania; United States of America; Uruguay; Venezuela; Yemen; Yugoslavia; Zaire.

52. The following specialized agencies were represented at the session: Food and Agriculture Organization of the United Nations; International Monetary Fund. The General Agreement on Tariffs and Trade was also represented.

53. The following intergovernmental organizations were represented at the session: European Economic Community; European Free Trade Association, League of Arab States; Organization for Economic Co-operation and Development; Permanent Secretariat of the General Treaty on Central American Economic Integration.

(e) Credentials

(to be completed)

(f) Provisional agenda of the twelfth session  
of the Special Committee on Preferences

(Agenda item 7)

(to be completed)

(g) Adoption of the report of the  
Special Committee on Preferences to the  
Trade and Development Board

(Agenda item 9)

54. At its closing meeting, on ... May 1982, the Special Committee adopted, with amendments, the draft report on its eleventh session (TD/B/C.5/L.51 and Add. 1-5), and authorized the Rapporteur to complete the report as appropriate.

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<sup>1/</sup> For the list of participants, see TD/B/C.5/Misc.1 and Add.1. In accordance with Conference resolution 21 (II), participation in sessions of the Special Committee is open to all members of UNCTAD.