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REPORT

on the proposal for a Council regulation applying a scheme of generalised tariff preferences for the period 1 January 2002 to 31 December 2004
(COM(2001)293 – C5-0374/2001 – 2001/0131(CNS))

Committee on Development and Cooperation

Rapporteur: Joaquim Miranda

Symbols for procedures

- * Consultation procedure
majority of the votes cast
- **I Cooperation procedure (first reading)
majority of the votes cast
- **II Cooperation procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- *** Assent procedure
*majority of Parliament's component Members except in cases
covered by Articles 105, 107, 161 and 300 of the EC Treaty and
Article 7 of the EU Treaty*
- ***I Codecision procedure (first reading)
majority of the votes cast
- ***II Codecision procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- ***III Codecision procedure (third reading)
majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission)

Amendments to a legislative text

In amendments by Parliament, amended text is highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.

CONTENTS

	Page
PROCEDURAL PAGE	4
LEGISLATIVE PROPOSAL	5
DRAFT LEGISLATIVE RESOLUTION.....	8
EXPLANATORY STATEMENT	9
OPINION OF THE COMMITTEE ON AGRICULTURE AND RURAL DEVELOPMENT	13

PROCEDURAL PAGE

By letter of 13 July 2001 the Council consulted Parliament, pursuant to Article 133 of the EC Treaty, on the proposal for a Council regulation applying a scheme of generalised tariff preferences for the period 1 January 2002 to 31 December 2004 (COM(2001)293 – 2001/0131(CNS)).

At the sitting of 3 September 2001 the President of Parliament announced that she had referred this proposal to the Committee on Development and Cooperation as the committee responsible and all the committees interested in delivering an opinion (C5-0374/2001).

The Committee on Development and Cooperation appointed Joaquim Miranda rapporteur at its meeting of 25 June 2001.

It considered the Commission proposal and the draft report at its meetings of 11 July, 10 October and 20 November 2001.

At the last meeting it adopted the draft legislative resolution unanimously, having decided to apply the procedure without debate, pursuant to Rule 114(1) of the Rules of Procedure.

The following were present for the vote: Joaquim Miranda, chairman and rapporteur; Margrietus J. van den Berg and Fernando Fernández Martín, vice-chairmen; Teresa Almeida Garrett (for Jürgen Zimmerling), John Bowis (for John Corrie), Giuseppe Brienza, Marie-Arlette Carlotti, Maria Carrilho, Nirj Deva, Richard Howitt, Renzo Imbeni, Glenys Kinnock, Karsten Knolle, Paul A.A.J.G. Lannoye, Nelly Maes, Miguel Angel Martínez Martínez, Hans Modrow, Didier Rod, Ulla Margrethe Sandbæk, Francisca Sauquillo Pérez del Arco, Michel Ange Scarbonchi (for Jean-Claude Fruteau), Karin Scheele (for Karin Junker), Charles Tannock (for Bashir Khanbhai), Bob van den Bos and Stavros Xarchakos.

The opinion of the Committee on Agriculture and Rural Development is attached.

The report was tabled on 21 November 2001.

The deadline for tabling amendments will be at 12 noon on 26 November 2001.

LEGISLATIVE PROPOSAL

Proposal for a Council regulation applying a scheme of generalised tariff preferences for the period 1 January 2002 to 31 December 2004 (COM(2001)293 – C5-0374/2001 – 2001/0131(CNS))

The proposal is amended as follows:

Text proposed by the Commission¹

Amendments by Parliament

Amendment 1
New recital 1a

1a. The European Union's common commercial policy must be consistent with and consolidate the objectives of development policy, in particular the eradication of poverty and the promotion of sustainable development in the developing countries.

Justification

The aim of this amendment is to draw attention to the link between trade and development, which must be emphasised if due account is to be taken of the constraints imposed on the developing countries by two factors, supply and competitiveness, factors which make moves to step up cooperation and assistance essential with a view to improving the technological, production, administrative and logistical capabilities of the developing countries, thereby enabling them to benefit from the process of opening up markets.

Amendment 2
New recital 8 a

8a. Where preferential duty rates, calculated in accordance with Council Regulation 2820/98 provide a higher tariff reduction, these preferential duty rates shall continue to apply.

¹ OJ not yet published.

Justification

The present proposal has regrouped products classified by the 1998 Regulation as semi-sensitive, sensitive and very sensitive in one single category of sensitive products. Such simplification can lead to very harmful consequences regarding the preferential import duties of some of those products. There are cases (like raw tobacco and tobacco products of CN code 24) where the import duties will more than double compared to the current duties established by the 1998 Regulation. This is inadmissible and will have a very negative impact on the exports of the developing countries. Therefore, in such cases, the preferential duty rates established by the 1998 Regulation shall continue to apply.

Amendment 3 Article 7 New paragraph 2 a

2a. Where preferential duty rates, calculated in accordance with Article 2 of Council Regulation 2820/98 on Common Customs Tariff ad valorem duties applicable on 31 December 2001, provide a tariff reduction, for the products referred to in paragraph 2, of more than 3.5 percentage points, these preferential duty rates shall apply as long as the reduction is higher than 3.5 percentage points.

Justification

The present proposal has regrouped products classified by the 1998 Regulation as semi-sensitive, sensitive and very sensitive in one single category of sensitive products. Such simplification can lead to very harmful consequences regarding the preferential duties of some of those products which can have a less favourable modulation mechanism than the one of the 1998 Regulation. This is inadmissible and will have a very negative impact on the exports of the developing countries. Therefore, in such cases, the preferential duty rates established by the 1998 Regulation shall continue to apply.

Amendment 4

Article 8
New paragraph 3 a

3a. Where preferential duty rates, calculated in accordance with Article 2 of Council Regulation 2820/98 on Common Customs Tariff ad valorem duties applicable on 31 December 2001, provide a tariff reduction for the products referred to in the first sentence of paragraph 1 and in the first sentence of paragraph 3, of more than 7 percentage points, these preferential duty rates shall apply as long as the reduction is higher than 7 percentage points.

Justification

The present proposal has regrouped products classified by the 1998 Regulation as semi-sensitive, sensitive and very sensitive in one single category of sensitive products. Such simplification can lead to very harmful consequences regarding the preferential duties of some of those products which can have a less favourable modulation mechanism than the one of the 1998 Regulation. This is inadmissible and will have a very negative impact on the exports of the developing countries. Therefore, in such cases, the preferential duty rates established by the 1998 Regulation shall continue to apply.

DRAFT LEGISLATIVE RESOLUTION

European Parliament legislative resolution on the proposal for a Council regulation applying a scheme of generalised tariff preferences for the period 1 January 2002 to 31 December 2004 (COM(2001)293 – C5-0374/2001 – 2001/0131(CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(2001)293¹),
 - having been consulted by the Council pursuant to Article 133 of the EC Treaty (C5-0374/2001),
 - having regard to Rule 67 of its Rules of Procedure,
 - having regard to the report of the Committee on Development and Cooperation and the opinion of the Committee on Agriculture and Rural Development (A5-0404/2001),
1. Approves the Commission proposal as amended;
 2. Calls on the Commission to alter its proposal accordingly, pursuant to Article 250(2) of the EC Treaty;
 3. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;
 4. Asks to be consulted again if the Council intends to amend the Commission proposal substantially;
 5. Instructs its President to forward its position to the Council and Commission.

¹ OJ C not yet published.

EXPLANATORY STATEMENT

1. The aim of this proposal is to review and renew the basic regulation (Council Regulation No 2820/98 of 21 December 1998 applying a multiannual scheme of generalised tariff preferences for the period 1 July 1999 to 31 December 2001), which will expire at the end of this year. It is proposed that the scheme be extended for the period from 1 January 2002 to 31 December 2004, i.e. for three further years.

What are the main features of the proposed scheme?

(i) The proposal for a regulation provides for (Article 1):

- general arrangements,
- special arrangements for the Least-Developed Countries,
- special arrangements to combat drug production and trafficking,
- special incentive arrangements for the protection of labour rights, and
- special incentive arrangements for the protection of the environment.

(ii) Instead of the four categories of products in the current regulation, products are divided up into two categories: sensitive products, which enjoy a tariff reduction, and non-sensitive products, which enjoy duty-free access.

(iii) In order to prevent 'erosion of preferences' (resulting from general tariff reductions applied over the last few years), a flat-rate reduction of 3.5 percentage points is being proposed.

(iv) To be eligible for this preferential treatment, countries and sectors must have met the criteria set out in the regulation during three consecutive years. Eligibility is determined once a year.

(v) The additional trade preferences to be applied under the aforementioned special incentive arrangements (protection of labour rights and of the environment) are equal to double the advantages granted under the general arrangements.

(vi) The special arrangements to combat drug production and trafficking are extended by this proposal, with a view to helping the Andean countries and the countries of Central America to replace drug crops with other products. This preferential scheme is backed up by a detailed procedure to monitor and evaluate measures taken by these countries to diversify their exports, combat drug production and promote labour rights and sustainable management of tropical forests.

2. The proposal is essentially aimed at extending the present system of generalised tariff preferences whilst incorporating the recent amendments introduced by the initiative for the 49 least-developed countries (known as the 'everything but arms' initiative, introduced by Council Regulation No 416/2001 of 28 February 2001 amending the basic regulation with a view to extending duty- and quota-free access to all products originating in least-developed countries). We are all aware of the importance of trade policy vis-à-vis development problems, but also of the limitations of such a policy. Moreover, the application of a system of generalised preferences over the last 30 years (since 1971) has shown that this system does not foster the integration of such countries into the world trading system. As Parliament mentioned several times in its resolution of 16 May 2001 on the 'everything but arms'

initiative, the obstacles include not merely tariff barriers, but also customs and technical barriers and health and hygiene standards, which have become more important in recent years and hampered the integration of these countries into the world trading system and their efforts to export goods.

3. The system of generalised preferences (SGP) is an exclusively tariff-based instrument, set up in 1971 on the basis of a European Community initiative in the UN Conference on Trade and Development (UNCTAD) with a view to lowering customs duties on exports of certain agricultural and industrial products from developing countries, its main purpose being to help industrialise the Third World. At that time, high tariffs were the main obstacle to trade. The situation now is quite different, since the average rate of industrial tariffs has dropped considerably as a result of successive rounds. On the other hand, non-tariff barriers have grown in importance: for some time now, technical rules and standards and customs barriers in the field of public health have been mainly responsible for making effective access to the industrialised countries' markets difficult for developing countries.

4. We know that international trade has made a major contribution to the creation of wealth and jobs in a large number of countries. However, the distribution of profits at world level is neither fair nor acceptable because it is accompanied by increasing disparities. It is a fact that the least-developed countries' share of international trade has fallen over the last few decades. Measures such as those contained in the Commission proposal are extremely important because they seek to increase the least-developed countries' profits from world trade by reducing the customs duties on their main exports. It should be noted that tariffs remain high in a number of areas, in particular:

- in the textiles and agriculture sectors, in which the developing countries often enjoy high comparative advantages;
- in the primary processing sector, where the combination of zero duties on imported commodities and substantial duties on the corresponding processed products continues to apply, a situation rightly described as tariff escalation, since it acts as a deterrent to processing on the spot in the country of origin;
- tariff peaks, which remain significant in certain cases, despite the levelling-off measures which the European Union has taken, to a greater extent than the United States, for example.

5. Whilst emphasising the importance of this proposal in the context of development and the link between trade and development, your rapporteur would also like to point out that a fairer system of international trade also depends on a range of adjustments at world level. Trade agreements, legislation on patents, exchanges in the spheres of education and training, medical initiatives, measures to encourage the dissemination of information and communication technologies and environmental policies also play a key role in enabling the less developed countries to make economic and social progress and to diversify their production and exports.

In addition, what is also needed is a multilateral trading system based on clear, fair and equitable rules and, with that aim in view, we need international rules and institutions to govern relations between trade and the environment, health or social standards. This

economic regulation system must also have the objectives of eradicating poverty and promoting sustainable development, objectives endorsed by the international community and the European Union.

6. Your rapporteur's Amendment 1 tackles the precise issue of the link between trade and development: due account must also be taken of the constraints imposed on the developing countries by two factors, supply and competitiveness; the common commercial policy must be accompanied by support measures and assistance designed to improve the technological, production, administrative and logistical capabilities of the developing countries. The ability of the developing countries to benefit from the opening-up of markets is linked to technology transfer, access to information and world networks and strategies to foster investment and the development of the private sector. Accordingly, appropriate support measures are required if all these aspects are to be taken into account and reference must be made to them in a new recital.

7. The purpose of Amendments 2, 3 and 4 is the following: although compared to Regulation 2820/98 the classification of non-sensitive products has not changed, all other products classified by the 1998 Regulation as semi-sensitive, sensitive and very sensitive have been grouped together in a second, new category of sensitive products. The classification of many of these products as sensitive products within the meaning of Article 7(2) of the proposal for a regulation might have very negative consequences for their preferential import duties and the modulation mechanism. Such a proposal could have serious repercussions in terms of reducing customs duties on certain products which would be classified as sensitive as from next year although they have been, and still are, in other categories such as the semi-sensitive category. It is incomprehensible, and surely unacceptable, for such a proposal aimed at easing access to Community markets for products from developing countries, with a view to boosting economic development in those countries, to actually result in heavier customs duties for some products. This problem concerns, in particular, many products currently classified as semi-sensitive which would be transferred to the sensitive category. These include fish and crustaceans (Chapter 03), live plants and floricultural products (Chapter 06), certain fruit, roasted coffee, vanilla, carnations, certain oils, prepared and preserved fish, as well as various industrial products such as trunks and suitcases (Chapter 4202), umbrellas, etc. As rapporteur, I would be very keen to have an exhaustive list of these products. However, unfortunately, the Commission proposal ignores this point and is extremely complex, owing to its innumerable annexes. While the proposal should, like any European legislation, be simple and clear, the people for whom it is intended will find it difficult to understand.

To come back to the justification for amendments 2, 3 and 4, the case of tobaccos and manufactured tobacco substitutes (Chapter 24) provides a good illustration of the harmful effects which this proposal could have. Import duties on raw, non-manufactured tobacco used by the European tobacco industry will rise from 6.4% to 14.9% and from 5.9% to 7.7%, depending on the type of tobacco, whereas in the case of imports of manufactured tobacco, such as cigars and cigarillos, duties will rise from 9.1% to 22.5%! One can imagine the impact on producers and industrialists in countries such as Cuba, Indonesia, the Dominican Republic and Ecuador, where some 500 000 people depend on this sector for their livelihood, not to mention the manufacture of cigars and cigarillos, which is a highly skilled craft. Amendments 2,3 and 4 are therefore aimed at avoiding harmful consequences for key economic sectors in developing countries by ensuring that, where preferential duty rates, calculated in accordance

with the 1998 Regulation, provide for a higher tariff reduction, these preferential duty rates should continue to apply.

OPINION OF THE COMMITTEE ON AGRICULTURE AND RURAL DEVELOPMENT

for the Committee on Development and Cooperation

on the proposal for a Council regulation applying a scheme of generalised tariff preferences for the period 1 January 2002 to 31 December 2004
(COM(2001) 293 – C5-0374/2001 – 2001/0131 (CNS))

Draftsman: Arlindo Cunha

PROCEDURE

The Committee on Agriculture and Rural Development appointed Arlindo Cunha draftsman at its meeting of 12 September 2001.

It considered the draft opinion at its meetings of 16 October and 5 November 2001.

At the last meeting it adopted the following conclusions unanimously.

The following were present for the vote: Joseph Daul, acting chairman; Lutz Goepel (for Arlindo Cunha, draftsman); Danielle Auroi, António Campos, Michel J.M. Dary, Christel Fiebiger, Georges Garot, Elisabeth Jeggle, Salvador Jové Peres, Hedwig Keppelhoff-Wiechert, Heinz Kindermann, Dimitrios Koulourianos, Xaver Mayer, Neil Parish, Mikko Pesälä and Agnes Schierhuber.

SHORT JUSTIFICATION

The CAP is facing a growing process of globalisation and the opening up of agricultural markets. This is due to its inherently supranational nature and the fact that it embodies the principle of Community preference, combined with the vulnerability shown by many forms of Community agricultural production towards more open markets. It should be borne in mind that globalisation can jeopardise the multifunctionality characterising the *European model of agriculture* and clash with the repeated demands of our citizens regarding the goods and services of public interest it creates, such as sustainable development and the preservation of biodiversity, spatial planning, guaranteed healthy and quality products, protection of animal welfare and the conservation of rural communities.

On this basis, the current process of liberalisation of agricultural trade has *three strands* which, despite having different objectives, are interdependent and their cumulative effects have an impact on Community agriculture:

- (a) the development of *multilateralism* in the framework of agricultural negotiations in the WTO currently under way pending the relaunching of a global round at the Doha Conference;
- (b) the consolidation of *open regionalism*, of which the EU is the keenest advocate, by means of a long list of bilateral agreements with third countries. The most recent examples of this are the renewal of preferences for the ACP countries in the Cotonou Agreement, the agreements entered into with Mexico and South Africa, the proposals for the dismantling of tariffs submitted to MERCOSUR and, finally, the recent proposal for stabilisation and association agreements for the Balkans;
- (c) the progressive reinforcement of *unilateral concessions* with a view to incorporating developing countries in world trade, in which the *system of generalised preferences* occupies an important position.

This context includes the Commission proposal implementing the guidelines adopted in 1994 (COM(94) 212) *for the period 2002-2004*, since the current system (Regulation 2820/98) expires on 31 December 2001. In the light of past experience the proposal is designed to cover various *objectives*:

- (a) a consolidation and simplification of the system of *modulation*, turning the four existing categories of products (non-sensitive, semi-sensitive, sensitive and very sensitive) into two (*non-sensitive and sensitive*). As a result, duty is still suspended for *non-sensitive products* and *sensitive products* which, significantly, are mostly agricultural products, see a reduction of 3.5 percentage points in *ad valorem* duties and of 30% in specific duties.
- (b) an improvement in the system of *graduation* dependent on the degree of development of countries, with an annual review of the list of beneficiary countries on the basis of recent statistics, subject to compliance with the graduation criteria over three consecutive years. This makes the system more objective and automatic and offers the beneficiary countries more guarantees.
- (c) in view of the poor results achieved by the *special incentive arrangements* (social and environmental), they are being stepped up and simplified to make them more attractive. The preferences for sensitive products are to be doubled, certification of compliance with labour standards in the inputs used is to be eliminated, the list of ILO

conventions with which compliance is required is to be expanded and environmental standards are being relaxed because there are as yet no internationally recognised certification systems in this field.

- (d) Finally, the *arrangements supporting Least Developed Countries* (Regulation 416/2001) are being incorporated and sustainable development criteria are being introduced into the *arrangements to combat drug production and trafficking*.

In your draftsman's opinion, maintaining the category of sensitive products is compatible with upholding the European model of agriculture and preserves the margin for manoeuvre needed to continue the process of reforming the CAP. At the same time, it will facilitate multilateral negotiations by strengthening the Community positions in favour of introducing non-commercial considerations and differentiated treatment for developing countries.

Furthermore, it will reduce the risks of diverting trade and the erosion of trade preferences, whilst preserving the global neutrality of the level of liberalisation compared with the recent past. In this context your draftsman considers that the proposal is an adequate response to both the requirements of the CAP and those of development policy and trade policy and he will not be proposing any amendments.