

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(90) 686 final

Brussels, 20 February 1991

Proposal for a
COUNCIL REGULATION (EEC)

on the application of the provisions of Community law
to the Canary Islands

Proposal for a
COUNCIL DECISION

setting up a programme of options specific to the remote
and insular nature of the Canary Islands (POSEICAN)

(presented by the Commission)

CONTENTS

	<u>Page</u>
<u>EXPLANATORY MEMORANDUM</u>	
1. PROBLEMS OF THE REMOTER REGIONS IN THE COMMUNITY	4
2. THE SITUATION OF THE CANARY ISLANDS	5
2.1 The socio-economic context	6
2.2 The status of the Canary Islands in the Community	7
2.2.1 The options on Spain's accession to the Community	7
2.2.2 Developments affecting the status of the Canary Islands since accession	9
2.3 The Commission's proposals	11
3. CHANGES IN THE STATUS OF THE CANARY ISLANDS IN THE COMMUNITY	12
3.1 Application of the common agricultural policy (CAP)	12
3.2 Application of the common fisheries policy (CFP)	14
3.3 Tax and customs arrangements	14
3.3.1 Recognition of particular indirect taxation arrangements	14
3.3.2 Progressive adoption of the Common Customs Tariff (CCT)	16
4. APPLICATION OF THE COMMON POLICIES TO TAKE ACCOUNT OF ACTUAL CONDITIONS IN THE CANARY ISLANDS: THE POSEICAN PROGRAMME	17
4.1 Taking account of the special characteristics of the Canary Islands in applying the common policies	18
4.2 Measures designed to mitigate the effects of the exceptional geographical situation of the Canary Islands	18
4.2.1 Agricultural supplies	19
4.2.2 Industrial products	21
4.2.3 Free zones	22
4.3 Measures to assist Canary Island products	22
4.3.1 Agricultural products	22
4.3.2 Special measures in respect of fishery products	25
4.4 Financing POSEICAN	25
5. <u>FINANCIAL STATEMENT</u>	27
ANNEX 1	28
ANNEX 2	29
ANNEX 3	32
ANNEX 4	34

PROPOSAL FOR A COUNCIL REGULATION (EEC)

on the application of the provisions of Community law to the
Canary Islands

35

PROPOSAL FOR A COUNCIL DECISION

setting up a programme of options specific to the remote and
insular nature of the Canary Islands (POSEICAN)

44

EXPLANATORY MEMORANDUM

1. PROBLEMS OF THE REMOTER REGIONS IN THE COMMUNITY

1. Some Member States of the Community include regions which do not form part of continental Europe (French overseas departments, Canary Islands, Azores and Madeira). In terms of their specific characteristics (remoteness, small size, island and/or isolated location, tropical products, deficient economic structures and low levels of development), these regions differ markedly from the rest of the Community.

2. The single market will throw up new opportunities for local businesses as controls are dismantled and competition injected into activities that suffer from the compartmentalization of national markets. But it will also represent a challenge for them because of their intrinsic handicaps, and this raises a number of questions for the Community, and in particular:

- What steps can be taken to ensure that these regions take advantage of the dynamic of the Community-wide market despite the particular constraints which they face and which stem in particular from their remoteness and insularity?
- Will those specific constraints have to be remedied solely by applying the revised rules for the structural Funds or will special adjustments also have to be made in the way the common policies are implemented in these regions?

3. The Commission gave a general reply to these questions when it decided in 1987 to deal with all the problems of the remoter regions together and to provide an appropriate framework for the application of the common policies in each of these regions.

4. As far as the French overseas departments are concerned, the Council adopted an appropriate framework for the application of the common policies (POSEIDOM)¹ in December 1989. The adjustments and measures envisaged are designed to mitigate the specific constraints they face while limiting the effects to the local economies.

5. Similarly, following the preliminary report it sent to the Portuguese authorities² and the latter's reply, the Commission is presenting, at the same time as its proposals for the Canary Islands, an appropriate framework for the application of the common policies to the Azores and Madeira in the form of a multiannual action programme similar to POSEIDOM.³

2. THE SITUATION OF THE CANARY ISLANDS

6. Although the socio-economic problems caused by the remoteness of the Canary Islands are generally similar to those of the French overseas departments, the Azores and Madeira (see 2.1 above), the situation differs because of the very special conditions applied to their integration into the common policies under the Act of Accession of Spain (see 2.2 below).

1 Council Decision 89/688/EEC of 22 December 1989 setting up a programme of options specific to the remote and insular nature of the overseas departments, OJ No L 399, 30.12.1989, p. 39.

2 Commission Report on the Azores and Madeira to be addressed to the Portuguese authorities - SEC(90)85 final, 17 January 1990; sent for information to the Council and Parliament on 13 July 1990.

3 Proposal for a Council Decision setting up a programme of options specific to the remote and insular nature of Madeira and the Azores (POSEIMA) - COM(90)687.

2.1 THE SOCIO-ECONOMIC CONTEXT

7. The population of the Canary Islands was more than 1 500 000 in 1988 (about 0.45% of the Community total) and is expanding significantly. As a result, close on 50% of the population are under 25 and 33% under 16. There is a high rate of unemployment (22.4% in 1988; EUR=10.2%), particularly among the under 25s (51% in 1986).

8. The economic and social life of the Canary Islands is subject to a combination of permanent constraints:

- Their remote and insular nature - in an isolated position along the African coast more than 1000 km from the Iberian peninsula, the Canary Islands are remote from supply centres and export markets; this handicap is compounded by the fact that they form an archipelago consisting of seven islands, divided in two administrative areas.⁴
- Geography and climate - a volcanic escarpment which limits the extent of the utilized agricultural area; a dry climate and a shortage of water;
- The reduced dimension of the island economies, which rules out economies of scale, and the lack of exploitable raw materials (including fish resources in Canary Island waters), which makes them dependent on the outside world;
- Concentration of agriculture on a few export products (mainly bananas

4 In the west, the Province of Santa Cruz de Tenerife, which comprises the Islands of Tenerife, Hierro, Gomera and Palma and which is principally an agricultural area; in the east, the Province of Las Palmas, which comprises the Islands of Gran Canaria, Fuerteventura and Lanzarote, which is the main area for business, tourism, banks and the construction industry).

and tomatoes) which account for 70% of overall agricultural production and 60% of the total value of exports;

- A trade balance which is in structural deficit with a rate of cover of imports by exports of 29.3% (1987). Overall, 72% of trade is with the EEC and 54% with the rest of Spain. There is a noticeable tendency for trade with the rest of Spain to increase, for trade with the Community of Ten and with EFTA to remain unchanged and for trade with the rest of the world to fall.

10. On account of the above characteristics, the Canary Islands are one of the regions in the Community facing the most acute problems.⁵ As such, they qualify for the priority accorded to Objective 1 regions under the revised rules for the structural Funds.

2.2 THE STATUS OF THE CANARY ISLANDS IN THE COMMUNITY

2.2.1 The options on Spain's accession to the Community

11. The problems associated with their insular nature have been acknowledged ever since the Canary Islands became part of Castile in the fifteenth century. This awareness found practical expression over the centuries in the application of successive exceptional arrangements designed to compensate for the disadvantages stemming from the archipelago's geographical isolation. Thus, since 1852, the Canary Islands have benefited from a system of customs exemptions on imports (free port), including special arrangements for the imposition of duties (currently the "arbitrio insular"). Although the Canary Islands form one of the 17 autonomous Spanish communities, their domestic legal status has one special feature: under the Spanish Constitution any change to their economic and fiscal system requires the prior approval of the autonomous community. The 1982 statute granting autonomy confirms this provision,

⁵ Basic statistics are set out in Annex 1.

applying it specifically to cases where a change in these arrangements would result from the accession of Spain to "international economic communities".

12. On Spain's accession to the Community, it was therefore decided to introduce an arrangement whereby Community legislation was only partly applied in the Canary Islands to allow for their insular nature. The principle adopted was application to the Canary Islands of all the provisions of the Treaties and hence of the policies formulated on the basis of those provisions (and in particular regional policy, social policy, competition policy, transport policy, freedom of establishment and free movement of services), subject to the major derogations laid down in the Act of Accession (Articles 25 and 155 and Protocol 2);⁶ non-application of the common agricultural policy (CAP) and the common fisheries policy (CFP) except in the case of structural matters; exclusion of the Canary Islands from the customs territory of the Community and from the territorial scope of the common VAT system. One result of this arrangement is that free movement of goods cannot be based on the rules set out in the Treaty; this means that, for agricultural products, the application of tariff quotas and reference prices are applied in Canary Islands-EEC trade and the import-refund mechanism in EEC-Canary Islands trade.

13. There is a review clause not subject to any time limitation and formal amendment of the Act of Accession is not necessary. Article 25(4) of the Act of Accession provides as follows:

"At the request of the Kingdom of Spain, the Council, acting unanimously on a proposal from the Commission and after consulting the Assembly, may:

⁶ A summary of the provisions of the Act of Accession and the main adjustments made since then is set out in Annex 2.

- decide to include the Canary Islands and Ceuta and Melilla in the customs territory of the Community,
- define the appropriate measures aimed at extending to the Canary Islands and to Ceuta and Melilla the provisions of Community law in force.

On a proposal from the Commission acting on its own initiative or at the request of a Member State, the Council, acting unanimously and after consulting the Assembly, may decide to make such adjustments to the arrangements applicable to the Canary Islands and to Ceuta and Melilla as may prove necessary."

2.2.2 Developments affecting the status of the Canary Islands since accession

14. Community structural assistance for the Canary Islands since 1986 (see Annex 3) bears witness to the fact that Community solidarity with the Canary Islands has been fully operative since accession. This solidarity is particularly evident under the revised rules for the structural Funds, with the Canary Islands benefiting from the priority accorded to the regions covered by Objective 1. A major effort is being made to increase and concentrate the Community resources available for those regions. This priority has now been given tangible expression by the adoption and implementation of the Community support framework (CSF) for Spain. In addition to a multiregional section this includes a specific subframework for the Canary Islands drawn up by the regional authorities and administered by them. The efforts of remoter regions such as the Canary Islands to catch up have also been boosted by the adoption of a Community Initiative - the REGIS scheme⁷ - specifically for these regions.

15. However, the limits of the arrangements agreed on when Spain joined the Community have become apparent during the first years of application, particularly as regards conditions governing access of agricultural and fishery products from the Canary Islands to the customs territory of the

⁷ OJ No C 196, 4.8.1990, p. 15.

Community and the rest of Spain in particular. In view of the problems encountered and the rigidity of applying Protocol 2 in a period when developments will be influenced by completion of the single market on 31 December 1992 and termination of the transitional period for Spanish accession on 31 December 1995, serious consideration was given to this matter in various Canary Islands circles; as a result the Canary Islands Parliament proposed, in its resolution of 21 December 1989, moves towards greater integration with the Community through the appropriate application of the CAP, the CFP and "to the extent necessary" commercial policy and Community customs legislation, to be introduced over a suitable transitional period and accompanied by the "necessary derogations and arrangements" aimed at "averting the adverse effects that might result in the short and medium term from application of all the common policies".

16. On 2 February 1990 the Commission sent a report to the Spanish authorities and also to the Council and Parliament for information purposes.⁸ It contained a clear and objective appraisal of the situation of the Canary Islands and studied the various approaches possible under Community law for tackling their problems; in doing so, it highlighted the possibilities offered by an adjustment to the Canary Islands' status with a view to the application of all the common policies in a way adapted to the islands' special situation; this is in line with the Community's general approach to the remoter regions, which was given its first tangible expression in the adoption and implementation of the POSEIDOM programme.

17. On 7 March 1990, in accordance with Article 25(4) of the Act of Accession, Spain asked the Commission to draw up concrete proposals with a view to integrating the Canary Islands more closely into the Community in the fields of the CAP, the CFP, the customs union and the common commercial

⁸ Commission Report on the Canary Islands adopted on 17 January 1990 (SEC(90) 83 final).

policy; this move towards closer integration was to be accompanied by a whole series of exceptional arrangements to take account of the insular nature of the territory, its geographical situation and the special economic and tax arrangements which it has always enjoyed.

2.3 THE COMMISSION'S PROPOSALS

18. In view of the above, it is proposed that the Council, acting on the basis of the first subparagraph of Article 25(4) of the Act of Accession, take steps to integrate the Canary Islands more closely into Community policies. Closer integration has a threefold objective:

- to allow the Canary Islands to play a full part in the dynamic of the internal market by applying the rules in force throughout the rest of the Community and by making the best possible use of existing Community policies and instruments;
- to acknowledge the region's special situation by taking into account in the application of the common policies its very distinctive natural and historical conditions where these conditions clearly mark the region out from the rest of the Community;
- in doing so, to contribute to the economic and social development of the Canary Islands by providing Community finance for the specific measures proposed.

19. The Commission is accordingly presenting two proposals to the Council:

firstly, a Regulation based on the first subparagraph of Article 25(4) of the Act of Accession, relating to the adjustment of the status of the Canary Islands and the conditions for the application of the CAP,

the CFP, the customs union and special tax arrangements on a gradual basis and according to a suitable timetable;

secondly, a Decision implementing the above-mentioned Regulation in the form of a programme of options specific to the remote and insular nature of the Canary Islands (POSEICAN), which lays down the adjustments and specific measures to be introduced in the application of certain common policies and provisions of Community law where this is justified in order to take account of the specific constraints affecting the Canary Islands.

3. CHANGES IN THE STATUS OF THE CANARY ISLANDS IN THE COMMUNITY

3.1 APPLICATION OF THE COMMON AGRICULTURAL POLICY (CAP)

20. The application of the common agricultural policy in accordance with the provisions applicable to mainland Spain (transitional period to end on 31 December 1995) with the exception of additional trade mechanisms as regards supplies to the Canary Islands and subject to adjustments and specific measures to be provided for in the action programme, will mean:

- abolition of reference prices and quotas, i.e. free movement for local agricultural products under the same conditions as products from the rest of Spain. The offer prices applicable in Spain would then be applied to the Canary Islands;
- application to locally grown bananas of the Community rules to be drawn up by 31 December 1992;⁹

⁹ Naturally, the relevant provisions of Protocol 2 to the Act of Accession will remain in force until common measures are introduced.

- eligibility for the intervention measures provided for under the market organizations;
- non-applicability of refunds for agricultural products supplied to the Canary Islands, and application of the Common Customs Tariff (CCT) to goods imported into the Canary Islands from third countries.

21. The application of agricultural structural measures should be used to adapt the structure of the industry in the Canary Islands to enable the market mechanisms to be applied.

22. Given the remoteness of the islands, the need to maintain a reasonable standard of living there and the special conditions of local production, the application of the CAP should be accompanied by special arrangements for supply and specific measures for local production to be defined within the framework of the POSEICAN action programme. The application of the CAP to the Canary Islands will be conditional on these special supply arrangements. For this reason the adjustment to the status of the Canary Islands in respect of the application of the CAP and its customs and tax implications cannot take effect until these special arrangements come into force, at the latest by the end of 1991, with the exception of the rules in force for mainland Spain concerning access of Spanish products to the rest of the Community market, which could apply to Canary Island products sent to other parts of the Community as soon as the regulation altering the status of the Canary Islands enters into force. Pending the adoption of the specific supply arrangements, the provisions of the Act of Accession relating to the application of the CAP in the Canary Islands and the associated tax and customs provisions must remain in force, with the exception of those governing the access of agricultural products originating in the Canary Islands to the rest of the Community market.

3.2 APPLICATION OF THE COMMON FISHERIES POLICY (CFP)

23. The Commission considers that, in general, Community legislation adequately covers all the production of the Canary Islands, provided that special measures are taken concerning producers' organizations, the fixing of a price for Canary Island sardines and, as far as possible, the present advantageous conditions for the export of certain Canary Island products; these measures will be defined in the framework of existing legislation in the POSEICAN programme. The immediate application of the CFP in accordance with the provisions applicable to the rest of Spain (transitional period to end on 31 December 1995) will make it possible inter alia:

- to apply in full the structural measures benefiting the fisheries sector, which should be used to adapt the structure of the industry in the Canary Islands to enable the market mechanisms to be applied;
- to implement in their entirety the fisheries agreements concluded between the Community and third countries;
- to dispense with quotas and reference prices, i.e. to allow free movement for local fishery products under the same conditions as products from the rest of Spain (transitional period to end on 31 December 1995).
- as regards supplies, to exempt raw materials originating in third countries from customs duties, in accordance with the preferential access granted by the Community to certain third countries.

3.3 TAX AND CUSTOMS ARRANGEMENTS

3.3.1 Recognition of particular indirect taxation arrangements

24. Closer integration with the Canary Islands can be reconciled with continuing application of their own particular arrangements for indirect taxation, which are justified by their special situation, if adjustments

are made to render them compatible with the Treaty rules and with the obligations arising from gradual integration. As regards VAT, integration with Community policies does not rule out continuation of the arrangement excluding the Canary Islands from the territorial scope of the common system of VAT, in so far as this entails maintenance of the tax frontier and, hence, of tax neutrality as a result of the application of Community VAT to imports into the Community's tax territory.

25. The arrangements for dismantling the "arbitrio insular" laid down in Protocol 2 will be all the more necessary as the process of policy integration gets under way. The Commission welcomes the goals being pursued by Spain in its reform of the fiscal aspects of the Canary Islands' special economic and tax regime. The reform provides for the gradual introduction of a modern system of indirect taxation as an instrument of economic and social development and of financing local budgets, paving the way for complete integration into the Community after a transitional period of ten years. To these ends, two new taxes would be created to replace the "arbitrios" and other existing taxes: the new general indirect tax in the Canary Islands (IGIC) would gradually become the main tax resource while the new "arbitrio" on production and imports (APIM) would be introduced for a transitional period, becoming progressively less important. Possible derogations from Community law linked to the process of introducing the Common Customs Tariff should expire after a transitional period of not more than ten years. During this period the Commission proposes that the following principles be applied:

- the possibility of exemption from the APIM for local production, under Commission supervision, for an initial period of five years;
- consistency of these exemption arrangements with the economic and social development strategies for the archipelago;

- examination by the Commission of the effects of the exemption arrangements during the first five years in order to determine the usefulness of maintaining some of them until the end of the transitional period;
- during an initial period of five years, modulation of the APIM rates between 0.1% and 5% with limits on their increase; during the next five years, reduction of the rates by 20% per year so that the tax will disappear at the end of the transitional period.

3.3.2 Progressive adoption of the Common Customs Tariff (CCT)

26. The dismantling of the APIM must be accompanied by the gradual adoption of the CCT, subject to the special customs measures for sensitive products referred to in paragraph 28 below. The CCT will be introduced gradually over the same transitional period of ten years divided into two stages of five years each:

- during an initial two-year period the rates of duty applicable will be equal to 30% of the CCT rates; in the third year they will be 35% of the CCT rates, rising to 40% in the fourth year and 50% in the fifth year;
- during the next five-year stage, these rates will be increased by 10% per year to achieve full application of the CCT to the Canary Islands by the end of the transitional period.

27. The process of gradually applying the CCT to the Canary Islands will begin as soon as the adjustment of the islands' status takes effect. However, the application of the CCT and other duties to products falling under the scope of the common agricultural policy ought to be suspended until the entry into force of the specific measures for the supply of

essential agricultural products referred to in paragraphs 22 and 36 and at the latest until the end of 1991.

28. The application of the CCT to the Canary Islands will not affect any special customs measures which may be introduced for certain sensitive products. Special measures may also be taken concerning the arrangements for free zones. All these measures will be defined in the POSEICAN programme (see paragraphs 44 to 46 below).

29. The "tarifa especial" of the "arbitrio insular" applicable to products imported from other parts of the Community under Article 6(3) of Protocol No 2 to the Act of Accession will not be extended beyond 1 January 1993. The rates of this tax applied to products imported into the Canary Islands from third countries, without prejudice to obligations under existing agreements, will be reduced annually by 20% from 1 January 1996 so that the tax will disappear completely at the end of the ten-year transitional period (1 January 2001).

4. APPLICATION OF THE COMMON POLICIES TO TAKE ACCOUNT OF ACTUAL CONDITIONS IN THE CANARY ISLANDS: THE POSEICAN PROGRAMME

30. In line with the Community's approach to its remoter regions, the Commission believes that the application of the new status for the Canary Islands in the Community should take place in tandem with an action programme known as POSEICAN (programme of options specific to the remote and insular nature of the Canary Islands). This multi-sector programme of mutually coherent operations will be given effect, in principle before 31 December 1992, by the adoption by the Council or the Commission, as appropriate, of the necessary legal acts.

31. The various POSEICAN operations and measures will be planned, implemented, monitored and evaluated by the Commission and the national and

regional authorities concerned working in partnership.

32. Efforts will be made to ensure that POSEICAN operations and those carried on at the national and local levels complement each other as far as possible. This means, in particular, that the Member State and the region concerned must take account of the specific measures provided for under POSEICAN when drawing up future regional development plans. The Commission for its part intends to make sure that operations under POSEICAN are consistent with intervention by the Community's structural Funds and other financial instruments.

4.1 TAKING ACCOUNT OF THE SPECIAL CHARACTERISTICS OF THE CANARY ISLANDS IN APPLYING THE COMMON POLICIES

33. Generally speaking, the directives or other measures adopted with a view to establishing the internal market and implementing the other common policies could, when being drawn up or adopted, be scrutinized to determine whether their - as a rule, uniform - application should take into account the specific characteristics of the Canary Islands, particularly in the fields of transport, taxation, social matters, research and technological development, and protection of the environment.

4.2 MEASURES DESIGNED TO MITIGATE THE EFFECTS OF THE EXCEPTIONAL GEOGRAPHICAL SITUATION OF THE CANARY ISLANDS

34. The geographical location of the Canary Islands in relation to the continental territory of the Community places serious constraints on trade between them and other parts of the Community. The Community must take action to alleviate the impact of the additional costs of supply resulting from the remote and insular nature of the Canary Islands.

35. The object of such Community action is to maintain a reasonable standard of living in the Canary Islands while ensuring, by preserving competition, that traditional trade flows are not disrupted.

4.2.1 Agricultural supplies

36. In the case of essential agricultural products for consumption or processing in the archipelago (see Annex 4.1), the Community action in question, apart from supplementary trade mechanisms as regards the supplying of the Canary Islands and within the limits of the requirements of the Canary Islands market, will, taking account of local production and traditional trade flows, involve:

- (a) exempting from levies and/or customs duties products originating in non-member countries; in this connection, special attention will be paid to the possibilities of supplying the Canary Islands from nearby developing countries;
- (b) permitting, in parallel and in competition with products from non-Community countries and on equivalent terms, the supply of Community products taken into intervention storage or available on the Community market.

37. The principles underlying the application of this system will be as follows:

- (a) With regard to the supply of inputs needed to sustain certain processing and/or packaging industries preparing products for the local market, such industries should be allowed to obtain supplies direct from markets in non-Community or Community countries, up to the amounts stipulated in forecast supply balances, so that the goods produced can meet the requisite specifications, particularly as regards quality. In the case of sugar in particular, the system must allow traditional trade flows to continue.

(b) In the case of supplies of other basic products, in order to ensure that these measures have an impact on the level of production costs and consumer prices, a system must be devised to monitor this impact up to the end-user stage. Should the impact be judged inadequate, the supply of unprocessed cereals could be replaced, in quantities to be determined at the appropriate time, by the equivalent in flour form.

(c) In view of the complexity and diversity of supply circuits in the Canary Islands, the Commission will be required to review the operation of the provisions adopted on the basis of the principles set out above, with a view to making any adjustments needed. The first review will be carried out at the end of the first year of application of these provisions.

38. In order to maintain local cereal production, no co-responsibility levy would be charged.

39. Until the effects of the proposed measures on support for domestic potato production become apparent (see paragraph 49, first indent), a temporary limit on imports of potatoes into the Canary Islands at sensitive times may be allowed, with a provision that the quota will be progressively widened until it is abandoned after seven marketing years.

40. In the case of olive oil, Community consumption aid must be applied on the terms in force in the ten-member Community as soon as the new arrangements take effect.

41. To avoid any deflection of trade, products covered by the measures referred to in paragraphs 36 to 38 above may not be re-dispatched, whether in the unaltered state or processed, to other parts of the Community.

42. Imports from non-Community countries of raw or other tobacco for use in the manufacture of tobacco must be exempt from customs duties up to the amount required by the tobacco industry in the Canary Islands to cater for local consumption and existing trade flows in manufactured tobacco and with due account for supply possibilities offered by the ACP States.

43. The development of stockfarming to meet local market requirements also needs to be assisted. A system of aid for the purchase of breeding animals (see Annex 4) originating in the Community will be set up for this purpose. Until such time as local production has developed to a satisfactory level, this system may be accompanied by temporary measures, with a phased reduction in quantities, to facilitate the purchase of animals for fattening (cattle and pigs) and the procurement of certain processed meat-based products (pigmeat, beef/veal or poultry). These measures would combine exemption from levies on the products in question originating in non-member countries and aid for the procurement of such products from other parts of the Community, to give such products access on equivalent terms. The situation will have to be reviewed after the system has been in operation for four years.

4.2.2 Industrial products

44. The progressive application of the CCT over the ten-year transitional period to industrial products imported from non-Community countries will prevent the tariff being applied in any sudden, destabilizing way and encourage the market on the Canary Islands to adjust to the new situation. Furthermore, as the CCT is progressively applied, specific tariff measures or derogations from the common commercial policy could be adopted in respect of certain sensitive products. Such measures will be looked at on a case-by-case basis and on application, with supporting documents, from the Canary Islands authorities. They will also have to be very carefully tailored to the local market so as to avoid any deflection of trade. This would concern:

- measures to take account of special difficulties of a particular sector of local production intended for consumption locally or by tourists, to maintain an exemption equivalent to that provided by the existing "tarifa general" (e.g. paper, board, sawn timber, animal feed);
- measures to allow access for consumer goods (textiles, clothing, optical and electronic equipment, means of transport).

45. The possibility of applying such measures should, as a rule, be confined to the ten-year transitional period laid down in the regulation furthering the integration of the Canary Islands into the common policies. In the year preceding the expiry of that period the Commission will evaluate the measures adopted and review the situation.

4.2.3 Free zones

46. The Commission is aware that free zones may be a major instrument of economic and social development in a remote island region such as the Canary Islands and will keep an open mind on the subject, particularly as regards State aid. Furthermore, an exception to the principle of Community preference, to exempt inward processing operations carried out in free zones from the economic conditions attaching to these arrangements, would be appropriate in the case of the free zones in the Canary Islands.

4.3 MEASURES TO ASSIST CANARY ISLAND PRODUCTS

4.3.1 Agricultural products

47. Given the crucial importance of bananas to the Islands' economy and with a Community market organization for bananas due to be established by 31 December 1992, steps should be taken to adopt structural measures

without waiting for common rules to be adopted in that area; such measures could involve research, harvesting, presentation and processing, transport, storage, marketing and commercial promotion.

48. Community assistance will be given for the fruit and vegetable sector and the flowers and live plants sector (see Annex 4.II), as follows:

- temporary aid per hectare for programmes of measures carried out by producers and producer groups or organizations to diversify production and/or improve product quality; these programmes, from which tomato-growing would be excluded, should serve to develop tropical products in particular. Additional aid would be granted in cases where these programmes include technical assistance measures;
- aid for the marketing of tropical products where the volume of trade does not exceed 10 000 tonnes for each product, under marketing season contracts between Canary Island producers and operators established in other parts of the Community;
- the funding of an economic analysis and forward planning study of the processed fruit and vegetable sector (particularly tropical fruit and vegetables).

49. The other proposed measures to support internal production intended for local consumption (see Annex 4.II) include:

- specific aid per hectare for potato-growing, within the limits of the present areas under cultivation, irrespective of any measures which might be adopted in the context of a market organization for this product;
- In the case of Canary Islands wines, to satisfy consumer habits in the archipelago, exemption from compulsory distillation and

non-application of voluntary distillation as laid down by Community legislation, and non-application of the grubbing premium;

- in the dairy sector, the setting of the quota at a level which will allow reasonable development of production in the Canary Islands production without, however, disrupting traditional trade flows;
- in the case of animal products for the local market, specific aid for producers' groups or organizations for training and technical assistance programmes;
- specific aid to support products of traditional Canary Island stockfarming and intended for local consumption.

50. Special attention will be paid to the question of plant health, an area in which the special situation of the Canary Islands necessitates proper protection. The approach here must be to adapt Directive 77/93/EEC concerning protective measures against the introduction into the Member States of harmful organisms of plants or plant products to accommodate the special characteristics of the Canary Islands in this area.

51. The current legislation on agricultural structures may not take sufficient account of the special characteristics of agriculture in the Canary Islands. Steps need to be taken to allow special exceptions to be made, on the basis of duly substantiated applications from the Spanish authorities, to provisions restricting or preventing the granting of certain types of structural aid.

52. To encourage agricultural producers in the Canary Islands to supply high-quality products and to promote the marketing of such products, the Community could finance the design and promotion of a logo.

4.3.2 Special measures in respect of fishery products

53. A reinforced system of aid should be established in favour of the producers' organizations which must be set up within five years of the entry into force of the common fisheries policy in the Canary Islands. This aid will apply for five years following the date on which these organizations are recognized.

54. In view of the special situation of the sardine market, the Community, in the context of existing Community legislation, may consider that a suitable solution should be sought to the problem of sardine pricing, by applying a special conversion factor to products marketed in the Canary Islands in accordance with Article 12(2) of Regulation (EEC) No 3796/81. Within two years following the introduction of the market organization in the Canary Islands, the Commission will investigate the possibility of applying arrangements to bring prices into line. It should be pointed out that Community pricing arrangements can only be applied if the products put on sale are accessible to all interested operators. The sardine marketing structures in the Canary Islands should therefore be overhauled to meet this condition.

55. The preferential access currently enjoyed by cephalopods from the Canary Islands on certain markets in non-Community countries is not consistent with existing Community legislation. The Community, in the exercise of its powers in international trade, will seek to secure improved conditions from its partners with a view to facilitating exports of this type of product from the Community to the countries concerned.

4.4 FINANCING POSEICAN

56. The attached financial statement gives estimates of the cost of the various measures.

57. The bulk of the agricultural measures provided for in POSEICAN will be financed by the EAGGF Guarantee Section.

58. The structural measures (measures to promote banana production or to help producers' groups or organizations in the animal production sector), however, will depend on the availability of resources in addition to those already agreed for the period up to 31 December 1993 in the Community support framework or currently under discussion for the REGIS scheme.

59. The question therefore arises of whether a special budget heading should be set up to cover financial commitments under POSEICAN other than measures financed under the EAGGF Guarantee Section and without prejudice to structural policy operations for the Canary Islands.

60. If the Community measures to assist the remoter regions are to be fully consistent, such a budget heading should also cover the funding of financial commitments which are not eligible under the EAGGF Guarantee Section and which appear in the action programmes for the other remoter regions - already adopted in the case of the French overseas departments (POSEIDOM) or proposed in the case of the Azores and Madeira (POSEIMA).

5. FINANCIAL STATEMENT

1. Measures to be financed by the EAGGF Guarantee Section

(Estimate)

- Maximum annual expenditure
(2nd or 3rd year of application) ECU 15 million

2. Measures to improve agricultural structures (1991-93)

(Estimate)

- Traditional products (bananas) ECU 8.0 million
- Other products ECU 5.5 million

Total - Agricultural structures 1991-93 ECU 13.5 million

3. Estimate of the annual budgetary cost resulting
from the application of the CFP

3.1 Market policy

Common market organization

intervention: ECU 0.65 million

of which

financial compensation ECU 0.25 million

compensatory allowance ECU 0.40 million

Aid for producer organizations ECU 0.1 million

3.2 Structures policy

No additional costs¹⁰

3.3 Fishery agreements

No additional costs¹¹

10 The Canary Islands are already included in Regulation (EEC) No 4042/89 and in the proposal for the amendment of Regulation (EEC) No 4028/86 for all structural operations.

11 The Canary Islands' interests are covered by the agreements with the neighbouring African countries. No figure can be given at present for the budgetary impact of any agreements with other non-member countries which might involve them.

ANNEX 1

CANARIES: BASIC STATISTICS

INDICATOR	CANARIES	EUR 12	Year
Population (thousands)	1433 (0.44%)	324077 (= 100%)	1986
Pop. incr. (% p.a.)	0.9	0.3	86/76
Area (thousand km ²)	7.2 (0.3%)	2254.6 (= 100%)	
<u>EMPLOYMENT</u>			
Unempl. rate (%)	22.4	10.2	1988
Agric./tot.emp. (%)	14.3	8.1	1986
Indust./tot.emp. (%)	20.3	33.7	1986
Services/tot.emp. (%)	64.6	57.7	1986
<u>GDP</u>			
Per capita GDP (ECU)	5081 (49.2%)	10324 (= 100%)	Aver. 84-86

ANNEX 2

THE STATUS OF THE CANARY ISLANDS IN THE COMMUNITY
AS LAID DOWN IN THE ACT OF ACCESSION

1. The principle adopted on the occasion of Spain's accession to the Community was the application to the Canary Islands of all the provisions of the Treaties and hence of the policies formulated on the basis of those provisions (and in particular regional policy, social policy, competition policy, transport policy, freedom of establishment and free movement of services), subject to the derogations laid down in the Act of Accession (Articles 25 and 155 and Protocol 2). These derogations can be summed up as follows:

- the customs territory of the Community does not include the Canary Islands; accordingly, free movement of goods cannot be based on the rules set out in the Treaty;
- the commercial policy instruments relating to imports and exports of goods do not apply;
- the CAP and the CFP apply only where certain structural matters are concerned, although the Council may, on a case-by-case basis, decide that certain fisheries agreements with third countries are applicable to the Canary Islands;
- exclusion from the territorial scope of the common system of VAT and gradual dismantling of the "arbitrio insular - tarifa general" with complete removal scheduled for 1 January 1993; reduced rate and limited application of the "arbitrio insular - tarifa especial" until 1 January 1993, unless the Council, acting by qualified majority, decides that it should be prolonged.

2. With particular reference to trade in agricultural products:

- in the direction EEC-Canary Islands, the export-refund mechanism applies as in the case of third countries;
- in the direction Canary Islands-EEC, there is preferential access for products traditionally exported to the Community, in the form of tariff quotas based on average exports in the period 1982-84, a distinction being made between:
 - * quotas intended for that part of Spain included in the customs territory of the Community: quantities exported there are exempt from excise

duties and from application of reference prices up to 31 December 1995 in the case of products falling within Regulation (EEC) No 1035/72 and up to 31 December 1992 in the case of other products; products exported under these quotas are not deemed to be in free circulation;

- * quotas intended for the ten-member Community: these are subject to the same conditions of tariff dismantlement as products originating in the rest of Spain but remain subject to the system of reference prices.

As from 1 January 1996 for products falling within Regulation (EEC) No 1035/72 and as from 1 January 1993 for other products, quantities exported under quota arrangements to the customs territory of the Community will be exempt from customs duties but will remain subject to the system of reference prices where these are applicable and to any countervailing charges.

The joint declaration on Protocol No 2 indicates that, within the context of the adjustment measures referred to in Article 25(4) of the Act of Accession, the Community is prepared to examine the possibility of altering the tariff quotas between the various products within the overall volume of trade or substituting for them other agricultural products originating in the Canary Islands.

Bananas are subject to special arrangements. They are guaranteed a share of the Spanish market and are exempt from customs duties but cannot be deemed to be in free circulation within the meaning of Article 10 of the EEC Treaty. The Spanish Government is authorized to control banana imports from the rest of the Community until 31 December 1995 and to impose quantitative restrictions on imports of bananas originating in third countries until such time as a common organization of the market for bananas has been set up.

3. The tariff quotas applicable to fishery products of the Canary Islands have a similar structure to those for agricultural products. They fall into two groups:

- * duty-free quotas intended for that part of Spain included in the customs territory of the Community: products exported there are not deemed to be in free circulation;
- * quotas intended for the eleven-member Community: products covered by such quotas qualify for the progressive reduction of customs duties in the same way as products from the rest of Spain but remain subject to the system of reference prices.

The joint declaration on Protocol 2 points to the possibility of developments in tariff quotas related to the reported development of the local fishing fleet.

23. A review clause not subject to any time limitation exists and formal amendment of the Act of Accession is not necessary. Article 25(4) of the Act of Accession provides as follows:

"At the request of the Kingdom of Spain, the Council, acting unanimously on a proposal from the Commission and after consulting the Assembly, may:

- decide to include the Canary Islands and Ceuta and Melilla in the customs territory of the Community,
- define the appropriate measures aimed at extending to the Canary Islands and to Ceuta and Melilla the provisions of Community law in force.

On a proposal from the Commission acting on its own initiative or at the request of a Member State, the Council, acting unanimously and after consulting the Assembly, may decide to make such adjustments to the arrangements applicable to the Canary Islands and to Ceuta and Melilla as may prove necessary."

5. The arrangements laid down in the Act of Accession have been adjusted on several occasions since:

- Council Regulation (EEC) No 2915/86 as amended by Council Regulation (EEC) No 3240/88 extended all the socio-structural measures in the field of agriculture to the Canary Islands;
- the negotiation of the Mediterranean package in 1986 and 1987 resulted in adjustments to the arrangements for agricultural exports from the Canary Islands, and in particular an increase in the size of certain quotas, a tariff reduction for quantities exceeding them and extension of the abolition of customs duties to other products (Council Regulation (EEC) No 1391/87 concerning certain adjustments to the arrangements applied to the Canary Islands);
- adjustments to the rules of origin in 1988 (Regulation (EEC) No 1135/88) as regards their combination with the EEC and EFTA rules;
- easier access for industrial products from the Canary Islands since 1 July 1989 under Regulation (EEC) No 1673/89;
- the non-allocation of tobacco quotas and hence the free movement of products under quota arrangements have been applicable since 1 January 1989 (Regulation (EEC) No 4096/88).

COMMUNITY STRUCTURAL AID FOR THE CANARY ISLANDS

1. Community assistance (commitments) for the Canary Islands¹

	ECU million									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	Total
EAGGF (Guidance Section) ² - Total	0.00	0.00	0.00	0.00	0.00	1.36	3.51	0.53	2.43	7.83
Reg 355/77 Proc/Mark Ag Prods	0.00	0.00	0.00	0.00	0.00	0.15	0.26	0.25	N.A.	0.66
Reg 4028/86 Restr fisheries ³	0.00	0.00	0.00	0.00	0.00	1.21	3.25	0.28	2.43	7.17
ESF ⁴ - Total	0.00	0.00	0.00	0.00	0.00	8.28	24.67	24.56	33.78	91.28
Recruit/trg/mobility young people	0.00	0.00	0.00	0.00	0.00	3.80	0.00	0.00	0.00	3.90
Disabled persons	0.00	0.00	0.00	0.00	0.00	0.17	0.00	0.00	0.00	0.17
Women resuming employment	0.00	0.00	0.00	0.00	0.00	0.13	0.00	0.00	0.00	0.13
Persons over 25	0.00	0.00	0.00	0.00	0.00	3.80	0.00	0.00	0.00	3.70
Instructors, development agents	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.05
Local employment-boosting initiatives	0.00	0.00	0.00	0.00	0.00	0.43	0.00	0.00	0.00	0.43
Other measures	0.00	0.00	0.00	0.00	0.00	0.00	24.67	24.53	33.78	82.98
ERDF - Total	0.00	0.00	0.00	0.00	0.00	10.83	14.11	37.84	N.A.	62.78
Infrastructure	0.00	0.00	0.00	0.00	0.00	10.83	14.11	37.84	N.A.	62.78
Energy grants - Total	0.00	0.00	0.00	0.00	0.00	0.00	0.16	N.A.	N.A.	0.16
Demonstrn. alternative energies	0.00	0.00	0.00	0.00	0.00	0.00	0.16	N.A.	N.A.	0.16
Integrated ops. - Total	0.00	0.00	0.00	0.00	0.00	0.06	0.00	N.A.	N.A.	0.06
Studies preparatory to IDOs	0.00	0.00	0.00	0.00	0.00	0.06	0.00	N.A.	N.A.	0.06
Total - Assistance	0.00	0.00	0.00	0.00	0.00	20.53	42.44	62.89	36.21	162.08

¹ Excluding assistance for multiregional projects or programmes.

² Direct and indirect measures that can be broken down by region.

³ Including Regulations Nos 2992/81, 31/83 and 2908/83.

⁴ Before 1984, the bulk of ESF assistance could not be broken down by region.

* Partial/provisional.

2. Community loans to the Canary Islands⁵

	ECU million									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	Total
EIB - Total						0.50	1.30	101.20	N.A.	103.00
Industry and services						0.00	0.00	0.00	N.A.	0.00
Energy						0.00	0.00	0.00	N.A.	0.00
Infrastructure						0.00	0.00	64.90	N.A.	64.90
Global loans ⁶						0.50	1.30	36.30	N.A.	38.10
Total - Loans						0.50	1.30	101.20	0.00	103.00

⁵ Excluding loans for multiregional projects or programmes.

⁶ Regional breakdown of allocations from global loans.

Source: EIB annual reports.

Structural Fund contributions to the Canary Islands over the period from 1990 to 1993 are set out in the table below, which relates to a multi-Fund operations programme costing ECU 558 million, including a Community contribution of ECU 290 million. In addition to these financial resources, there are the Community ventures adopted by the Commission (REGIS, PRISMA, TELEMATIQUE, ENVIREG, STRIDE, LEADER, EUROFORM, NOW and HORIZON).

ANNEX 4

1. DETAILS OF AGRICULTURAL PRODUCTS COVERED
BY THE MEASURES RELATING TO SUPPLIES

GENERAL PROVISIONS GOVERNING SUPPLIES

Cereals, semolina and malt

Rice

Refined sugar

Beef and veal

Frozen pigmeat

Dairy products and special milk-based preparations

Fruit juice concentrates

Poultrymeat (until local production develops)

OLIVE OIL CONSUMPTION AID

EXEMPTION FROM CUSTOMS DUTIES FOR RAW OR OTHER TOBACCO INTENDED FOR
MANUFACTURING

PURCHASE OF BREEDING ANIMALS

Cattle

Pigs

Chicks

Hatching eggs

Rabbits

PURCHASE OF CATTLE FOR FATTENING

II. DETAILS OF THE AGRICULTURAL PRODUCTS COVERED
BY THE MEASURES TO ENCOURAGE PRODUCTION

Avocados

Other tropical fruit

(mangoes, papayas, fresh pineapples etc.)

Flowers and cuttings

Live plants

Potatoes

Cheese of goat's milk and sheep's milk

Proposal for a
COUNCIL REGULATION (EEC)

on the application of the provisions of Community law
to the Canary Islands

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to the Act of Accession of Spain and Portugal, and in particular the first subparagraph of Article 25(4) thereof,

Having regard to the proposal from the Commission,¹

Having regard to the opinion of the European Parliament,²

Having regard to the opinion of the Economic and Social Committee,³

Whereas by virtue of Article 25 of the Act of Accession, the Treaties and the acts of the institutions of the European Communities apply to the Canary Islands subject to the derogations set out in that Article, in Article 155 and in Protocol 2 annexed to the Act of Accession;

Whereas these arrangements exclude the Canary Islands from the Community's customs territory and from application of the common commercial policy, the common agricultural policy and the common fisheries policy; whereas experience has however shown that the development of the Canary Islands would be better served by their full integration into the common policies and the process of completing the internal market; whereas the arrangements laid down in the Act of Accession should now be amended and the Canary Islands integrated into the Community's customs territory;

1 OJ No C
2 OJ No C
3 OJ No C

Whereas, under the first subparagraph of Article 25(4) of the Act of Accession, the Council, at Spain's request, acting on a proposal from the Commission and after obtaining the opinion of the European Parliament, may decide unanimously to include the Canary Islands in the customs territory of the Community and to define the appropriate measures aimed at extending to the Canary Islands the provisions of Community law in force; whereas Spain made such a request on 7 March 1990 pursuant to the aforementioned Article;

Whereas integration of the Canary Islands into all Community policies requires a gradual process over an appropriate transitional period, without prejudice to any special measures designed to take account of the specific constraints deriving from the remoteness of the Canary Islands, their island location and their historical economic and tax arrangements; whereas such measures will have to be the subject of a special programme of options specific to the remote and insular nature of the Canary Islands, to be adopted under this Regulation;

Whereas application of the common agricultural policy to the Canary Islands will make possible the free movement of products on the conditions applicable to mainland Spain (end of the transitional period: 31 December 1995) with the exception of the supplementary trade mechanisms as regards the supplying of the Canary Islands; whereas, in this framework, the free movement of products between the Canary Islands and the rest of Spain will be ensured; whereas full application of the common agricultural policy is subject to the entry into force of specific supply arrangements; whereas the application of this policy will have to be accompanied in addition by specific measures relating to the agricultural production of the Canary Islands; whereas it is therefore necessary to maintain the provisions of the Act of Accession relating to the application of the common agricultural policy to the Canary Islands until the entry into force of such supply arrangements with the exception of those governing the access of agricultural products originating in the Canary Islands to the other parts of the Community; whereas the provisions of Protocol 2 relating to bananas must remain in force; whereas they will have to be adjusted later, once the Council has adopted common measures for bananas;

Whereas it is necessary to apply the common fisheries policy to the Canary Islands on the entry into force of the present Regulation on the conditions applicable to mainland Spain (end of the transitional period: 31 December 1995), subject to specific measures to be determined under existing legislation;

Whereas historical recognition of the Canaries' island status has been reflected in successive special economic and tax arrangements designed to compensate for the disadvantages deriving from the archipelago's geographical isolation;

Whereas in this context the strengthening of the Canary Islands' integration into the Community is not incompatible with the maintenance of indirect taxation specific to these islands, especially the exclusion of the Canary Islands from the territorial field of application of the common VAT system pursuant to Article 26 in conjunction with Annex I, V, 2 of the Act of Accession, amending Article 3(2) of the Sixth VAT Directive, Council Directive 77/388/EEC⁴ and the continuing exclusion of the Canary Islands from the territorial field of application of the Directives concerning manufactured tobacco pursuant to Article 26 in conjunction with Annex I, V, 3 and 4 to the Act of Accession;

Whereas the Community takes favourable note of the aims of the reform initiated by Spain in respect of the tax aspects of the economic and tax arrangements for the Canary Islands; whereas this reform provides for the gradual introduction of up-to-date indirect taxation as an instrument of economic and social development and the financing of local budgets, creating the conditions for total integration into the Community at the end of a transitional period not exceeding ten years;

Whereas until 31 December 2000 at the latest, in two five-year stages as part of a phased process in conjunction with the gradual entry of the Canary Islands into the customs union, it is desirable to authorize a number of total or partial exemptions for local products from application of the new tax on production and imports (APIM), provided that these

4 OJ No L 145, 13.6.1977, p. 1.

exemptions contribute to promotion of local activities; whereas, however, application of this charge should be suspended for products coming under the common agricultural policy until the application of that policy, it being understood that, when these products are imported from non-member countries, the provisions in force in the Canary Islands in respect of trade with such countries shall be maintained until the same date;

Whereas the dismantling of this charge will have to be accompanied by the gradual adoption of the common customs tariff as from the entry into force of the present Regulation and for the same transitional period, so as to ensure the complete integration of the Canary Islands into the customs union by 31 December 2000; whereas, however, as regards products coming under the common agricultural policy, application of the common customs tariff and other import duties is dependent on the entry into force of the specific measures to supply the Canary Islands with essential agricultural products; whereas at all events the gradual application of the common customs tariff to the Canary Islands may be accompanied, where appropriate, by specific tariff measures or derogations from the common commercial policy for certain sensitive products; whereas such measures may also be taken in respect of the arrangements applicable to free zones;

Whereas the charge known as the "arbitrio insular - tarifa especial" applicable to products supplied by other parts of the Community on the terms set out in Article 6(3) of Protocol 2 shall not be extended beyond 31 December 1992; whereas the levying of this charge on products imported into the Canary Islands from non-Community countries will have to be phased out from 1 January 1996 so that it is completely eliminated by 31 December 2000, without prejudice to obligations under existing arrangements,

HAS ADOPTED THIS REGULATION:

Article 1

The provisions of the Treaties and the acts of the institutions of the European Communities in respect of which the Act of Accession provided for derogations shall apply to the Canary Islands on the terms set out in this Regulation.

Article 2

1. On the entry into force of the specific arrangements referred to in paragraph 2, the common agricultural policy shall apply to the Canary Islands on the terms laid down for mainland Spain in the Act of Accession. However:

- the supplementary trade mechanisms provided for in the Act of Accession shall not apply to the entry into the Canary Islands of the products in question;
- the rules in force for mainland Spain shall apply to products originating in the Canary Islands and sent to other parts of the Community upon entry into force of this Regulation.

2. Application of the common agricultural policy shall be accompanied by specific supply arrangements.

3. Application of the common agricultural policy shall take account of the special features of Canary Islands production.

Article 3

The common fisheries policy shall apply to the Canary Islands on the terms laid down for mainland Spain. Application of the common fisheries policy shall be accompanied by specific measures designed to take account, where necessary, of the special features of Canary Islands production.

Article 4

1. Pursuant to Article 26 in conjunction with Annex I, V, 2 to the Act of Accession amending Article 3(2) of the Sixth VAT Directive, the territory of the Canary Islands shall remain outside the field of application of the common VAT system.

2. Pursuant to Article 26 in conjunction with Annex I, V, 3 and 4 to the Act of Accession, Spain may refrain from applying the provisions of Council Directives 72/464/EEC⁵ and 79/32/EEC⁶ to the Canary Islands.

Article 5

1. For a transitional period which shall not extend beyond 31 December 2000, the Spanish authorities are hereby authorized to impose a tax on production and imports (APIM) on all products entering or produced in the Canary Islands. However, application of this tax shall be suspended in respect of products coming under the common agricultural policy until the entry into force of the specific supply arrangements referred to in Article 2(2).

2. By 31 December 1995 the rates for the tax shall be set in conformity with paragraph 3. As from 1 January 1996, these rates shall be reduced by 20% each year so that the tax will disappear by the end of the period laid down in paragraph 1.

3. The rates applicable may vary depending on the category of product between 0.1% and 5%; they may under no circumstances be increased by more than 15% of the initial rate. This variation in rates must in no case be such as to give rise to discrimination against products of Community origin.

4. During the transitional period referred to in paragraph 1, in view of the specific situation of the Canary Islands and the prospect of their full integration into the customs union, exemptions from the tax, partial or total depending on economic requirements, may be authorized for local

5 OJ No L 303, 31.12.1972, p. 1.

6 OJ No L 10, 16.1.1979, p. 8.

products up to 31 December 1995. Such exemptions must form part of the strategy for the economic and social development of the Canary Islands, taking account of the Community support framework, and help to promote local activities, though they must not be such as to change trading conditions to an extent contrary to the common interest.

5. The arrangements for exemptions adopted by the competent authorities pursuant to paragraph 4 shall be notified to the Commission, which shall have three months to assess their conformity with the aims defined in that paragraph. If the Commission has made no comment within that period, the arrangement shall be deemed to have been approved.

6. During 1995, the Commission, after consulting the Spanish authorities, shall examine the impact of the measures taken on the economy of the Canary Islands and the prospects for their integration into the Community's customs territory. On the basis of this examination the Spanish authorities may be authorized, in accordance with the criteria in paragraph 4 and the procedure in paragraph 5, to maintain some of the exemptions in force, in whole or in part until 31 December 2000 at the latest.

Article 6

1. For a transitional period, which shall not extend beyond 31 December 2000, the common customs tariff shall be progressively introduced in accordance with the following timetable:

- up to 31 December 1992, the rates of duty applicable shall be equal to 30% of the CCT rates; from 1 January 1993 these rates shall be equal to 35% of the CCT rates, and shall rise to 40% from 1 January 1994 and to 50% from 1 January 1995;
- from 1 January 1996 onwards, these rates shall be increased by 10% per year so that the CCT shall apply in full to the Canary Islands at the end of the transitional period.

2. However, application of the common customs tariff and other import duties applicable under the common agricultural policy shall be suspended until the entry into force of the specific supply arrangements referred to in Article 2(2).

3. Application of the CCT to the Canary Islands shall be without prejudice to any specific tariff measures or derogations from the common commercial policy in respect of certain sensitive products. Customs measures may also be taken in respect of the arrangements applicable to free zones.

4. The charge known as the "arbitrio insular - tarifa especial" of the Canary Islands shall be applied to products supplied by other parts of the Community on the terms laid down in Article 6(3) of Protocol No 2, though it may not be extended beyond 31 December 1992. Without prejudice to obligations arising out of existing agreements, the levying of this charge on imported products originating in non-Community countries shall be phased out from 1 January 1996 so as to be completely eliminated by 31 December 2000.

5. Where it is found that application of the first paragraph leads to a deflection of trade, the Commission may decide that the difference in import duties shall be levied on goods in free circulation in the Canary Islands when these are introduced into the other parts of the Community's customs territory.

Article 7

The common commercial policy shall apply to the Canary Islands on the terms laid down for Spain in the Act of Accession without prejudice to the specific measures referred to in Articles 2(2), 6(3) and 10(3) of this Regulation.

Article 8

The Commission shall adopt appropriate measures to prevent any speculative movement or deflection of trade resulting from the amendment of the trade arrangements applicable to the Canary Islands.

Article 9

The Council, on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Committee, shall adopt a programme of options specific to the remote and insular nature of the Canary Islands. This programme shall include the specific measures referred to in Article 2(2) and (3), Article 3(1) and Article 6(3). This multi-sector programme of operations comprising legislative measures and financial commitments relating to the application of the common policies to reflect constraints specific to the Canary Islands, shall be given effect before 31 December 1992 by the adoption by the Council or the Commission, as the case may be, of the necessary legal acts, in accordance with the provisions of the Treaty.

Article 10

1. This Regulation shall enter into force on1991.
2. The provisions of the Act of Accession relating to the application of the common agricultural policy to the Canary Islands and the relevant Community regulations shall remain applicable until the entry into force of the measures referred to in Article 2(2), or until 31 December 1991, whichever is the earlier, with the exception of the provisions governing access of products originating in the Canary Islands to other parts of the Community.
3. The provisions of Protocol 2 relating to bananas shall continue to apply. They shall be adjusted if the Council, before the date specified in Article 4(2)(b) of Protocol 2, adopts common measures for bananas.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

Proposal for a
COUNCIL DECISION

setting up a programme of options specific to the remote and
insular nature of the Canary Islands (POSEICAN)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation (EEC) No/.. on the application of
the provisions of Community law to the Canary Islands,¹ and in particular
Article 9 thereof,

Having regard to the proposal from the Commission,²

Having regard to the opinion of the European Parliament,³

Having regard to the opinion of the Economic and Social Committee,⁴

Whereas the Canary Islands suffer from a serious structural lack of
development aggravated by a number of constraints (remoteness, isolation,
small size, difficult terrain and climate) whose unchanging nature and
combined impact have serious effects on their economic and social
development; whereas these special constraints make it necessary to step
up Community support in order to ensure that the Canary Islands are fully
involved in the dynamic of the internal market; whereas this Community
support takes the form of operations under the reformed structural Funds
(enjoying the priority given to the Objective 1 regions), but must also
ensure that the special constraints affecting the Canary Islands are taken
n into account in the application of common policies, in accordance with
the Community approach to the remoter regions, of which the adoption and
implementation of the POSEIDOM programme for the French overseas
departments is the first practical example;

1 OJ No L
2 OJ No C
3 OJ No C
4 OJ No C

Whereas to achieve this, the Council, pursuant to Article 9 of Regulation (EEC) No/..., must adopt a multi-sector programme of operations involving legislative measures and financial commitments to allow for the special constraints on the Canary Islands in the application of common policies;

Whereas, for the purposes of implementing this programme, the necessary legal acts will be adopted either by the Council or by the Commission, as appropriate, before 31 December 1992; whereas the duration of the application of the measures to be adopted could, in certain cases, be linked to the process of strengthening the integration of the Canary Islands into common policies, or extend beyond this process, given the permanent constraints which are a particular feature of the Canary Islands;

Whereas this programme must be based on the twofold principle that the Canary Islands form an integral part of the Community and that the regional reality deriving from their particular geographical situation and their historical economic and fiscal system must be recognized;

Whereas, for this reason, the special measures laid down by the programme of operations must be part of the process of including the Canary Islands in the customs territory of the Community and extending to these Islands other provisions of Community law as stipulated in Regulation (EEC) No/...; whereas these measures must accordingly take into account the special characteristics and constraints of the Canary Islands without undermining the integrity and coherence of the Community legal order;

Whereas the economic effects of specific measures must remain limited to the territory of the Canary Islands without affecting directly the functioning of the common market;

Whereas Community rules must take account of the specific nature of the Canary Islands and permit their economic and social development, particularly in those areas where the fragile nature of island territories is particularly acute, such as transport, taxation, the social sector, research and development, or the protection of the environment in view of the vulnerability of the Canary Islands to the increasing pressures of tourism;

Whereas the exceptional geographical situation of the Canary Islands in relation to sources of supply for products used as inputs in certain food sectors, which are essential for current consumption or processing in the archipelago, entails costs that are a severe handicap for this area; whereas there is a need, in this connection, to make special arrangements for the supply of these products within the limits of local market needs and taking account of local production and traditional trade flows;

Whereas, for the same reasons and as part of the phased introduction of the common customs tariff, there is a need to create the possibility of special tariff or derogations from the common commercial policy for certain sensitive products; whereas customs arrangements may also prove to be appropriate for the regime applicable to the Canary Islands free zones;

Whereas the special production conditions in the Canary Islands require that particular attention be paid to applying the common agricultural policy to this region; whereas appropriate measures are needed to assist the development of the fruit and vegetable and flowers and live plant sectors; whereas these measures will have to promote the growing of tropical products in particular; whereas it will also be necessary to introduce other measures to support domestic production intended for local consumption;

Whereas certain flanking measures are required to accompany the application of the common fisheries policy to the Canary Islands in order to take account of the particular features of local production;

Whereas the preparation, implementation, monitoring and evaluation of the measures provided for in this programme require a partnership between the Commission and the competent national and regional authorities; whereas this partnership must permit complementarity between the measures laid down in the programme and those applied at national and regional level;

Whereas Spain and the region must take account of the measures and operations under this programme in drafting future regional development plans; whereas the Commission, within the scope of its powers, will take steps to ensure that this programme is consistent with the operations of the structural Funds and other Community financial instruments,

HAS DECIDED AS FOLLOWS:

Article 1

1. Pursuant to Article 9 of Regulation (EEC) No .../..., an action programme for the Canary Islands, known as POSEICAN (Programme of options specific to the remote and insular nature of the Canary Islands) and set out in the Annex, is hereby established. This programme shall cover legislative measures and financial commitments.

2. Within the context of the powers conferred upon it by the Treaty, the Council shall adopt the provisions necessary for the execution of this programme and invite the Commission to submit the relevant proposals as soon as possible.

Article 2

The financial resources required to implement the measures relating to agricultural structures appearing in this programme shall be determined in the annual budgetary procedures.

Article 3

This Decision shall take effect on ... 1991.

Article 4

This Decision shall be published in the Official Journal of the European Communities.

Done at Brussels,

For the Council
The President

ANNEX

PROGRAMME OF OPTIONS SPECIFIC TO THE REMOTE AND INSULAR NATURE OF
THE CANARY ISLANDS (POSEICAN)

TITLE I

General principles

1. POSEICAN will be based on the twofold principle that the Canary Islands form an integral part of the Community and that the regional reality, characterized by the special features and constraints specific to the region concerned as distinct from the Community as a whole, must be recognized.

2. Implementation of the measures and operations set out in the POSEICAN programme will in principle be carried out before 31 December 1992, through the adoption either by the Council or by the Commission, as appropriate, of the necessary legal acts, in accordance with the provisions and procedures laid down in the Treaty.

3.1. The POSEICAN programme will help attain the general aims of the Treaty by contributing to the achievement of the following specific objectives:

- the realistic integration of the Canary Islands into the Community by establishing an appropriate framework for the application of common policies in this area;
- the full involvement of the Canary Islands in the dynamic of the internal market by making optimum use of existing Community regulations and instruments;
- assisting the Canary Islands to catch up economically and socially, principally through Community financing of the specific measures contained in POSEICAN.

3.2. The Member State and the region will take into account the specific measures and operations contained in POSEICAN when drawing up future regional development plans. Within the scope of its powers, the Commission, for its part, will take steps to ensure that the operations conducted under POSEICAN are consistent with the operations of the structural Funds and other Community financial instruments.

3.3. The drafting, implementation, monitoring and evaluation of the operations and measures contained in POSEICAN will be carried out in partnership by the Commission and the national and regional authorities concerned. Efforts will be made to ensure that POSEICAN operations and those conducted at national and regional levels complement each other as far as possible.

4. The measures and operations contained in POSEICAN fall within the framework of the inclusion of the Canary Islands in the customs territory of the Community and the extension to these islands of Community law in force and should enable the specific nature and constraints of the Canary Islands to be taken into account without undermining the integrity and coherence of the Community legal order.

TITLE II

Application of common policies in the Canary Islands

5. Directives or other measures adopted in connection with the internal market and other common policies will have to take account of the special characteristics of the Canary Islands and promote their economic and social development, particularly in the fields of transport and taxation, social matters, research and technological development (without prejudice to the Community framework programme on this topic) and protection of the environment.

TITLE III

Specific measures to mitigate the effects of
the exceptional geographical situation

6.1. Within six months from the date on which this Decision takes effect, the Council or the Commission, as appropriate, will adopt the measures laid down in this article which are intended to alleviate the impact of the additional costs involved in maintaining supplies of agricultural products resulting from the remote and insular nature of the Canary Islands.

6.2. In the case of essential agricultural products for consumption or processing in the archipelago, this Community action will consist, within the limits of local market requirements and taking into account local production and traditional trade flows, in:

- exempting from levies and/or customs duties products originating in non-member countries; in this connection special attention will be paid to the possibilities of supplying the Canary Islands from nearby developing countries;
- permitting, in parallel and in competition with products from non-member countries and on equivalent terms, the supply of Community products taken into intervention storage or available on the Community market.

The principles underlying the application of this system will be as follows:

- (a) With regard to the supply of inputs needed to sustain certain processing and/or packaging industries making products for the local market, this system should allow these industries to obtain supplies direct from markets in non-Community or Community countries, up to the amounts stipulated in forecast supply balances, so that the goods produced can meet the requisite specifications, notably as regards quality. In the case of sugar in particular, the system must allow traditional trade flows to be maintained.

- (b) In the case of supplies of other basic products, in order to ensure that these measures have an impact on the level of production costs and consumer prices, a system will be set up to monitor this impact up to the end-user stage. Should the impact be judged inadequate, the supply of unprocessed cereals may be replaced, in quantities to be determined at the appropriate time, by the equivalent in flour form.
- (c) In view of the complexity and diversity of supply circuits in the Canary Islands, the Commission will be required to review the operation of the provisions adopted on the basis of the principles set out above with a view to making any adjustments needed. The first review will be carried out at the end of the first year of application of these provisions.

To help maintain local cereal production, no co-responsibility levy will be charged.

6.3. Temporary restrictions may be applied to imports of potatoes to the Canary Islands at sensitive times, with provision for the gradual widening of the quota until it is finally abandoned after seven marketing years.

6.4. Community aid to olive oil consumption will apply to the Canary Islands on the terms in force in the Community as constituted on 31 December 1985.

6.5. To avoid any deflection of trade, products covered by the measures referred to in paragraphs 6.2. and 6.4. may not be re-dispatched, whether in the unaltered state or processed, to other parts of the Community.

6.6. Imports of raw or other tobaccos for use in the manufacture of tobacco and originating in non-member countries will be exempt from customs duty up to the amount required by the tobacco industry in the Canary Islands to cater for local consumption and existing trade flows in manufactured tobacco and with due account for supply possibilities offered by the ACP States.

6.7. To promote the development of stockfarming to meet local market needs, a system of aid for the purchase of breeding animals originating in the Community will be set up. Until such time as local production has developed to a satisfactory level, this system may be accompanied by temporary measures, with a phased reduction in quantities, to facilitate the purchase of animals for fattening (cattle and pigs) and the procurement of certain processed meat-based products (pigmeat, beef/veal or poultry). These measures will combine exemption from levies for the products in question originating in non-member countries and aid for the procurement of such products from other parts of the Community, to give such products access on equivalent terms. The situation will need to be reviewed after the system has been in operation for four years.

7.1. At the request, with supporting documents, of the competent Spanish authorities, specific tariff measures or derogations from the common commercial policy may be adopted on a case by case basis for certain sensitive products:

- measures to take account of particular problems in a given sector of local production intended for local consumption or tourism, with a view to maintaining an exemption equivalent to that applied prior to the entry into force of Council Regulation (EEC) No .../....;
- measures to allow access for consumer goods such as textiles, clothes, optical and electronic equipment or means of transport.

7.2. The measures referred to in paragraph 7.1 must be carefully tailored to the Canary Islands' domestic market to avoid any deflection of trade. The application of such measures must, in principle, be limited to the transitional period provided for under Article 6 of Council Regulation (EEC) No .../... for the gradual adoption of the Common Customs Tariff to the Canary Islands. In the year preceding the expiry of this period the Commission will evaluate the measures adopted and review the situation.

8. Inward processing operations carried out in the Canary Islands free zones will not be subject to the economic conditions attaching to these arrangements.

TITLE IV

Specific measures to support Canary Island products

9. In view of the economic and social importance of bananas for the Canary Islands and the objective of a fair standard of living for producers, the Commission will, without waiting for the adoption of common rules, decide on structural action to assist this sector. With a view to improving the conditions of production and competition, such action will include measures concerning research, harvesting, presentation and processing, transport, storage, marketing and commercial promotion.

The Council, acting on a proposal from the Commission, will lay down provisions for bananas before 31 December 1992 with a view to the completion of the single market.

10.1. Within six months from the date on which this Decision takes effect the Council or the Commission, as appropriate, will adopt the measures referred to in this article.

10.2. Measures for the fruit and vegetable and flowers and live plants sectors may take the form of:

- temporary aid per hectare for programmes carried out by producers and producer groups or organizations to diversify production and/or improve product quality; these programmes, from which tomato-growing would be excluded, should serve to develop tropical products in particular. Additional aid may be granted in cases where these programmes include technical assistance measures;
- aid for the marketing of tropical products where the volume of trade does not exceed 10 000 tonnes for each product, under marketing season contracts between Canary Island producers and operators in other parts of the Community;

- the funding of an economic analysis and forward planning study of the processed fruit and vegetable sector (particularly tropical fruit and vegetables).

10.3. Other measures to help support domestic product for local consumption may take the form of:

- specific aid per hectare for potato-growing, within the limits of the present areas under cultivation, irrespective of any measures which might be adopted in the context of a market organization for this product;
- to satisfy the consumer habits for wines produced in the archipelago, exemption from compulsory distillation and non-application of voluntary distillation laid down by Community legislation and non-application of the grubbing premium;
- in the dairy sector, the setting of the quota at a level which will allow reasonable development of production in the Canary Islands without, however, disrupting traditional trade flows;
- in the case of animal products for the local market, specific aid for producers' groups or organizations for training and technical assistance programmes;
- specific aid to support products of traditional Canary Island stockfarming and intended for local consumption.

10.4. To encourage farmers in the Canary Islands to supply high-quality products and to promote the marketing of these products, the Community may finance the design and promotion of a logo.

10.5. Directive 77/93/EEC on protective measures against the introduction into the Member States of harmful organisms of plants or plant products will be adapted to accommodate the specific plant health situation in the Canary Islands.

10.6. Special exceptions may be made, on the basis of duly substantiated requests from the Spanish authorities, to provisions restricting or preventing the granting of certain types of structural aid to reflect the special characteristics of agriculture in the Canary Islands.

11.1. In the case of fishery products, a reinforced system of aid will be established in favour of producers' organizations, which must be set up within five years of the date on which Council Regulation (EEC) No .../... enters into force; this aid will apply for five years following the date on which these organizations are recognized.

11.2. In view of the special situation of the sardine market and the problem of the price of this product in the Canary Islands, a conversion factor specific to sardines marketed within the Canary Islands will be applied in accordance with Article 12(2) of Regulation (EEC) No 3796/81. Within two years following the introduction of the market organization in the Canary Islands, the Commission will investigate the possibility of applying arrangements to bring prices into line. As the Community price system can only apply if the products put on sale are accessible to all the operators concerned, the Member State and the Community will take the necessary steps to ensure that the sardine marketing structures in the Canary Islands are adapted to meet this condition.

12.3. The Community will endeavour, within the scope of its powers in international trade, to obtain improvements from its partners in order to facilitate Community exports of cephalopods to the countries concerned.

TITLE V

Final provision

13. The Commission will report annually to the Council on progress in the implementation of the POSEICAN programme.

ISSN 0254-1475

COM(90) 686 final

DOCUMENTS

EN

10 06

Catalogue number : CB-CO-91-071-EN-C
ISBN 92-77-69463-7

PRICE	1 - 30 pages: 3.50 ECU	per additional 10 pages: 1.25 ECU
-------	------------------------	-----------------------------------

Office for Official Publications of the European Communities
L-2985 Luxembourg