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REPORT

drawn up on behalf of the Committee on External Relations

on the proposal from the Commission of the European Communities to the Council (Doc. C2-39/85 - 4745/85) for a Regulation concerning the conclusion of a Trade and Economic Co-operation Agreement between the European Economic Community and the People's Republic of China

Rapporteur: Mr Michael HINDLEY

PE 98.002/def.

Or. EN



By the letter of 31 May 1985, the President of the Council of the European Communities requested the European Parliament to deliver an opinion, pursuant to Article 235 of the EEC Treaty, on the proposal from the Commission of the European Communities to the Council for a regulation concerning the conclusion of a Trade and Economic Cooperation Agreement between the European Economic Community and the Peoples Republic of China.

On 10 June 1985, the President of the European Parliament referred this proposal to the Committee on External Economic Relations as the Committee responsible.

At its meeting on 23 January 1985, the Committee on External Economic Relations appointed Mr. Hindley rapporteur for an own initiative report on Economic and Trade Relations between the EC and the Peoples Republic of China and for any forthcoming legislation in this field. The Committee considered the Commission's proposal and the draft report at its meeting on 26 June 1985 and decided by 12 votes in favour and 2 abstentions to recommend to Parliament that it approve the Commission's proposal without amendment.

The Committee then adopted the motion for a resolution as a whole by 12 votes in favour and 2 abstentions.

The following took part in the vote: Mr. Hindley, chairman and rapporteur, Mr. Amadei (deputizing for Mr. Massari), Mr. de Camaret, Mr. Kilby, Mr. Lemmer (deputizing for Mr. Mühlen), Mr. Moorhouse, Mr. Nordmann (deputizing for Mr. de Winter), Mr. Pranchère (deputizing for Mrs. Castellina), Mr. Rosetti (deputizing for Mr. Galluzzi), Mr. Toussaint, Mr. Seeler, Mrs. Wiczorek Zeul, Mr. Zahorka and Mr. Zarges.

The report was tabled 28 June 1985.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement :

A

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a Regulation concerning the conclusion of a Trade and Economic Cooperation Agreement between the European Economic Community and the People's Republic of China

The European Parliament,

- having regard to the proposal from the Commission to the Council (4745/83);
 - having been consulted by the Council pursuant to Article 235 of the EEC Treaty (Doc. C 2-39/85);
 - having regard to its Resolution of 13 April 1984 on economic and commercial relations between the European Community and the People's Republic of China¹;
 - having regard to the report of the Committee on External Economic Relations (Doc. A 2-74/85);
 - having regard to the result of the vote on the Commission's proposal;
- A. having regard to the rapid increase in trade and economic cooperation between the European Community and the People's Republic of China since the conclusion of trade agreement in 1978;

¹OJ C 127, of 14.5.1984, p. 210

- B. having regard to the necessity of adapting the legal framework in order to create the best possible background for a further development of economic and trade relations between the parties;
 - C. having regard to the enormous potential offered by China's economic policies and conscious of the need to compete effectively to exploit that potential;
 - D. recognising that the trade interests of the Community and China are complementary, not conflicting;
 - E. having regard to the desirability of an increased European economic presence in the Pacific area to counter the present Japanese and American domination;
1. Approves the proposal for a Regulation concerning the conclusion of a new agreement and welcomes it as an important step towards creating better conditions for increased trade and economic cooperation with China;
 2. Underlines, however, that the impact of the new agreement will depend on appropriate follow-up action being taken by the Commission, the Council, the national governments, trade associations on national and Community level as well as individual firms;
 3. Points to the fact that the increased trend in international trade towards supplying 'total solutions' to meet the needs of the purchasing country leads to an increased need for legal and administrative structures which facilitate and encourage cooperation between companies in two or more Member States;
 4. Stresses that the creation of such structures would be to the benefit of small and medium-sized companies in particular, as such companies often are too small to handle major projects on their own;

5. Further asks the Commission to continue and increase the cooperation initiated under the previous agreement and to expand it to cover the new fields designated in the agreement;
6. Expresses the desire that the government of the People's Republic of China, for its part, introduces complementary measures wherever necessary in order to create optimal conditions for increased cooperation under the new agreement;
7. Sees an intensification of the cooperation between the European Community and the People's Republic of China as an important contribution towards increased stability and peace in the world;
8. Instructs its President to forward to the Council and Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

EXPLANATORY STATEMENTI. INTRODUCTION

1. The first official contacts between China and the European Community took place a little more than ten years ago. Bilateral trade agreements between Member States and China were due to expire at the end of 1974, in accordance with decisions taken by the Community institutions regarding the introduction of a common commercial policy. In November 1974 the Community therefore sent a memorandum, together with an outline agreement, to the People's Republic of China (as well as to other state-trading countries) indicating its readiness to conclude a trade agreement.
2. Sir Christopher Soames, then Vice-President of the Commission with responsibility for external relations, visited China in May 1975. In the course of his talks with the late Premier Zhou En Lai, the Chinese Government announced its decision to establish official relations with the Community and to appoint an ambassador to it. At the same time the Chinese authorities promised to give favourable consideration to the Community's proposal that a suitable trade agreement be negotiated between the two parties to replace the bilateral agreements that had expired.
3. On 15 September 1975, Ambassador Li Lianbi presented his credentials to the President of the Council and the President of the Commission of the European Communities as Head of the mission of the Chinese People's Republic to the European Communities. The exploratory talks with a view to negotiating the agreement started in July 1975. A Commission delegation visited China from 4 to 13 July 1977 to continue the exploratory talks with the Government, and was received by the Minister of Trade, Mr Li Qiang. The negotiations proper took place in Brussels and led to the initialing of a trade agreement on 3 February 1978. It was signed by

the Council president and the Chinese Minister of Trade on 3 April 1978 and entered into force on 1 June 1978.

II. THE 1978 AGREEMENT BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE EUROPEAN COMMUNITY

4. Concluded for a period of five years with tacit renewal every year, the Agreement was of a non-preferential nature and set out a number of rules aimed at promoting trade.

The parties agreed to accord each other most-favoured nation treatment in respect of tariffs.

A special clause required the parties, each according to its means, to try to attain balance in their trade, and stipulated that in the event of obvious imbalance the Joint Committee would study ways of remedying the situation.

China undertook to give favourable consideration to imports from the Community, while the Community was to aim at an increasing liberalisation of imports from China. This was the first time such a clause was incorporated in a trade agreement (Article 4).

Whilst providing for friendly consultations in the event of difficulties concerning trade, the parties agreed that they could take unilateral measures in exceptional cases 'where the situation does not admit any delay'.

The parties also undertook to promote visits by individuals, groups and delegations from the economic, commercial and industrial spheres, facilitate exchanges and contacts and encourage the organisation of fairs and exhibitions.

The Agreement contained a price clause specifying that trade in goods and services would be effected at market-related prices.

It was managed by a Joint Committee which normally met once a year.

III. THE DEVELOPMENT UNDER THE 1978 TRADE AGREEMENT

5. Since the entry into force of the 1978 agreement, trade between the parties has by and large developed harmoniously (see annexed table). Traditionally the Community has had a surplus in its trade balance with China, but in the years 1980-82 restraints in the Chinese import policy resulted in deficits for the Community. In 1983 Community exports amounted to 2,755 m ECU, while imports were at 2,665 m ECU, resulting in a Community surplus of 90 m ECU. Also, the first 6 months of 1984 showed a balanced development with a Community deficit of 22 m ECU.
6. In 1983, 35% of the Community's imports from China consisted of textiles and clothing; 23% were agricultural products, while chemical products accounted for 11%. The Community's exports consisted mainly of machinery, iron, steel and chemicals.

Problems concerning Chinese textile exports to the Community were solved with the conclusion of a five-year textile agreement in 1984². This agreement fixes ceilings for various sensitive products.

7. In the field of direct investments, in particular in joint ventures, things are just beginning to take shape. Of the 11 joint ventures created in the period 1980-83, 8 were formed in 1983, while in 1984 the trend was for more diversified economic transactions.
8. In the period 1979-83, investments and loans from Community Member States totalled US\$ 1603 m³, or 7.4% of the total amount of foreign capital utilised by China during that time. US\$ 718 m were direct investments, while US\$ 885 m were loans.

²OJ L 198 of 27 July, 1984

³Source: Almanac of China's Foreign Economic Relations and Trade

Most of the joint ventures established until now have concerned the transport sector and involved companies such as Citroën, Fiat and Volkswagen. One sector which is likely to be subject to a strong participation of foreign companies in the future is off-shore oil exploitation.

9. Under the 1978 agreement a certain amount of cooperation already took place between the Community and China; primarily within the fields of agriculture, energy and, to a lesser extent, light industry. Cooperation mainly took the form of technological assistance and technology transfer (first of all within the field of agriculture) and professional training (primarily management training).

Trade promotion cooperation, introduced in 1984, is taking an important place among the various cooperation instruments.

Since the beginning of EC-China cooperation, about 16 m ECU have been allocated for this purpose under various budget headings.

IV. THE NEW TRADE AND ECONOMIC COOPERATION AGREEMENT

10. With the background of the increasing cooperation between the Community and China, the 1978 trade agreement eventually proved an insufficient framework. There was, therefore, a mutual desire to see the trade agreement expanded to include economic cooperation. On 24 July 1984, the Commission received its negotiating mandate from the Council. The negotiations opened on 13 September, and were concluded on 19 September. The agreement was initialled in Beijing on 26 September.

The trade cooperation chapter of the new agreement is more or less identical with the corresponding articles of the 1978 agreement.

11. Chapter II on economic cooperation is, on the other hand, entirely new. Article 10 defines the sectors in which economic cooperation in particular should be developed, i.e.:

- industry and mining;
- agriculture, including agro-industry;
- science and technology;
- energy;
- transport and communications;
- environmental protection;
- cooperation in third countries.

12. Article 11 lists the methods of cooperation, namely:

- joint production and joint ventures;
- common exploitation of resources;
- the transfer of technology;
- cooperation between financial institutions;
- contact, visits and activities designed to provide cooperation between individuals, delegations and economic organisations;
- the organisation of seminars and symposia;
- consultancy services;
- technical assistance, including the training of staff;
- a continuous exchange of information relevant to commercial and economic cooperation.

13. Furthermore, the parties undertake to promote and encourage greater and mutually beneficial investment and create investment promotion and protection arrangements (Article 12).

Under Article 13 the Community commits itself to continue, and possibly step up, its development aid. This point was the only major difficulty during the negotiations. The Chinese on the one hand insisted that a reference to development should be included; the Community on the other hand could not undertake any specific commitments in this respect. The declaration of intent contained in Article 13, however, proved an acceptable formula for both parties.

14. Finally, Article 14 states that the agreement should in no way affect the Member States' power to enter into bilateral economic cooperation or conclude bilateral economic cooperation agreements with China.

The two remaining chapters are largely identical with the 1978 agreement.

V. THE EFFECTS OF THE NEW AGREEMENT

15. The new cooperation agreement creates a formal framework for development in the field of economic cooperation of which we probably have only seen a modest beginning. The Community and China meet the conditions for a successful cooperation based on complementarity. The Community possesses technological know-how and capital; China possesses huge natural resources and manpower. To this should be added the stimulating effect of the various economic reforms in China. (The Committee intends to provide a detailed account of this in a report on general EC-China relations in the near future).
16. Finally, one should not forget the political aspects of the matter. The new agreement is a clear indication of the intention of both parties to strengthen and further develop an excellent relationship. The development of relations between the Community and China also show that different economic systems are not a major hindrance to close economic and political relations, provided that there is sufficient political will on both sides. When this will is accompanied by openness and mutual confidence, as has been the case in relations between the Community and China, the prospects for a further development and intensification of these relations to the mutual benefit of both parties seem most promising.

Trade of the European Community with China

ANNEX

	Mio ECU											
	1979			1981			1983			1984 (first 6 months)		
	I	E	B	I	E	B	I	E	B	I	E	B
EUR 10 ¹⁾	1.311	2.101	789	2.284	1.894	-389	2.665	2.755	90	1.536	1.514	-22
F	221	247	26	415	246	-169	432	497	65	244	174	-70
B-L	62	95	34	167	104	-63	147	251	103	83	142	59
NL	114	117	2	221	86	-135	212	149	-64	128	88	-40
D	375	1.089	714	663	909	246	828	1.212	383	508	556	49
I	288	203	-84	360	291	-68	467	299	-168	219	196	-23
UK	215	329	115	377	216	-161	436	272	-164	260	311	51
IRL	6	3	-3	9	1	-8	10	5	-5	8	2	-6
DK	30	17	-13	54	32	-22	102	67	-35	73	36	-37
GR	-	-	-	19	9	-10	30	5	-25	14	11	-3

(I = imports, E = exports, B = trade balance)

1) EUR 9 prior to 1981

Source: EUROSTAT, SIENA